United Arab Emirates

Non-oil growth is forecast to remain at 4%+ in 2024-25, with demand underpinned by the ongoing property sector expansion, solid financial sector performance, booming tourism, and the attractive investment climate. Oil sector growth will be weaker, but capacity expansions provide scope for more rapid growth when global market conditions allow. The real estate boom has proved durable in the face of high interest rates, though we expect moderating economic growth, higher pricing, and supply additions to eventually take a toll. Successful diversification has reduced but not eliminated vulnerability to oil shocks versus the past. Other key risks include global growth and interest rate prospects, and regional geopolitical tensions.

Non-oil growth to be sustained at a high rate

Economic growth is set to remain robust, with strong demand underpinned by the ongoing property market expansion, solid performance by the financial sector, booming tourism, attractive foreign investment climate and capacity expansion initiatives in the hydrocarbon sector alongside renewables. The non-oil sector grew a very solid 5.9% y/y in H1 2023, driven by tourism-related sectors, finance, trade, and logistics. The PMI gauge points to activity remaining strong since (despite disruptions to Red Sea trade), and we look for non-oil growth to reach a still impressive 4-5% in 2024-25, only slightly down on last year. Notably, credit growth (5.3% in 2023) has not been the main driving force behind non-oil growth post-pandemic, perhaps helping to extend the economic cycle in the face of high interest rates. The government will continue to provide very active support for the business climate, reflecting commitment to its various diversification and development plans including UAE 2031 (doubling GDP in 10 years), Abu Dhabi 2030 (private sector-driven, knowledge-based economy) and D33 (dramatically expand Dubai's trade and investment). The business impact of the introduction of corporation tax in mid-2023 so far seems to have been well absorbed, reflected in a region-leading gain in Dubai's stock market last year (+22%).

In the near term, oil sector growth will be minimal with OPEC+ cuts rolled over in H2 2024, resulting in a mild decline in oil GDP this year then a modest rise (output at 2.96mb/d) in 2025. ADNOC's crude oil production capacity reportedly increased 4% to 4.85mb/d at the end of 2023, leaving scope for rapid growth in future if global market conditions allow. Completion of the Crude Flexibility Project this year will allow the Ruwais refinery to process 420kb/d of heavier and sour feedstock while unlocking higher-value crude for export. Natural gas output is also being expanded under a plan to achieve gas self-sufficiency by 2030, including associated gas from higher oil output.

Property market shows resilience, but slowdown likely

After slowing earlier in 2023, indicators of real estate activity have reaccelerated, with residential prices and rents in Dubai for example up 20% y/y as of March 2024. Strong economic growth, a rising population and improved long-term residency and visa regulations are likely underpinning demand. Although the property market has proved highly durable, we still expect this buoyancy to fade over the forecast period as moderating economic growth, higher pricing and supply additions take a toll. However, tighter real estate financing regulations versus previous cycles and relatively modest post-pandemic credit growth should limit the wider impact of any market correction. Meanwhile, CPI inflation is projected to pick up in 2024-25 to 2.5% on average from 1.6% in 2023, on strong domestic demand and an expected increase in fuel prices. Rising housing rents (which account for 35% of the CPI basket) will also be a supporting factor for inflation.

Strong fiscal and external positions

A combination of lower oil revenues and rising welfare spending (subsidies and social benefits) narrowed the fiscal surplus in 2023 to an estimated 4.6% of GDP, from 9.9% in 2022, despite the introduction of the 9% corporate income tax in mid-2023 (which it is estimated could eventually yield revenues of 1.5% of GDP per year). We expect the budget surplus to continue declining to 3.5% in 2024-25 mainly on lower oil revenues. Strong non-oil growth and new revenue streams (non-oil revenues estimated at 38% of all revenues in 2024) will offset part of the expected increase in welfare and capital spending, given rise in the 2024 federal (+1.6% to AED63.1 billion) and Dubai (+17.2% to AED79.1 billion; +5.8% to AED83.7 billion in 2025) budgets. According to IMF figures, government debt will remain low by international standards at around 30% of GDP in 2024-25, though rising to around 55% once GRE debt is included. Near-term fresh debt issuance is unlikely to be high given budget surpluses and elevated interest rates, but the federal government may issue more dirham-denominated debt to help develop domestic capital markets.

The external finances meanwhile remain very comfortable with sizeable current account surpluses (7-8% of GDP in 2024-25), strong credit ratings (S&P: AA; Moody's: Aa2) and sovereign wealth assets (ADIA & Mubadala) estimated at $1.07 trillion by the SWF Institute and central bank gross reserves of $190 billion in 2023.

Risks include oil prices and regional geopolitics

Strong economic growth and successful diversification are reducing the UAE economy's exposure to oil shocks versus the past. Nevertheless, higher-than-forecast oil prices would still boost government finances and investment, while prospects would also be helped by a pick-up in global growth and/or rapid cuts in interest rates. A severe drop in oil prices, rising regional geopolitical tensions that hurt trade and regional supply chains, as well as a sharper-than-expected property market downturn are key downside risks.

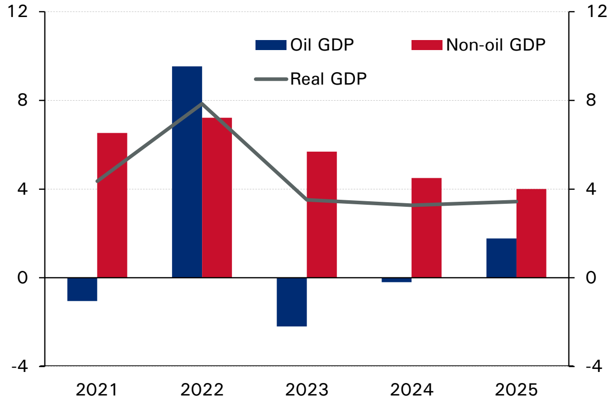
Table 1: Key economic indicators

		2021	2022	2023[e]	2024[f]	2025[f]
Nominal GDP	$ bn	415.2	507.1	505.1	531.1	556.2
Real GDP	% y/y	4.4	7.9	3.5	3.3	3.4
- Oil sector	% y/y	-1.1	9.5	-2.2	-0.2	1.8
- Non-oil sector	% y/y	6.5	7.2	5.7	4.5	4.0
Inflation (avg.)	% y/y	0.2	4.8	1.6	2.5	2.6
Fiscal balance	% of GDP	4.0	9.9	4.6	3.6	3.3
Current acc. balance	% of GDP	11.6	20.3	13.8	7.4	8.3

Source: Official sources, NBK forecasts

Chart 1: Real GDP

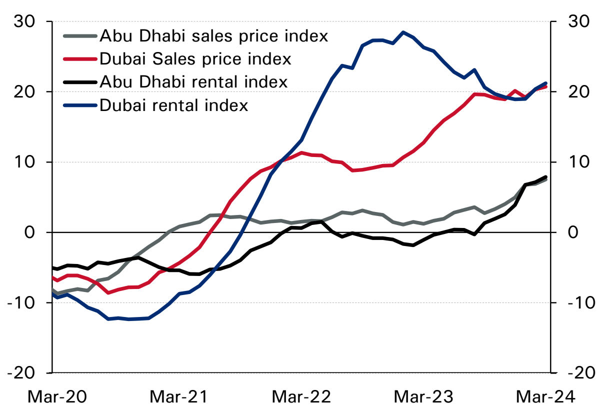
(% y/y)



Source: Federal Competitiveness & Statistics Centre (FCSC), NBK forecasts

Chart 2: Residential real estate prices and rents

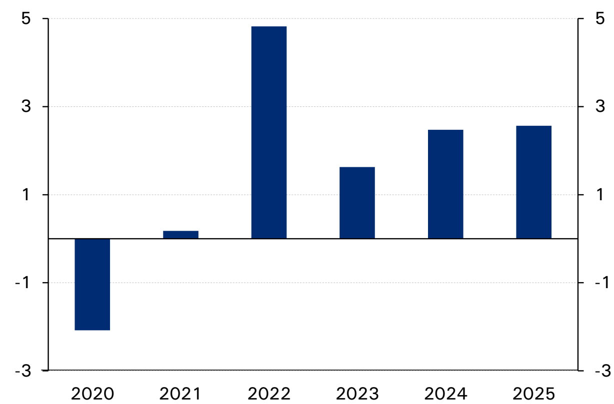
(% y/y)



Source: REIDIN, NBK estimates

Chart 3: Consumer price inflation

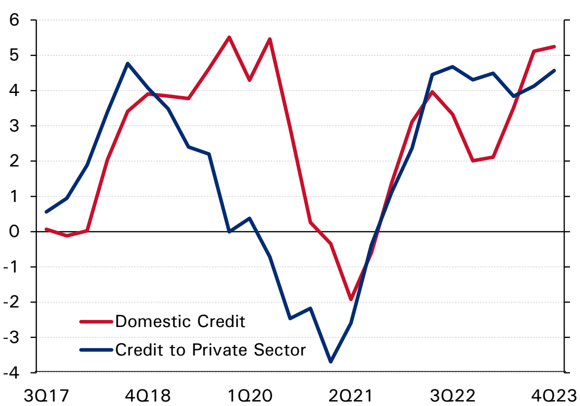
(% y/y)



Source: FCSC, NBK forecasts

Chart 4: Domestic credit

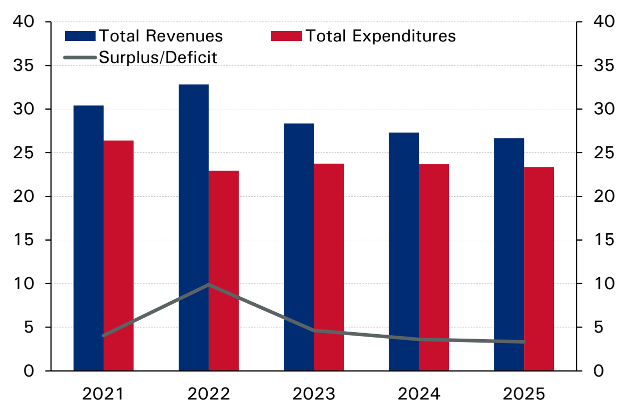
(% y/y)



Source: Central Bank of the UAE

Chart 5: Fiscal balance

(% of GDP)



Source: Ministry of Finance, FCSC, NBK forecasts