

UAE

The economy now looks on a solid recovery path amid easing pandemic pressures, higher oil prices, improving tourism and further government reform policies to attract skilled labor and boost foreign investment. GDP is seen rising 1.6% in 2021, then averaging 3.4% in 2022-24, also helped by recovering oil output. The fiscal deficit is forecast to shrink to 2.4% of GDP in 2021 and funding options have widened with the federal government's debut bond issuance. Downside risks to the outlook include resurgent pandemic pressures and GRE debt repayment challenges, especially if global financial conditions tighten abruptly.

Economy recovering on higher oil output, tourism upturn

The UAE's highly globally integrated economy took a sizeable hit last year from the weak global oil market, business closures and suspensions to travel and tourism. But it now looks to be on a solid recovery path aided by easing Covid pressures and very high vaccine penetration, energetic government support and reform policies, a real estate upturn, and sharply higher oil prices. The commencement in October of the delayed Expo 2020 is also providing a welcome boost to tourism and commercial activity. In the oil sector, with OPEC+ easing its supply cuts, UAE crude output is increasing monthly. Oil GDP should expand by 7.6% in 2022, and then post more moderate annual gains of around 2% on average in 2023-24. From 2024 onwards, the huge expansion projects of Upper Zakum (\$22 billion) and Hail & Ghasha (\$15 billion) will bring additional crude and natural gas volumes, respectively, while the completion of the Ruwais refinery (\$20 billion) should result in a sizeable increase in ADNOC's refining capacity in 2024-25.

On the non-oil side, the PMI activity gauge has trended higher through 2021 and averaged 53.7 in 3Q21, with firms reporting higher demand and greater work backlogs. Non-oil GDP growth of 2.8% is expected this year, picking up to 3.2% on average in 2022-24 as the recovery strengthens, tourism picks up and the government presses on with reforms in an increasingly competitive regional economic environment. Among the initiatives announced recently are plans to attract \$150 billion in FDI (especially in technology sectors) over 9 years, agreements to boost trade with key global markets and new visa and residency schemes to help businesses and attract skilled foreign labor. Real GDP is forecast to rise by 1.6% in 2021 and then by 3.4% on average in 2022-24. (Chart 1.)

Inflation ticking up slowly; real estate prices recovering

After more than two years of deflation, consumer prices are now ticking up (+0.6% y/y in August), amid improving domestic demand and higher energy prices. However, the housing component (mostly rents) remains weak, despite signs of recovery in the residential property market. After a forecast decline of 0.2% on average in 2021, inflation is expected to rise gradually, reaching 1.6% by 2024, with some upside risks if rents recover more quickly. (Chart 2.) Residential property prices in Dubai have also started to rise (2.1% y/y in 2Q21) after a multi-year decline, which could signal a potential turning point

for the sector. (Chart 3.) The turnaround has been supported by government initiatives to regulate supply and boost demand by making it easier to secure financing (e.g. lower mortgage rates, bank lending and developer incentives), as well as more broadly a structural shift in work practices in favor of remote working.

Fiscal position improving following pandemic shock

In common with its GCC neighbors, the UAE's public finances deteriorated in 2020 due to the pandemic, shifting from a 0.6% of GDP surplus in 2019 to a 5% deficit (including ADNOC profits, SWF investment income and some transfers). Revenues dropped by 23%, while spending fell 8.5% (despite a rise in subsidies to support growth). In 1H21, the budget registered a surplus of AED29.4 billion (4% of annualized GDP), helped mainly by a sharp reported drop in capital spending and a rise in revenues. However, assuming that capital spending rebounds in H2, a move back into deficit could be expected. For 2021 as a whole, we expect much reduced deficit of 2.4% of GDP, improving to a small surplus of 0.4% of GDP by 2024 in line with fiscal consolidation efforts. The 5-year federal budget (which covers mostly health, education and some infrastructure) for 2022-26 was set at AED290 billion, up 3.7% on allocations for 2017-21.

Funding of the deficit is supported by the government's enormous sovereign wealth fund reserves managed by ADIA and Mubadala and worth an estimated \$1.1 trillion, but also by debt issuance, especially with interest rates low. The federal government issued debut (10-40 year) bonds worth \$4 billion in October 2021, backed by a high AA/Aa2 investment grade rating. Government debt could fall slightly from 38% of GDP in 2020 to 35% of GDP in 2024, though this excludes GRE-related debt which on some estimates may be up to 30% of GDP.

Outlook and risks

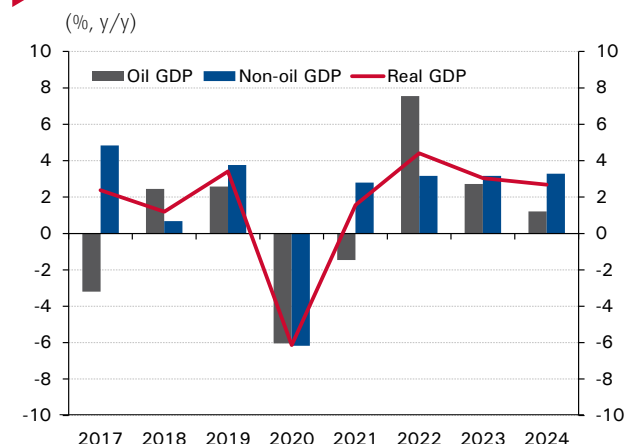
The UAE's large hydrocarbon resources, huge SWF assets, strong competitiveness ranking and effective policymaking continue to provide for a very positive overall long-term economic outlook. Main near-term downside risks include resurgent pandemic pressures, weaker oil prices and debt repayment challenges faced by GREs especially if global financial conditions were to tighten abruptly. On the upside, a more rapid global recovery from Covid in 2022 could see UAE trade and tourism improve more quickly.

▶ **Table 1: Key economic indicators**

		2020	2021*	2022'	2023'	2024'
Nominal GDP	\$ billion	359	405	415	425	439
Real GDP	% y/y	-6.1	1.6	4.4	3.0	2.7
- Oil sector	% y/y	-6.0	-1.5	7.6	2.7	1.2
- Non-oil sector	% y/y	-6.2	2.8	3.2	3.2	3.3
Budget balance	% of GDP	-5.0	-2.4	-1.6	-0.8	0.4
Public Debt*	% of GDP	37.8	36.0	36.7	36.7	35.2
Current act. balance	% of GDP	5.9	12.7	11.4	9.1	8.0
Headline inflation	% y/y	-1.9	-0.2	0.3	0.9	1.6

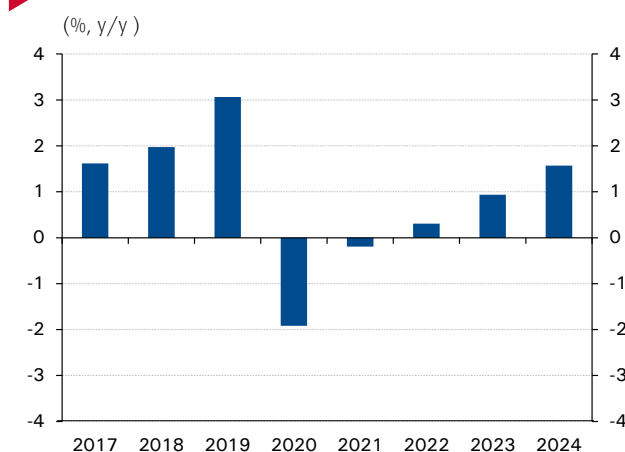
Source: Official sources, NBK estimates, * Excluding GRES.

▶ **Chart 1: Real GDP**



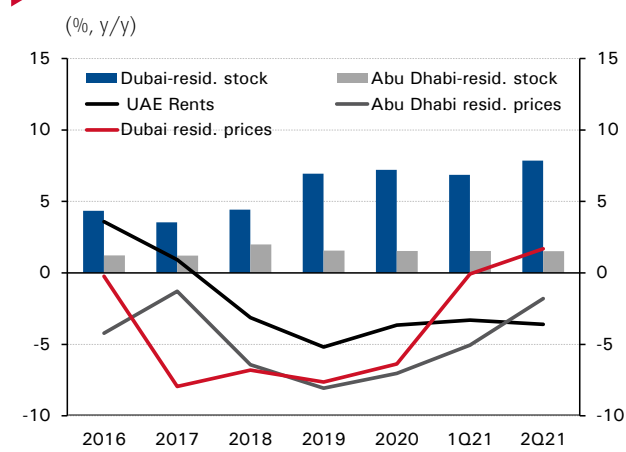
Source: Federal Competitiveness & Statistics Centre (FCSC), NBK estimates

▶ **Chart 2: Headline inflation**



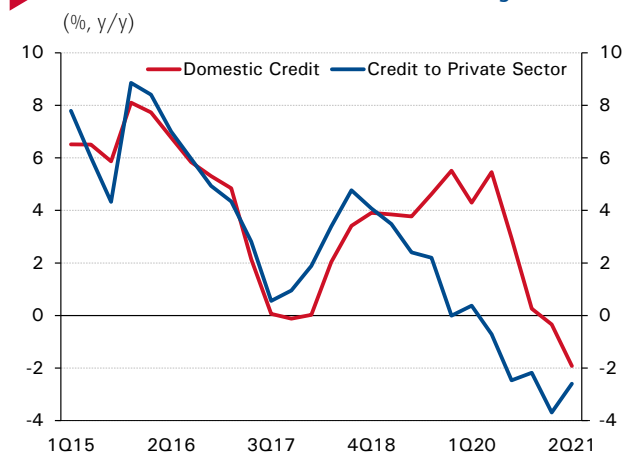
Source: FCSC, NBK estimates

▶ **Chart 3: Abu Dhabi and Dubai residential market**



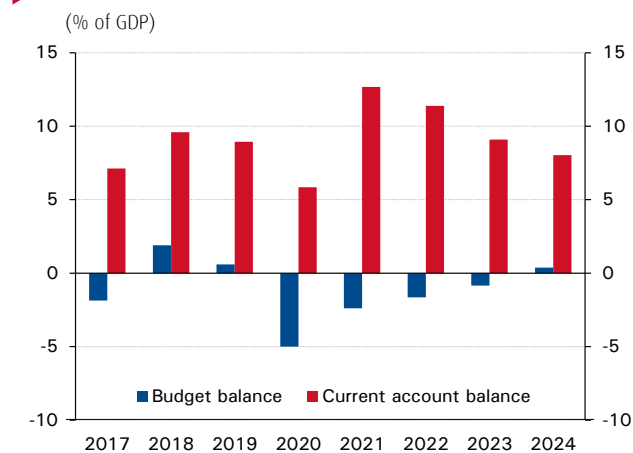
Source: FCSC, REIDIN, JLL

▶ **Chart 4: Domestic and Private Sector Credit growth**



Source: Central Bank of UAE, NBK estimates

▶ **Chart 5: Current account and fiscal balance***



Source: Ministry of finance, Central Bank of UAE, IMF, NBK forecasts
* Fiscal deficit includes ADNOC profits & investment income and other transfers