UAE

Economic growth in 2023 will moderate from last year's very strong levels, but remains fundamentally well supported by the country's high quality infrastructure and the government's persistent reform drive. Dubai's property market is once again booming amid strong economic growth, rising migration, tourism and overseas demand, though by next year the rally may run out of steam. Downside risks include a weaker-then-expected global economy, tighter financial conditions and a downturn in the property market. Upside risks include higher-than-expected oil prices and improved regional diplomatic ties that boost trade.

Non-oil growth to moderate after 2022 surge

The UAE's robust post-pandemic economic recovery will soften this year on oil production cuts, slightly lower oil prices, tighter financial conditions, a slowing global economy and the fading boosts from both pandemic-era pent-up demand and the Dubai Expo. Still, the country's competitive edge in the region, as well as progressive, pro-growth reforms under the 2050 Strategy and 2031 vision will continue to support fundamentals, while the authorities invest heavily in oil & gas output but also facilitate the energy transition (with a net-zero emissions target of 2050). Oil GDP will however barely increase overall in 2023-24, in line with OPEC+ production restraint. This will leave oil production at 3.1 mb/d by end-2024, well below a projected capacity of 4.3 mb/d (and potentially 5 mb/d by 2027), offering plenty of scope for further output rises. Meanwhile, natural gas production is expected to rise 9% by mid-2025 from its current 5.5 bcf/d, as the government targets gas self-sufficiency for the country before 2030. Current gas consumption is around 6.7 bcf/d, though is forecast to rise in the years ahead.

Non-oil GDP growth has been vibrant, reaching 7.8% y/y in 1H22, the highest since 2013, benefiting from the tourism sector rebound and strong domestic demand, especially in the trade, transportation and hospitality sectors. PMI readings pointed to a slowdown in activity in 2H 22, albeit with the index still firmly in expansion territory at 54-55 (above 50=expansion) and domestic demand conditions holding up. Although some slowdown in non-oil growth is inevitable this year given the factors mentioned above, we expect a creditable expansion of 3.6-3.7% in 2023 and 2024, down from an estimated 11-year high of 6.5% in 2022. The UAE 2031 vision provides the government's underlying goals for the next decade, aiming to double the country's GDP (to AED3.0 trillion, implying an ambitious annual growth target of 7.2%) including targets for non-oil exports, industry and tourism.

Dubai's property market records another boom

Rising fuel and food prices and the recovery in housing rents pushed inflation to 4.8% in 2022. (Chart 2.) The central bank has increased policy interest rates, following the Fed, by 475 bps to 4.9% by mid-April 2023, and we expect this – combined with more stable or falling fuel prices – to contribute to lower average inflation of 2.7% this year. The upturn in housing rents – which turned the corner last year after a four-year downturn – is a modest upside risk to inflation. Meanwhile, rising borrowing costs could weigh on private sector credit, which grew by a moderate 4% last year. (Chart 3.) Dubai's residential property market is booming with sales volumes reportedly hitting an all-time high in March 2023 and prices up 13% y/y according to CBRE, helped by the economic recovery and spiking foreign demand (DLD data shows prices up 20% y/y in November 2022 – see chart 4.). Although growth may slow, we see demand in 2023 being sustained by high oil prices, rising migration and tourism, China's reopening supporting overseas buying and potentially easing regional geopolitical uncertainties. By next year, the property rally may run out of steam, though the high number of cash buyers in the recent boom suggests reduced vulnerabilities for banks and the economy if a downturn occurs.

Strong fiscal position over the medium term

Overall, public finances remain in good shape, with a relatively small deficit in 2020 amid the pandemic giving way to large surpluses since then as oil prices and tax revenues recovered. Spending growth has also been kept under control averaging only around 1% per year in 2021-2022, reflecting cuts in capex but also the removal of pandemic-related support. The Federal budget (around 15% of consolidated government spending) outlines a 7% increase in outlays for 2023, potentially pointing to a more expansionary stance. However, even with slightly lower oil prices for 2023, we expect a fiscal surplus of 6.9% of GDP. (Chart 5.) Revenue diversification will proceed with the introduction of a 9% corporate tax this June. The government has an estimated $1.1 trillion in assets held in its sovereign wealth funds (ADIA & Mubadala), providing a huge additional fiscal cushion. We also see the external current account achieving large surpluses at 20% of GDP or more in 2023-24, benefitting from high oil prices and government efforts to increase non-oil exports and double re-exports by 2030.

Global economic conditions represent a risk

The UAE's developed infrastructure, the government's persistent reform drive and initiatives to attract direct investment, as well as high oil prices, support the economy's medium-term outlook. Downside risks would include – given Dubai's role as a trade and investment hub – a much weaker global economy, the impact of rising interest rates on GRE contingent liabilities, and a sharp downturn in the domestic property market. However, there is upside risk from higher-than-expected oil prices, more robust growth in the global economy linked to China's reopening, and improved regional diplomatic ties that boost trade.

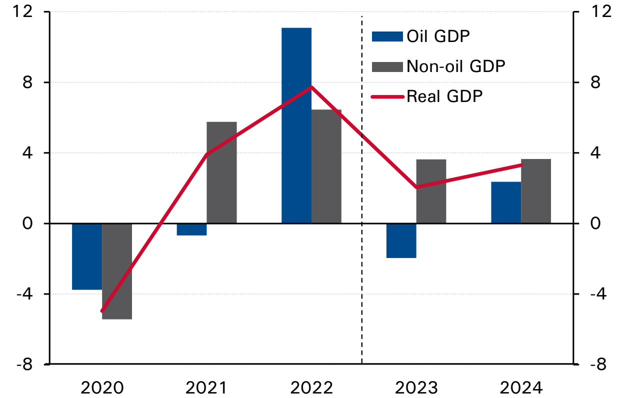
Table 1: Key economic indicators

		2020	2021	2022e	2023f	2024f
Nominal GDP	$ bn	349	415	498	485	512
Real GDP	% y/y	-5.0	3.9	7.7	2.1	3.3
- Oil sector	% y/y	-3.8	-0.7	11.1	-2.0	2.4
- Non-oil sector	% y/y	-5.4	5.8	6.5	3.6	3.7
Inflation	% y/y	-2.1	0.2	4.8	2.7	2.0
Fiscal Balance	% of GDP	-2.5	4.0	10.3	6.9	6.6
Current act. balance	% of GDP	6.0	11.6	25.6	21.2	20.0

Source: Official sources, NBK estimates.

Chart 1: Real GDP

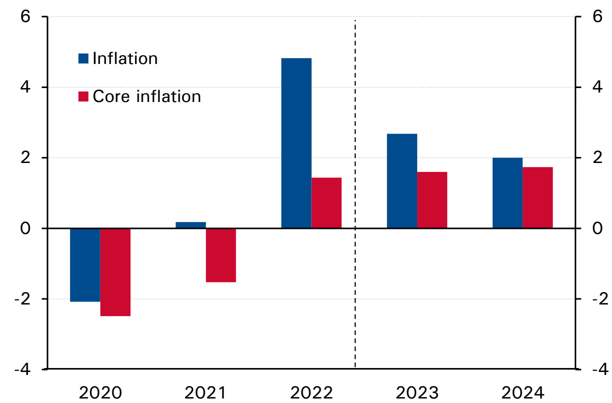
(%, y/y)



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

Chart 2: Inflation

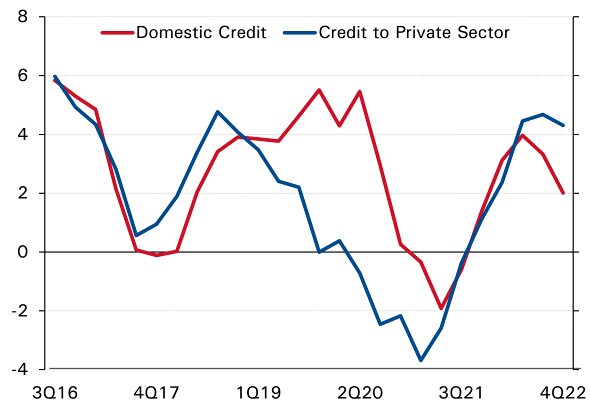
(%, y/y)



Source: FCSC, NBK estimates

Chart 3: Bank credit

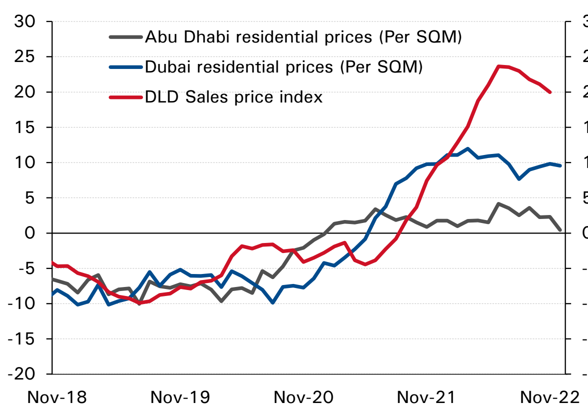
(%, y/y)



Source: Central bank of UAE

Chart 4: Abu Dhabi and Dubai residential property prices

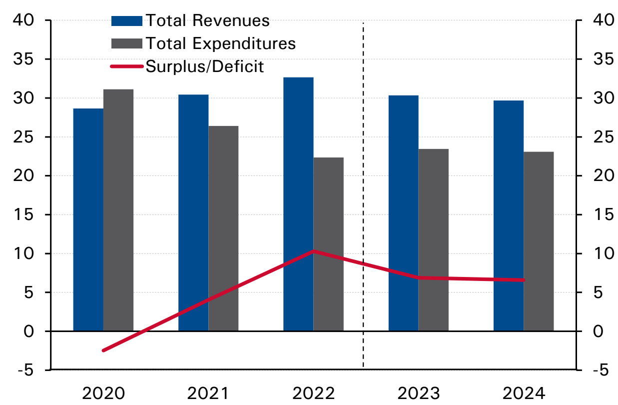
(%, y/y)



Source: Bank of International Settlements, Dubai Land Department (DLD)

Chart 5: Fiscal balance

(% of GDP)



Source: Ministry of finance, NBK forecasts