UAE

UAE economic performance is expected to steadily improve, with non-oil economic growth reaching 3.6% by 2021; inflation should remain subdued over the coming two years. Accommodative monetary policy, supported by the low global interest rate environment, improving public finances, policy-making agility and pro-investment reforms will provide the impetus for stronger economic performance. A possible global slowdown, reduced housing activity and lower oil prices could temper the outlook.

Growth to be supported by gains in the non-oil economy

UAE economic growth should trend higher over 2019-2021, led mainly by ongoing gains in non-oil sector activity and by a pick-up in the oil economy. We foresee real GDP growth edging up from 2.2% in 2018 to around 3.0 in 2021. (Chart 1.)

Real oil sector growth is projected to remain capped by OPEC+ production cut agreement, which has been recently extended until March 2020. But with some increase in oil production to reach the quota set in the current agreement, growth could average 1.2% over the forecast period.

The non-oil economy is forecast to maintain a stronger growth momentum, as the transport, construction and tourism sectors (large contributors to non-oil GDP growth) gather pace, including in the run-up to the Expo 2020 event in Dubai. The non-oil sector will be further supported by growth-boosting initiatives launched at the federal level, including the adoption of a new investment law to facilitate investment inflows and the issuance of long-term visas for highly skilled workers and high-net worth individuals. This, the authorities hope, will lead to the retention of expertise and investment and boost longer-term growth.

Some high frequency data bode well for future performance. The recent Markit Purchasing Managers' Index (PMI) surged to a multi-year high, led by robust gains in new orders and output. However, hiring remains sluggish, which continues to limit gains in domestic demand.

Real estate sector prices continue to decline

Residential property prices in Dubai have been in decline since 2014 due mainly to oversupply and somewhat tighter regulations. Besides presenting some credit risks, the fall in real estate prices could eventually lead to lower activity in the sector over the medium term, affecting non-oil growth. (Chart 2.)

Price growth slips into deflation

Consumer price growth in the UAE has been in deflationary territory since the start of 2019, as the effects of 2018's tax/fuel hikes waned and as housing costs fell more steeply than expected. We are likely to see prices beginning to rise again only slightly towards the end of 2019, but inflation will be restrained by continued declines in the housing component. As such, we have revised down our inflation forecast for 2019 from 2.0% previously to -1.0%. Inflation will likely pick up to 1% and 1.5% in 2020 and 2021, respectively. (Chart 3.)

Fiscal position on the mend

The fiscal balance should improve and return to surplus in 2020 on the back of higher oil and non-oil revenues, the latter helped by higher taxes and fees due to a pick-up in economic activity. (Chart 4.) Last year, the UAE embarked on a fiscal adjustment and reform program: VAT was introduced; subsidies were cut; and fees on certain services were levied. Thanks to its sizeable fiscal buffers, the UAE is well placed to withstand negative shocks, and both Dubai and Abu Dhabi should be able to sustain high levels of public spending, particularly on infrastructure.

Current account surplus

The surplus on the current account is gradually recovering, as both oil and non-oil export earnings increase. We expect the CA surplus to rise to an average of 9% over 2019-2021.

Low interest rates support stronger business activity

In tandem with improvements in business activity, credit growth remained relatively firm at 4.4% y/y in April. (Chart 5.) With the US Fed holding off on tightening monetary policy, the cost of funding will remain low, providing further support to lending and non-oil sector growth.

Good outlook but some risks remain

In view of its relative openness, the UAE economy will be affected by trade tensions and any slowdown in global economic growth. Transport, logistics, tourism, and foreign investment could all be impacted. Besides the ever-present geopolitical dimension and sensitivity to oil price movements, a slowdown in construction activity over the medium term is another risk. However, recently announced growth-enhancing structural reforms across the UAE are likely to temper these risks and support economic growth going forward.

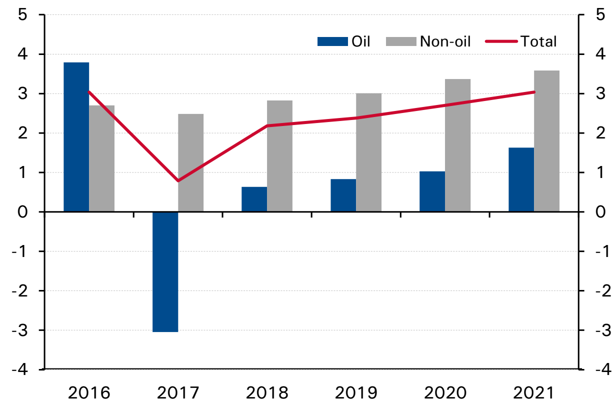
Table 1: Key economic indicators

		2017	2018	2019f	2020f	2021f
Real GDP	% y/y	0.8	2.2	2.4	2.7	3.0
- Oil	% y/y	-3.0	0.6	0.8	1.0	1.6
- Non-oil	% y/y	2.5	2.8	3.0	3.4	3.6
Inflation	% y/y	2.1	3.5	-1.0	1.0	1.5
Budget balance	% of GDP	-3.8	-1.2	-0.7	1.2	1.2
Current account	% of GDP	6.9	7.6	8.2	8.9	9.7

Source: Official sources, NBK estimates

Chart 1: Real GDP

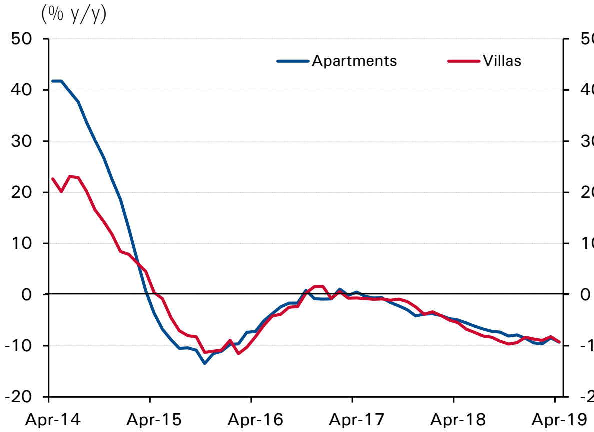
(% y/y)



Source: UAE Federal Competitiveness & Statistics Authority / NBK estimates

Chart 2: Dubai residential property sales prices

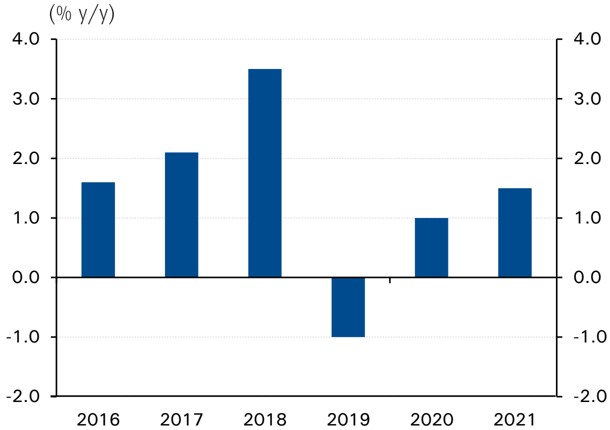
(% y/y)



Source: Reidin

Chart 3: Inflation

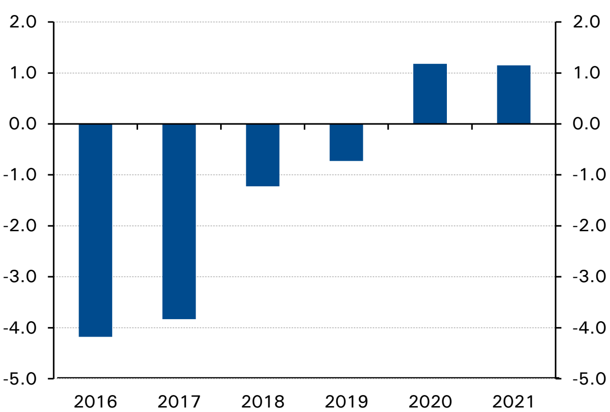
(% y/y)



Source: Refinitiv / NBK

Chart 4: Fiscal balance

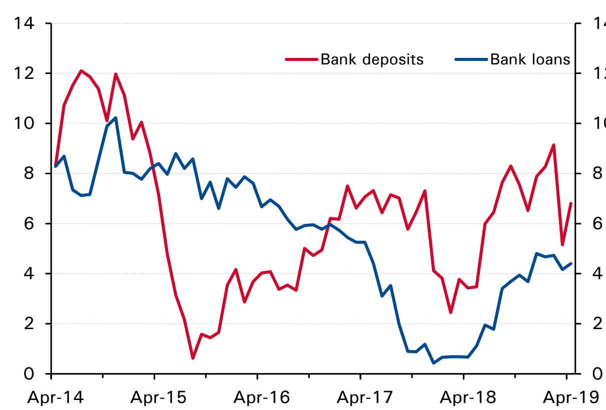
(% of GDP, revenues include ADNOC profits & investment income)



Source: Ministry of Finance / NBK estimates

Chart 5: Bank credit and deposits

(% y/y)



Source: Central Bank of the UAE