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United Arab Emirates: Recent Economic Developments

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UNITED ARAB EMIRATES

Recent Economic Developments

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Approved by the Middle Eastern Department

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U.A.E.: Basic Data

I. Economic Indicators, 1993-97

	1993	1994	1995	1996	Prel. 1997
(In millions of barrels per day, unless otherwise noted)					
Oil and gas production					
Oil production	2.20	2.10	2.10	2.26	2.39
Oil exports	2.10	2.10	2.10	2.04	2.08
Average oil export price (US\$/bbl)	15.99	15.57	16.65	19.87	18.80 1/
(In billions of cubic meters)					
Natural gas production	20.06	22.50	24.50	27.50	31.00
LNG exports	2.83	3.33	4.44	6.34	7.60
NGL exports	7.57	7.51	7.29	8.11	9.60
(Annual percentage changes, unless otherwise noted)					
National income and prices					
Real GDP (at factor cost)	-9.6	5.0	8.1	10.1	2.1
Oil 2/	-12.4	-7.2	5.2	14.9	-4.4
Non-oil	-7.9	12.0	9.5	7.8	5.4
GDP deflator	1.2	-7.5	2.3	1.6	0.6
Consumer prices	4.4	5.0	4.4	3.2	3.3
Unit labor cost (1990=100) 3/	75.4	69.0	66.4	80.5	86.9
(In percent of GDP)					
Investment and savings					
Gross fixed capital formation	27.0	29.2	28.4	27.2	28.3
Private	18.8	17.8	18.0	18.4	15.9
Public	9.9	12.0	12.9	12.2	12.4
Domestic savings	37.3	37.7	36.4	38.4	40.2
Savings-investment gap	10.3	8.5	8.0	11.2	11.9
Consolidated government finances					
Revenue	30.5	26.7	27.1	29.3	31.5
Of which: oil	24.4	20.4	20.4	21.1	22.7
Expenditure	42.0	40.6	40.8	43.6	36.7
Current	32.0	29.5	30.2	35.5	28.2
Capital, including loans and equity	10.0	11.1	10.6	8.1	8.5
Current surplus	-2.0	-2.8	-3.1	-6.2	3.3
Overall deficit	-11.5	-13.9	-13.7	-9.7	-5.2
Financing	11.5	13.9	13.7	9.7	5.2
Domestic bank financing	-2.1	1.6	-2.0	1.2	0.3
Exceptional financing 4/	13.5	12.3	15.7	8.5	4.9
(Changes in percent of beginning of period stock of domestic liquidity)					
Money, credit and interest rates					
Domestic liquidity	-1.5	7.9	10.2	6.9	9.0
Foreign assets (net)	-0.9	-7.4	8.7	-0.6	-1.2
Domestic assets (net), of which:	-0.6	15.3	1.5	7.4	10.3
Claims on government (net)	-3.9	3.2	-4.1	2.6	0.7
Claims on official entities	2.0	4.4	0.0	-1.0	0.5
Claims on private sector	5.7	9.0	10.7	8.9	12.6

U.A.E.: Basic Data

I. Economic Indicators, 1993-97

	1993	1994	1995	1996	Prel. 1997
(In percent per annum, end period)					
Interest rates					
LIBOR (U.S. dollar; three months)	7.1	6.4	5.4	5.4	5.9
Dirham (three months interbank)	3.3	6.5	5.4	5.4	5.6
(In billions of U.S. dollars)					
External sector					
Exports and reexports	26.8	27.7	31.0	35.6	38.0
Crude oil	12.3	11.9	12.8	14.8	14.3
Petroleum products	1.3	1.3	1.5	1.8	1.8
Gas	1.0	1.0	1.5	1.9	2.7
Non-oil	4.4	5.0	6.7	7.8	9.9
Reexports	7.8	8.4	8.4	9.1	9.1
Imports	-21.0	-23.3	-24.9	-27.6	-29.7
Imports net of reexports 5/	-9.5	-10.2	-10.3	-11.1	-11.1
Services (net)	2.0	1.7	1.7	2.4	2.2
Transfers (net)	-3.4	-3.4	-3.5	-3.8	-3.8
Private	-3.0	-3.1	-3.2	-3.6	-3.4
Public	-0.4	-0.3	-0.3	-0.2	-0.4
Current account surplus	4.3	2.8	4.3	6.6	6.7
(In percent of GDP)	12.1	7.4	10.1	13.8	13.6
Overall surplus	0.9	0.7	0.7	0.6	0.3
Gross official international reserves 6/	6.3	6.8	6.9	7.7	8.3
(In months of imports, c.i.f.)	3.3	3.4	3.6	3.6	3.6
Exchange rate					
Dirham/US\$ (end of period)	3.6710	3.6710	3.6710	3.6710	3.6710
Real effective exchange rate	109.0	108.5	104.2	109.2	119.2
(Annual percentage change)	6.2	-0.4	-4.0	4.9	9.1
(In billions of U.A.E. dirhams)					
GDP at current market prices	131.2	140.5	157.1	175.8	181.0

Sources: U.A.E. authorities; and staff estimates and projections.

1/ WEO June 1998 forecast.

2/ In the U.A.E. national accounts, the volume of oil value added is adjusted for the real price of oil.

3/ Unit labor cost in manufacturing and services.

4/ Includes investment income and drawdown of ADIA's foreign assets.

5/ Imports for domestic use; excludes imports to free zones and imports of nonmonetary gold.

6/ Gross reserves of the central bank (excluding gold).

U.A.E.: Basic Data

II. Social and Demographic Indicators

Population characteristics

Total population (in millions; 1997)	2.58	Percentage distribution (1997)	
Population growth (in percent)	3.06	14 and under	26.3
Density: (per sq km; 1995)	29.4	15-64	72.6
Life expectancy at birth (years)	74.8	Over 64	1.1
Crude birth rate (per thousand; 1995)	19.6	Percentage (1995)	
Crude death rate (per thousand; 1995)	2.8	Urban	84
Infant mortality (per thousand; 1995)	15.5	Rural	16

Access to safe water (most recent)

Percentage of population 100

Nutrition (most recent)

Per capita supply of:
 Calories (per day) 3,309
 Protein (grams per day) 102

Health (most recent)

Population per physician 1,095
 Population per nurse 577
 Access to health care
 (percentage of population) 99

Education (1995)

Primary school enrollment percentage (gross)
 Male 112
 Female 108
 Adult literacy rate 84

Sources: Ministry of Planning; and World Bank, Social Indicators of Development, 1997.

I. INTRODUCTION AND SUMMARY

1. The United Arab Emirates (U.A.E.) is a federation formed in 1971, which comprises seven sheikhdoms: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah and Umm Al-Qaiwan. Each of the emirates retains a considerable degree of autonomy over its economic, financial and political affairs. The oil sector continues to provide the main source of fiscal revenues and export earnings, and the U.A.E. is also a significant exporter of liquefied natural gas (LNG). Over 90 percent of the U.A.E.'s oil and gas resources are in Abu Dhabi, and the ratio of proven reserves to production is estimated to give the federation around 120 years of oil supplies. Although oil is still the mainstay of the economy, its contribution to GDP has declined steadily from about 60 percent in 1980 to around 31 percent in 1997. Efforts at further diversifying the economy are continuing, and in particular, attempts are being made to expand the tourism sector, financial services industries, and manufacturing as well as gaining market share in the entrepôt trade. Since 1992, the non-oil economy has grown strongly, and the value of non-oil exports (largely reexports) has increased substantially.
2. Attempts to develop the non-oil sector have been facilitated by the continuation of sound government economic policy, including: a free exchange rate system and a liberal trade regime; an outward-oriented strategy that stresses private sector initiative within a framework of effective regulation; extensive infrastructure investment by the government; and increasing confidence in domestic financial institutions resulting from a strengthened system of bank supervision and prudential regulation.
3. Real GDP growth accelerated from around 5 percent in 1994 to 8.1 percent in 1995 and to 10.1 percent in 1996. However, 1997 saw a marked slowdown in real GDP growth, to an estimated 2.1 percent, reflecting mainly a decline in oil sector GDP. Over the period 1993-96, there was strong growth in non-oil GDP averaging 9½ percent per year, boosted by an exceptionally good performance in 1994 (12 percent), but non-oil growth also decelerated to 5.4 percent in 1997 due to a slowing of demand in major markets and a reduced stimulus from government expenditure. Consumer price inflation decelerated from 4½-5 percent in 1993-95 to just over 3 percent in 1996-97, the slowdown reflecting mainly movements in import prices.
4. There has been a significant improvement in the public finances over the past few years, reflecting favorable oil prices for most of the period 1994-97 and the authorities' increasing emphasis on fiscal restraint. Recognizing the need to diversify the revenue base and to address the high fiscal deficit in 1994, the federal government and the emirates introduced non-oil revenue measures and took steps to contain expenditures. Reflecting higher transfers of profits from enterprises and the central bank and the upward adjustment of customs duties from 1 percent to 4 percent, non-oil revenues rose from 6.2 percent of GDP in 1994 to 8.8 percent in 1997. At the same time total expenditures declined from 41.2 percent of GDP in 1994 to 36.7 percent in 1997 due mainly to a sharp reduction in capital expenditure. Assisted also by favorable oil prices, the overall deficit (excluding income earned on

Abu Dhabi's external reserve assets) narrowed from 14.6 percent of GDP in 1994 to 5.2 percent in 1997. If this investment income is included in the consolidated government revenues of the U.A.E. rather than as a financing item, the overall fiscal balance for 1997 would show a small surplus of 0.4 percent of GDP, the first surplus in many years. The fiscal outturn for 1998 is likely to deteriorate significantly owing to the sharp fall in oil prices to historically low levels in real terms and the weakening of demand in Asian markets for hydrocarbon-based products and in neighboring oil-producing countries for reexports.

5. The growth in broad money accelerated to over 9 percent in 1997 from 7 percent in 1996 reflecting a strong expansion of domestic credit in both years; commercial bank lending to the private sector accelerated to almost 13 percent in 1997 from 10 percent in 1996 due in part to strong demand for credit to purchase shares of newly floated companies. The net foreign assets of the banking system fell by 1.7 percent in 1997 after declining by 0.7 percent in 1996. There was continued strong growth in domestic liquidity in the first half of 1998, although the pace of lending to the private sector moderated as the authorities took steps to limit lending for share purchases toward the end of 1997. Domestic interest rates continued to trace closely movements in U.S. dollar interest rates.

6. The external current account has remained in surplus in recent years. Reflecting higher exports and investment income receipts, the surplus widened to US\$6.7 billion in 1997 from US\$6.6 billion in 1996, but narrowed as a percentage of GDP from 13.8 to 13.6 percent. As the capital account moved into to a deficit position in 1996 and 1997 owing mainly to net short-term capital outflows by the commercial banks, the overall balance of payments surplus narrowed to US\$0.3 billion in 1997 from US\$0.6 billion in 1996. At end-1997, the gross official reserves of the central bank amounted to US\$8.3 billion, equivalent to 3.6 months' merchandise imports. These reserves do not include Abu Dhabi's very large external reserve assets.

7. The U.A.E. maintains a liberal trade system and an exchange system free from restrictions. The dirham was pegged to the U.S. dollar at Dh 3.6710=US\$1 until November 1997, and at Dh 3.6725=US\$1 since then. This exchange arrangement has helped to link domestic prices to those prevailing in world markets, and together with a relatively restrained domestic credit stance and strong banking supervision and prudential regulation, has kept inflation at a moderate level and helped maintain confidence in the banking system.

II. REAL SECTOR

A. Overall Economic Activity

8. The evolution of aggregate GDP in the U.A.E. depends on the development of both oil and non-oil GDP. For the oil sector, measured growth depends not only on the volume of oil output but also on the method of calculation used by the authorities. Nominal oil sector

value added—using the average annual crude oil export price—is deflated by the average annual import price index to indicate the purchasing power of oil income. Consequently, although oil production remained fairly stable in recent years under the constraint of the U.A.E.'s OPEC quota, the real value added of the oil sector fluctuated markedly, declining sharply in 1993–94, recovering again in 1995–96, and falling slightly in 1997 (Table 1 and Appendix Table 12).¹ By contrast, real non-oil GDP rose each year in the 1980s and 1990s, and recorded an annual average rate of growth of over 9 percent between 1992 and 1995. Non oil growth remained robust at 7.8 percent in 1996 and 5.4 percent in 1997, suggesting that the fiscal consolidation implemented in these two years had only a modest impact on private sector activity (Chart 1). After averaging over 4 percent during 1992–95, the growth of total real GDP at factor cost increased to 10.1 percent in 1996 but slowed to an estimated 2.1 percent in 1997 due mainly to the impact of oil export price movements on measured oil sector GDP.

9. GDP by expenditure categories is available only in nominal terms (Table 2 and Appendix Table 14). Domestic expenditure rose at an annual average rate of almost 10 percent during 1992–95, as a strong fiscal impulse benefitted the private sector. Public fixed investment and private consumption increased rapidly, so that their shares in total GDP increased by more than 5 and 3 percentage points, respectively, over this period. Reflecting the strong growth of domestic demand, imports increased on average by over 10 percent per year in 1992–95, albeit at a declining rate, but buoyant growth of non-oil exports was moderated by fluctuations in the oil export price so that the annual average export growth was only 5.5 percent. As a result, the external sector's contribution to growth moderated during these years, and nominal GDP at market prices increased an average annual rate of 6.5 percent. In 1996, nominal GDP rose by 12 percent. The rate of expansion of domestic expenditure slowed only slightly to 9 percent as a deceleration in the growth of public consumption and fixed investment was largely offset by higher private expenditure on both consumption and investment, and the external current account surplus increased significantly—reflecting mainly a six-year peak in oil export prices. Preliminary estimates for 1997 suggest that nominal GDP growth slowed to 3 percent due to a deceleration in domestic expenditure. The continuing fiscal consolidation and weaker private consumption offset the impact of still buoyant private fixed investment. The external sector also contributed positively to overall growth due to higher gas and non-oil exports.

¹Using the more conventional methodology of calculating real oil sector value added on the basis of the volume of net output, oil sector GDP would have been fairly stable from 1992–95 and then would have increased by about 3 percent in 1996 and about 6 percent in 1997 due to higher condensate output.

Table 1. U.A.E.: Real Growth by Sector, 1993-97

	1993	1994	1995	1996	<u>Prel.</u> <u>1997</u>
(Change in percent)					
Gross domestic product	-0.4	5.0	8.1	10.1	2.1
Crude oil production 1/	-12.4	-7.2	5.2	14.9	-4.4
Other production	8.1	12.0	9.5	7.8	5.4
Agriculture	9.8	31.2	7.7	11.8	8.8
Industry	4.9	10.8	9.1	7.7	6.2
Mining and quarrying	7.6	7.8	31.9	1.9	4.9
Manufacturing 2/	5.6	24.6	13.4	9.8	5.5
Electricity and water	-7.3	-4.2	-13.0	6.1	4.8
Construction	7.5	0.9	8.2	5.7	7.4
Services	9.7	11.4	9.8	7.6	4.7
Trade	14.2	8.2	4.6	10.9	6.2
Wholesale and retail trade	15.7	8.5	4.7	8.9	6.1
Restaurants and hotels	4.2	5.9	3.9	25.5	7.0
Transportation, storage, and communication	6.4	6.4	19.9	10.2	2.8
Finance and insurance	19.6	17.8	14.1	10.2	4.4
Real estate	22.3	26.5	16.0	8.6	2.6
Government services	6.0	1.8	4.0	5.2	4.4
Other services	-30.2	37.6	5.7	9.0	8.8
Less: imputed bank service charges	8.7	16.7	8.3	16.5	1.1
(Change in percent of GDP of previous period)					
Gross domestic product	-0.4	5.0	8.1	10.1	2.1
Crude oil production 1/	-5.2	-2.6	1.7	4.7	-1.5
Other production	4.8	7.6	6.5	5.4	3.6
Agriculture	0.2	0.7	0.2	0.3	0.3
Industry	0.9	2.1	1.9	1.6	1.3
Mining and quarrying	0.0	0.0	0.1	0.0	0.0
Manufacturing	0.5	2.1	1.4	1.0	0.6
Electricity and water	-0.2	-0.1	-0.2	0.1	0.1
Construction	0.6	0.1	0.7	0.5	0.6
Services	3.6	4.7	4.3	3.4	2.0
Trade	1.4	1.0	0.6	1.3	0.7
Wholesale and retail trade	...	0.9	0.5	0.9	0.6
Restaurants and hotels	...	0.1	0.1	0.4	0.1
Transportation, storage, and communication	0.3	0.4	1.2	0.6	0.2
Finance and insurance	0.8	0.9	0.8	0.6	0.3
Real estate	1.3	1.9	1.4	0.8	0.2
Government services	0.7	0.2	0.5	0.6	0.5
Other services	-0.8	0.7	0.1	0.2	0.2
Less: imputed bank service charges	-0.2	-0.3	-0.2	-0.4	0.0

Source: Table 12.

1/ The concept of "product value at constant prices" used for crude oil and refined petroleum products is different from that for other sectors. While for each non-oil sector the value of production at current producer prices is deflated by an index of producer prices applicable to that sector, the deflator used for the oil sector consists of the ratio of an index of oil sector producer prices to an index of prices of all imports to the U.A.E. Movements in crude oil production as reflected in this table may, therefore, differ from movements in the volume of production shown in Table 3.

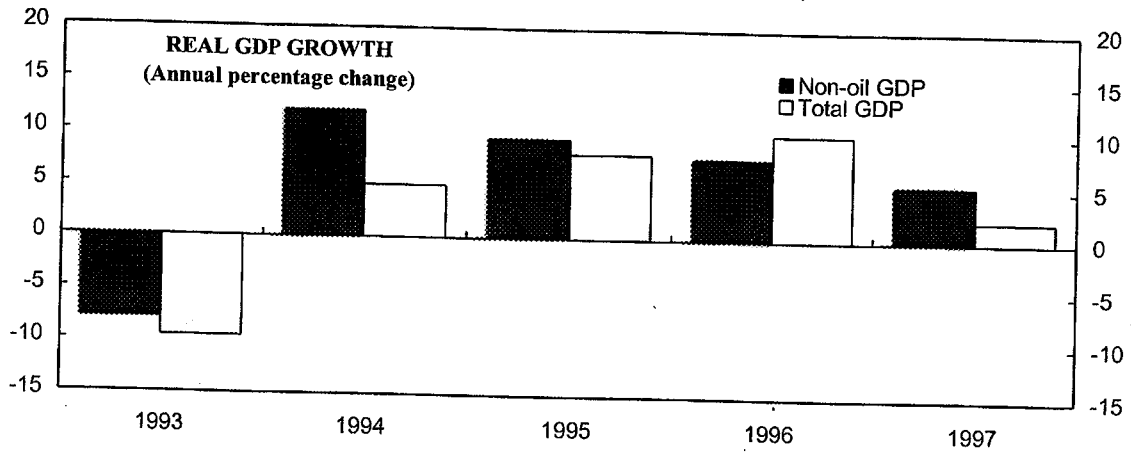
2/ Includes natural gas and petroleum processing industries.

Table 2. U.A.E.: Use of Resources at Current Prices, 1993-97

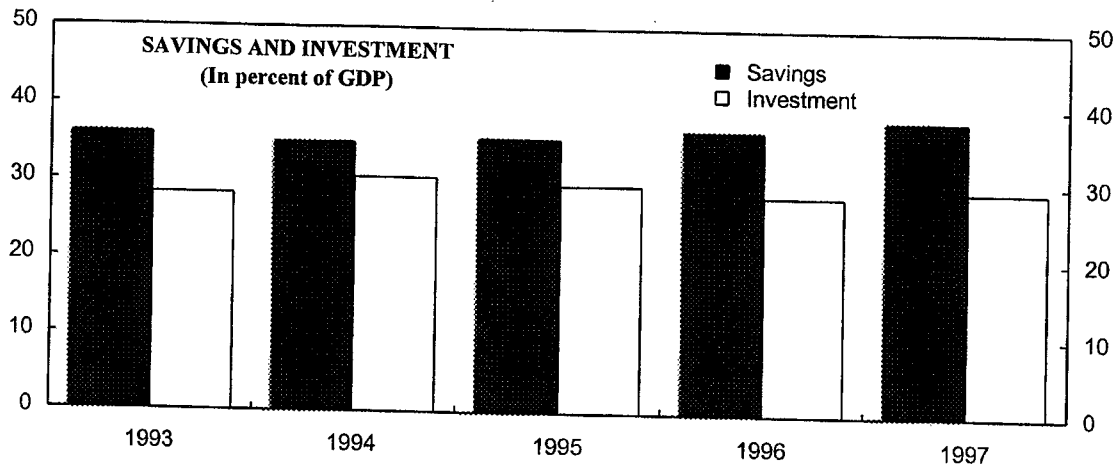
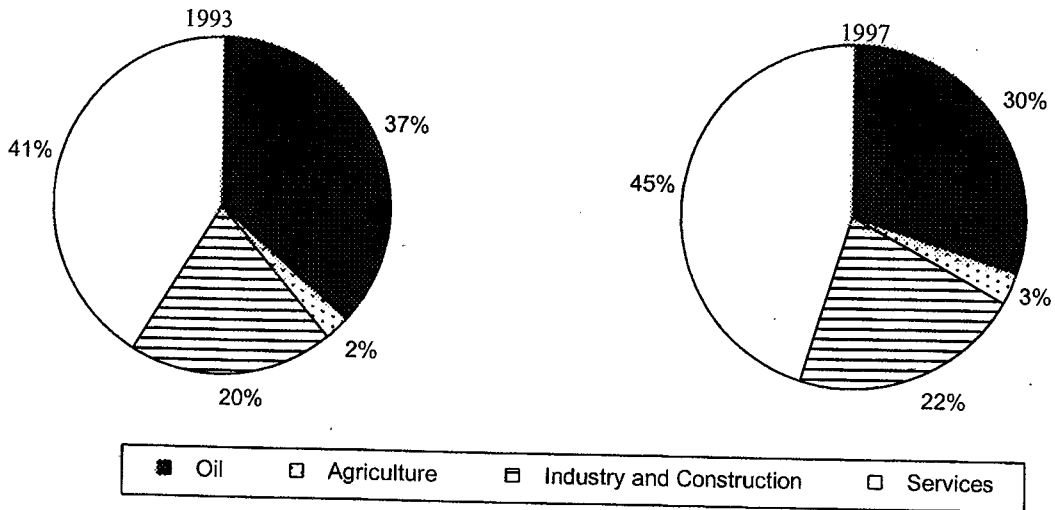
	1993	1994	1995	1996	<u>Prel.</u> 1997
(Annual changes in percent)					
Total consumption	4.1	8.7	10.7	9.8	0.6
Public	3.1	3.6	6.2	3.6	-0.3
Private	4.5	10.7	12.4	11.9	0.9
Total fixed investment	18.7	16.1	8.8	7.1	7.0
Public	36.6	29.9	20.0	5.7	4.6
Private	10.4	8.1	1.0	8.2	9.0
Change in inventory stock	6.0	6.9	6.1	6.5	6.5
Domestic expenditure	8.0	10.9	10.1	8.9	2.6
Net exports of GNFS	-43.5	-38.5	50.6	58.6	7.0
Exports of GNFS	5.8	3.5	7.6	14.3	3.4
Imports of GNFS	17.7	8.3	4.7	10.1	2.9
Nominal GDP at market prices	0.9	7.1	11.9	11.9	3.0

Source: Ministry of Planning.

**CHART 1
UNITED ARAB EMIRATES
GROWTH, SAVINGS, AND INVESTMENT, 1993-97**



COMPOSITION OF GDP BY SECTOR



Sources: The U.A.E. Central Bank and Ministry of Planning.

B. Oil Sector Developments and Prospects

Background

10. The U.A.E.'s proven reserves of crude oil are officially estimated at 100 billion barrels, the third largest after Saudi Arabia and Iraq, and equivalent to about 10 percent of world reserves. At present levels of output, the ratio of reserves to production is over 120 years. Although the major oil reservoirs have been identified, there is an ongoing exploration and development program (see below) which could extend the longevity of reserves by over a decade. The oil reserves are located mainly in Abu Dhabi which acts as the swing producer in maintaining the U.A.E.'s total production at its OPEC quota. Abu Dhabi's production in recent years has been 1.8–1.9 million barrels per day (mbd); output in the other oil producing emirates—Dubai, Sharjah, and Ras Al-Khaima—amounts to about 0.3 mbd and is declining due to the gradual exhaustion of Dubai's wells (Table 3).

11. The U.A.E.'s policy on crude oil production is to adhere strictly to its OPEC quota which remained unchanged at 2.161 mbd between 1993 and 1997. In the light of this policy, the authorities have focused on the development of the country's natural gas resources (see below), and the production of petroleum condensates which are recovered in association with the production of crude oil and natural gas and are not subject to the OPEC quota. Condensates consist of naphtha and other benzene-type liquid natural gas which can be exported directly, mixed with heavy crude oil to obtain a lighter weight oil which attracts a higher price, or refined into petroleum products.²

Institutional framework

12. The individual emirates retain ownership and control of the country's oil resources. The Federal Ministry of Petroleum and Minerals has only an advisory and statistical function, however, the Minister represents the U.A.E. at OPEC meetings. In Abu Dhabi, the Supreme Petroleum Council formulates policies on the basis of advice provided by the government-owned Abu Dhabi National Oil Company (ADNOC). The three major companies involved in oil production are the Abu Dhabi Company for Onshore Oil Operations (ADCO) producing about 0.9 mbd in 1997 from the Murban and Bab fields; the Abu Dhabi Marine Areas Operating Company (ADMA-OPCO) producing about 0.4 mbd from two offshore fields Abu al Bukoosh and Umm Shaif; and the Zakum Development Company (ZADCO), producing about 0.6 mbd from two offshore fields Upper and Lower Zakum. In the former two companies and a small ZADCO field the government holds a 60 percent share managed by

²The authorities do not provide data on condensates output; the data in Table 3 are staff estimates.

Table 3. U.A.E.: Summary of Oil and Gas Production, Exports, and Prices, 1993-97

	1993	1994	1995	1996	<u>Prel.</u> 1997
(In millions of barrels per day)					
Crude oil production	2.20	2.20	2.20	2.26	2.39
Abu Dhabi	1.80	1.80	1.82	1.86	1.91
Dubai and others 1/ Condensates	0.36 0.04	0.36 0.04	0.34 0.04	0.30 0.10	0.25 0.23
Refinery input	0.10	0.10	0.10	0.22	0.31
Crude oil exports	2.10	2.10	2.10	2.04	2.08
Abu Dhabi	1.71	1.71	1.71	1.65	1.61
Dubai and others 1/ Condensates	0.35 0.04	0.35 0.04	0.35 0.04	0.29 0.10	0.24 0.23
(In billions of cubic meters)					
Natural gas production	20.06	22.50	24.50	27.50	31.00
LNG exports	2.83	3.33	4.44	6.34	6.34
NGL exports	7.57	7.51	7.29	8.11	9.60
(In millions of U.S. dollars)					
Crude oil exports	12,256	11,934	12,762	14,795	14,273
Abu Dhabi	9,980	9,718	10,514	11,967	11,048
Dubai and others 1/ Condensates	2,043 233	1,989 227	2,005 243	2,103 725	1,647 1,578
LNG and NGL exports 2/ Total hydrocarbon exports	963 13,220	991 12,926	1,467 14,230	1,932 16,728	2,703 16,976
(In millions of U.A.E. dirhams)					
Crude oil exports	44,993	43,811	46,850	54,313	52,396
LNG and NGL exports 2/ Total hydrocarbon exports	3,536 48,529	3,639 47,450	5,387 52,237	7,094 61,407	9,922 62,318
Memorandum item:					
Average oil export price (US\$/b)	15.99	15.57	16.65	19.87	18.80

Sources: Abu Dhabi National Oil Company; and staff estimates.

1/ Sharjah and Ras Al-Khaimah

2/ Includes a one time payment of US\$400 million in 1997 for the retroactive adjustment of LNG Prices.

ADNOC,³ while for the other two ZADCO fields, the ADNOC share is 88 percent. The production sharing arrangements broadly provide for ADNOC to receive its equity share in production after the payment of royalty and cost recovery; the partners' share is then taxed at the rate of 55 percent. In addition to the three major companies, there are three other joint venture companies which produce a total of less than 0.1 mbd from three offshore fields.

13. ADNOC is also responsible for most of the upstream and downstream activities in Abu Dhabi's oil sector, including the refineries at Umm al-Nar and Ruwais. The marketing and distribution of petroleum products is carried out by the Abu Dhabi National Oil Company for Distribution, a wholly owned ADNOC subsidiary.⁴ With regard to the natural gas sector, ADNOC has 70 percent ownership of the Abu Dhabi Gas Liquefaction Company (ADGAS) and 68 percent ownership of the Abu Dhabi Gas Industries Company (GASCO).

14. In the other emirates, the Rulers' Offices formulate policies, and operations are carried out by joint ventures with majority government ownership. The Dubai Petroleum Company operates the offshore fields at Fateh, Falah, and Rashid with foreign partners Total, Conoco, and Wintershall. Crescent Oil is the operator of Sharjah's offshore Mubarak field.

15. The five major types of crude oil produced in the U.A.E. and quoted on international oil markets are Dubai's Fateh (31° API), and Abu Dhabi's Murban (39°), Umm Shaif (37°), Upper Zakum (34°), and Lower Zakum (40°). The Dubai Fateh crude price is often used as a benchmark by other oil exporting countries as a benchmark in their pricing decisions.

Exploration and development

16. A major exploration program was initiated in 1996 which aimed to raise Abu Dhabi's sustainable oil production capacity from 2.2 mbd to 3 mbd by 2000 in order to be able to take advantage of any increase in the global demand for oil. Enhanced oil recovery techniques—three dimensional seismic analysis, behavioral modeling of wells, and horizontal drilling—are being implemented. However, the pace of implementation has slowed due to the less favorable medium-term market outlook. Currently, Abu Dhabi's focus is on the development of existing fields to maximize the production of oil over the long term and to facilitate the stripping of condensates from the top of the reservoirs. Water injection is being replaced with gas injection so that optimal pressure can be maintained in producing wells.

³The foreign partners in ACDO are BP, Shell, Total, Mobil, Exxon, and Partex. The foreign partners in ADMA-OPCO are BP, Total and Japan Oil Development Company. The only foreign partner in ZADCO is Japan Oil Development Company.

⁴Other ADNOC subsidiary companies are the National Marine Dredging Company, the National Drilling Company, the National Petroleum Construction Company, the National Company for Marine Services, the Abu Dhabi Petroleum Ports Operating Company, and the Abu Dhabi National Tanker Company.

17. There has also been recent exploration in the Northern Emirates. In 1997 and early 1998, two additional wells were drilled in the offshore Mubarak field in Sharjah, and one exploratory well offshore in each of Ras Al-Khaimah and Fujairah; both were unsuccessful.

Production, exports, and prices

18. Under the constraint of the U.A.E.'s unchanged OPEC quota, the aggregate volume of crude oil and condensates output remained fairly stable from 1993–96 at about 2.2 mbd. However, Abu Dhabi's share in this total increased over time to offset declining production in Dubai. In 1997, condensates output rose by an estimated 130,000 bd due to the coming on stream of a major gas development project (see below), raising aggregate output to 2.39 mbd. Export volume also remained fairly stable over 1993–95 at 2.1 mbd, but rising domestic consumption of petroleum products and the associated input of crude oil to domestic refineries lowered the volume of exports in 1996 to 2.04 mbd. The higher condensate output in 1997 enabled export volume to increase. Given the relative stability of export volume, changes in oil export revenues reflected mainly movements in prices; revenues peaked at US\$14.8 billion in 1996 as export prices rose to an average of US\$19.87 per barrel, the highest since the 1990–91 regional crisis, and then declined to US\$14.3 billion in 1997 owing to a reduction in average prices to US\$18.80 per barrel.

19. Oil export prices rose during the first 10 months of 1997 and then declined sharply through the first half of 1998. The price for the grade with the largest production—ADCO's Murban—increased from US\$23.75 per barrel in January 1997 to US\$20.20 in October, declined to US\$17.00 in December and then plummeted to US\$12.35 in June 1998. The initial decline reflected the weakening of demand by Asian countries from mid-1997 onward and a warm winter in the major consuming countries. It was intensified by increased supplies coming onto the global market in the early months of 1998 in response to OPEC's decision in December 1997 to raise quotas effective January 1998; the U.A.E.'s quota was increased by 9 percent to 2.366 mbd and Abu Dhabi quickly raised its production in January and February. In response to the price decline, OPEC and other producers agreed to cut production in subsequent months. As of July 1998, the U.A.E. agreed to reduce output by 225,000 bd leaving a targeted ceiling of 2.157 mbd.

20. The domestic prices of refined petroleum products have remained stable in recent years, with the exception of diesel fuel prices which were raised by 11.8 percent in 1996, and are well above international ex-refinery prices (Appendix Table 17). The authorities do not vary domestic prices in line with international prices as price stability is preferred by consumers.

C. Natural Gas

Background

21. The U.A.E.'s natural gas reserves are officially estimated at 6 trillion cubic meters, or about 4 percent of world natural gas reserves. As with oil, these reserves are located predominantly in Abu Dhabi. The demand for natural gas in the U.A.E. is expected to grow by 4-5 percent per year over the medium term. This includes the consumption of methane and liquid petroleum gas (LPG) by industry and households. To meet this demand and to expand its petrochemicals industry, Abu Dhabi is undertaking a large scale gas development program. This program will also involve an increase in exports of natural gas liquids (NGLs). An increase in exports of liquid natural gas (LNG) is not expected, because the market outlook had deteriorated even before the onset of the Asian crisis due to additional supplies becoming available over the medium term from Qatar's large gas development project. Abu Dhabi's gas development program is outlined in Box 1, and it also includes the supply of part of Dubai's future requirements.⁵ Dubai currently receives its normal-load supply from Sharjah, and supplements this in peak-load periods by associated gas from its own condensate field at Margham. Sharjah has sufficient gas reserves to meet its own needs and those of the northern emirates for electricity and water production. Sharjah will also commence construction of a US\$120 million gas distribution network to serve commercial, industrial, and residential users in the second half of 1998.

Recent developments

Liquid Natural Gas

22. LNG is produced by ADGAS plant at Das Island in the Persian Gulf using dry gas piped from the Khuff reservoir gas treatment plants.⁶ In 1990, ADGAS signed a 25-year contract with the Tokyo Electric Power Company (TEPCO) for 4.3 mt per year and 0.4 mt on a best endeavor basis. This contract underpinned an expansion of capacity culminating in the completion of a third liquefaction train in 1994 which raised production capacity of LNG and NGLs (mainly LPG and pentane) to over 8 million tons per year. All ADGAS production is exported.

⁵In February 1998, Abu Dhabi agreed to supply Dubai with 500 mcf/d beginning in 2001, and Dubai is also negotiating with Qatar and Iran for additional amounts.

⁶A restructuring of ADGAS' ownership became effective on April 1, 1988. Capital shares are now ADNOC 70 percent (formerly 51 percent), Mitsui 15 percent, BP 10 percent, and Total 5 percent.

23. The production and exports of LNG remained stable at 5.5 mt in 1996 and 1997. LNG exports to TEPCO amounted to 4.5 mt in 1996, and 0.7 mt were supplied to Enagas (Spain) on a one-year contract basis. The purchase of LNG carriers (see Box 1) facilitated the sale of an additional 0.3 mt on a spot basis to two French gas companies. In 1997, exports to TEPCO increased to 4.6 mt, notwithstanding a scaling back of purchases from other suppliers, and sales to Enagas rose to 0.9 mt. However, there were no spot sales and an expected contract for the sale of 250,000 tons to Korea Gas did not eventuate.

24. Under the 25-year contract with TEPCO, LNG prices are reviewed every four years. The initial price agreed between April 1994 and March 1998 was US\$3.05 per million Btu, but this price was well below market prices so that a new agreement was needed. As an interim measure, a price (per million Btu) of US\$3.46 was invoiced for 1995, US\$3.86 for 1996, and US\$4.01 for 1997. In January 1997, a new price formula was agreed which was based on the Btu equivalent of Japan's weighted average oil import price, with a buffering mechanism that utilized upper and lower price triggers to protect both parties from extreme fluctuations in oil prices. ADGAS benefitted from the buffering mechanism until the expiration of the pricing arrangement at end-March 1998. The arrangement also required a premium to be paid retroactively on deliveries at the invoiced prices between April 1994 and November 1996, so that in March 1997 ADGAS received a retroactive payment of US\$400 million. Reflecting higher prices and this payment, LNG export receipts increased from US\$1.1 billion in 1996 to US\$1.5 billion in 1997.

Methane and LPG

25. The price of methane used by industry is determined by ADNOC on the basis of the recovery of its operating and capital costs and the achievement of a hurdle rate of profit by the enterprise. The Abu Dhabi Department of Electricity and Water is charged Dh 3.95 per mBtu. The price charged by ADNOC to other enterprises (e.g., urea and ammonia plants) varies according to the extent of international competition faced by the enterprise, but are higher than the electricity price. The prices paid by industry are also higher in other emirates, for example, the Dubai Aluminum Company pays US\$1.27 per mBtu for gas purchased from Sharjah. For LPG used by households, the domestic retail price throughout the U.A.E. remained unchanged during the 1990s at Dh 30 for a 56 kg cylinder (US\$146 per mt) until September 1998 when the price was reduced by 10 percent to Dh 27 in view of the decline in world oil and gas prices.

D. Developments in the Non-oil Sector

Diversification of the production structure and the role of government

26. The continuing diversification of the U.A.E.'s production base is evidenced by the steadily increasing share of the non-oil sector in total GDP at constant prices in recent years—from 63.5 percent in 1993 to 69.3 percent in 1997 (Appendix Table 12). It is also

Box 1. Abu Dhabi's Gas Sector and Petrochemicals Projects

The major projects completed in 1996-97 and in the pipeline are listed below. The gas development projects all involve new gathering, receiving, and separation facilities and pipelines. All projects in the pipeline will be financed by ADNOC from its own resources, unless market conditions favor bank borrowing. The polyethylene plant will also be partly financed by a joint venture partner.

- **Bab Onshore Gas Development—Phase I (US\$1.35 billion)**
Completed in 1996, 1.5 billion cubic feet per day (cfd) of raw gas is processed to produce 130,000 b/d of condensate, 5,400 tons/day of NGLs, 1,650 tons/day of sulphur, and 1.05 billion cfd of dry gas, of which, 740 million cfd is reinjected into the Bab oil field.
- **LNG Tankers (US\$1.0 billion)**
Two LNG tanker ships of 135,000 ton capacity were delivered in 1996 and two in 1997. The Natural Gas Shipping Company charters the tankers from ADNOC and transports LNG as required by ADGAS contracts.
- **Bab Onshore Gas Development—Phase II (US\$1.0 billion)**
Construction commenced in late 1997 of the upstream phase of the project intended to produce 54,000 tons/day of condensate, 300 tons/day of NGLs, 2,500 tons/day of sulphur and 1.0 billion cfd of dry gas, all to be used as feedstock for power, desalination, and petrochemicals plants. Completion is expected in 2000.
- **Asab Onshore Gas Development (US\$700 million)**
Construction commenced in the second half of 1997 of facilities to process 900 million cfd of associated gas from the reservoirs under the Asab oil field. After the recovery of condensate, NGLs, and sulphur, the dry gas will be reinjected. Completion is expected by end-1999.
- **Khuff Offshore Gas Development (US\$1.0 billion)**
Construction will commence in the second half of 1998 of facilities to produce an additional 640 million cfd of dry gas from the Khuff reservoirs underlying the offshore oil fields Abu al Bukoosh and Umm Shaif. The pipeline to onshore processing facilities at Tahweelah will have sufficient capacity to carry 950 million cfd to allow for future expansion. The project also includes the construction of a 65 km onshore gas pipeline from Tahweelah to Jebel Ali in Dubai to deliver an initial 500 million cfd, and a 50 km pipeline liquids pipeline to the Umm al Nar refinery. Completion is expected by mid-2001.
- **Polyethylene Plant (US\$1.0 billion)**
Construction will commence in the second half of 1998 of a new marine terminal, a 600,000 tons per year ethylene cracker, and two 225,000 t/y polyethylene units at Ruwais. Technology developed by Borealis—which is owned by Norway's Statoil (50 percent), Abu Dhabi (25 percent) and Austria's OMV (25 percent)—will be used in the polyethylene units. The project's owner is the Abu Dhabi Polyethylene Company, a 60:40 joint venture between ADNOC and Borealis. A new marine terminal will also be built. Completion is expected by mid-2001.
- **Ethylene Dichloride (EDC) Plant (US\$600 million)**
Construction will commence at Ruwais in the first half of 1999 of a chlor alkali facility to produce 370,000 t/y of chlorine, and a 540,000 t/y EDC plant. The plant will use the remaining 150,000 t/y ethylene feedstock from the neighboring polyethylene plant. Completion is expected in early 2002.

reflected in the faster growth of factor inputs into the non-oil sector relative to the oil sector. Over the same period, employment in the non-oil sector grew at an annual average rate of 7.7 percent compared with 5.1 percent in the oil sector. Similarly, the gross fixed capital formation in the non-oil sector grew at an average annual rate of 11.5 percent compared with 0.9 percent in the oil sector.

27. The form of diversification has varied according to the development strategies of the emirate governments which take into account the emirates' comparative advantages and resource endowments. Abu Dhabi's growth strategy emphasizes the development of capital-intensive energy based activities such as petrochemicals (see above) and fertilizers. Dubai is expanding its role as a commercial and financial hub, building on the entrepôt trade, and has become an attractive tourist destination for both GCC and European nationals. Sharjah has traditionally been the center of small-scale manufacturing for import replacement and textiles for export and has about 45 percent of U.A.E. manufacturing industry. However, it is now promoting large scale industry in a new free trade zone and arts-oriented tourism. The northern emirates focus on agriculture, quarrying, cement, and have some specialist manufacturing industries (pharmaceuticals) and shipping services. Fujairah is also a popular tourist destination because of its monsoonal climate.

28. A common core of these development strategies is an expanded role for private sector investment and activity. To this end, each emirate government (and the federal government in the northern emirates) has provided a modern infrastructure—roads, utilities, telecommunications, ports and airports, and hospitals and schools. The absence of income taxation on labor or capital (except for banking profits) has also attracted private investment. In addition, the emirate governments have provided direct incentives for private investment in industrial zones such as free or low cost land, prebuilt factories and warehouses, and subsidized water and electricity tariffs.

29. Private investment in the economy has been facilitated in recent years by the establishment of a number of new joint stock companies (Box 2). Under the Federal Companies Law (Law No. 8 of 1984) the founding investors of a joint stock company must provide a minimum of 35 percent of its capital and the remainder can be raised by public subscription from U.A.E. nationals in initial public offerings (IPOs).⁷ The founding investors must retain their shareholding for two years. The participation of emirate governments and major private sector firms as founding investors has promoted public confidence in the companies and helped ensure the success of the IPOs.

⁷Foreigners may invest in U.A.E. joint stock companies either as founding investors, or through mutual funds; up to 20 percent of a mutual fund's portfolio may be owned by foreigners. Three such mutual funds were established by the Emirates Bank Group in 1997-98. Foreigners may not participate directly in IPOs.

Box 2. U.A.E. Joint Stock Companies

The most important new public companies established between 1995 and mid-1998 are listed below. In most cases, 45 percent of the capital was provided by founding investors and 55 percent by public subscription.

	Paid-up Capital Dh. million
1995: Dubai Investment Co.	1,300
1996: Abu Dhabi Shipbuilding Co.	50
Abu Dhabi Leasing Co.	...
1997: Emaar Properties Co. (Dubai)	1,000
Abu Dhabi Islamic Bank	1,000
Oasis Leasing Co. (Abu Dhabi)	500
Subsidiaries of Dubai Investment Co.:	
- Dubai Business Park Development Co.	50
- Emirate Building Systems	...
- Emirate Glass	...
- al-Marnum Dairy Farm	...
1998: Thuraya Satellite Telecommunications Co. (Abu Dhabi)	1,000
Tabreed Water Cooling Co. (Dubai)	500
Ras al-Khor Property Development Co. (Dubai)	2,400
Emirates Basic Industries Co. (Dubai)	550

30. Some emirate governments are also providing opportunities for private investment through the privatization of their agencies and industrial companies. The major privatization initiative in the U.A.E. is the privatization of the Abu Dhabi Department of Water and Electricity (Box 3), which, if successful, could serve as a model for the other emirates. Abu Dhabi has also transferred shares in a two companies owned by its General Industries Corporation—a food processing firm and a livestock firm—to low-income citizens as part of its policy of redistributing the oil wealth. At present, Dubai's strategy for the electricity and water sector is to gradually increase tariffs toward full cost recovery, at which time, privatization will be considered. However, the privatization of Dubai's largest industrial company, the Dubai Aluminum Company (DUBAL), is not being considered because it is managed on a fully commercial basis and its profits are an important source of government revenue. Privatization is not an important issue for Sharjah and the northern emirates because they have very few assets that could be privatized.

Box 3. Privatization of the Abu Dhabi Water and Electricity Department (WED)

In March 1996 a committee was formed to look into the possibility of privatizing the WED in order to ensure that the supply of water and electricity matches rapidly growing demand and is produced efficiently. A feasibility study was prepared by McKinsey and Co., and decision to proceed was taken, after a relatively short period of review, in mid-1997. The strategy for urban and industrial areas is to divide the WED into three sectors: electricity generation and desalination, transmission, and distribution. A separate public company will supply outlying villages and islands. The generation and desalination, and distribution in urban and industrial areas will eventually be privatized, while transmission will remain a government monopoly. Retaining state control of the transmission sector will allow the government to more easily implement a desired level of subsidization.

All newly established generation and desalination plants will initially be "build, own, and operate" joint ventures between a new Water and Electricity Authority (holding 60 percent of capital) and foreign companies (40 percent). After about three years the government's holding will be reduced to well below 50 percent by selling shares to U.A.E. nationals. At present, bids are being evaluated from eight foreign companies (which prequalified out of 21 proposals) for the first independent plant—Taweelah A-2 which will produce 480-580 MW and 50 million gallons per day. The bids include proposed selling prices for water and electricity, and on this basis, the authorities have indicated that the present electricity subsidy (10 fils per kwh for commercial firms) could be reduced by at least 40 percent.

An independent regulatory body will be established by the end of 1998 to oversee the new industry structure. It will set performance targets, regulate tariffs for transmission and distribution, and monitor general policy issues such as concentration of market share and ownership, and environmental standards. In setting distribution tariffs it will distinguish between nominal tariffs which fully cover costs and actual tariffs which will reflect government policy on subsidies.

31. To further promote private investment and economic diversification, the Abu Dhabi government, which is responsible for U.A.E. defense expenditure, has instituted an offset program. Administered by the U.A.E. Offset Group (UOG), the program requires international firms which receive defense contracts for more than US\$10 million to invest—either through joint ventures in private companies or as founding investors in joint stock companies—in projects that generate accumulated profits over a period of seven years equivalent to 60 percent of the value of the contract. A "pre-offset agreement" also allows for an investment to be made before a contract is awarded. From its inception in 1991 to June 1998, the UOG approved 23 projects with a total paid up capital of US\$500 million, including ship building, equipment leasing, biochemicals, outpatient health care, stainless steel production, tank inspection services, electric motor production, cooling equipment, and solar energy generators. All projects except the Tabreed Water Cooling Company (see Box 2) are located in Abu Dhabi.

32. Finally, emirate governments have emphasized free trade zones as an essential element of their development strategies because of their profit potential and backward linkages in providing opportunities for high-skill employment to the domestic economy.⁸ The prime example of a free trade zone in the region is Jebel Ali in Dubai which is now the 12th largest port in the world. Established in 1985, the number of companies in Jebel Ali increased from 298 in 1990 to 1,029 in 1996, and employment (in both high- and low-skill jobs) rose from 6,200 to 23,600 over the same period. Its activities center on warehousing and distribution, but it is also an important industrial area. Sharjah has established two free trade zones at its international airport and the Hamriya port. The former attracts industries that rely on speedy delivery or produce high value products. The latter is complementary to Jebel Ali and has attracted large scale industry including an LPG storage and export complex and a privately owned oil refinery. Abu Dhabi has announced plans to establish a US\$3.3 billion free trade zone on Saadiyat Island which will include a bulk commodities exchange with facilities for storage and delivery. Ras Al-Khaima also intends to establish a 1 million square meter free trade zone near its port, and will offer ownership of land rather than long-term leases to attract investors.

Development planning

33. In 1996, the Dubai Department of Economic Development issued an indicative five-year development plan for 1996–2000 as part of a long-term vision for the emirate to achieve the status of a developed country. For the medium term, in view of the depletion of its oil reserves, it is intended that the non-oil sector will be able to generate self-sustaining growth by 2010. The plan calls for a transformation of competitive advantage based on natural resources and low cost labor to a reliance on capital formation attracted by an efficient business environment, economies of scale, and technological improvement. As a first step, a business park for information technology firms has been established. Other desirable activities are financial services, business support services and consulting, health services, education, and tourism. Abu Dhabi is presently formulating a five-year development plan within the context of a longer-term vision with technical assistance from the UNDP.

Manufacturing

34. The manufacturing sector is segmented between large capital-intensive establishments involved in the production of refined petroleum products, fertilizers, chemicals, petrochemicals, base metal products, and cement on the one hand, and smaller, less capital intensive companies producing food products, textiles and garments, metal products, and machinery on the other. The focus of the lower capital intensive group is primarily on the

⁸Firms established in free trade zones may have up to 100 percent foreign ownership. Under the Federal Law 1 of 1979 on The Organization of Industrial Affairs, domestic companies with capital of more than Dh 250,000 must have at least 51 percent ownership by U.A.E. nationals.

domestic market, whereas the large firms have a strong export orientation. A detailed breakdown of the development of each segment of the manufacturing sector is not available at an aggregated level.

35. The average annual rate of growth of the manufacturing sector during 1993–97 of 13 percent was well above that of the non-oil sector (8½ percent). Although the year-to-year growth rate slowed from an exceptionally high 24½ percent in 1994 to 5½ percent in 1997, the latter increase being the same as in the non-oil sector as a whole, the share of manufacturing in total non-oil GDP at constant prices rose slightly from 15 percent in 1994 to 15½ percent in 1997, indicating that manufacturing activity has maintained its importance as a contributor to growth. The manufacturing sector's performance in 1997 reflected in part a US\$470 million expansion of capacity from 240,000 tons to 375,000 tons at the Dubai Aluminum Company which came on stream in January 1997.

Construction

36. The construction sector grew at an annual average rate of 5½ percent during 1993–97 which was below the growth of real non-oil GDP. Nonetheless, the construction sector is an important contributor to GDP growth; in 1997 it accounted for 0.6 percentage points of the 3.6 percent growth in real non-oil GDP, which was the same contribution as the manufacturing and wholesale and retail trade sectors. This contribution largely reflects labor input as employment in construction averaged over 19 percent of total civilian employment over 1993–97, the highest share of any sector.

37. Developments in the construction sector are closely linked to government development expenditure (of which, the provision of infrastructure is an important component) and net lending (in large part for the construction of commercial properties and private residences).⁹ However, autonomous private construction activity has weakened the link to government expenditure in recent years, and this was particularly evident in 1997 when construction activity weakened in Abu Dhabi but grew strongly in Dubai and Sharjah. Moreover, the importance of additional infrastructure in total construction has declined as many large infrastructure projects, especially the road network, have been largely completed.

⁹A major influence on construction activity is the Khalifa Committee in Abu Dhabi which manages the construction of commercial and residential buildings on behalf of Abu Dhabi nationals. The committee finances and manages buildings on land owned by nationals (usually in downtown Abu Dhabi), and in return takes a 60 percent share of the rent during a 10–15 year amortization period. After this period, the national becomes the owner of the building.

Services

38. The services sector as a whole was responsible for 55–65 percent of the growth of real non-oil GDP over 1993–97 (Table 1). Within the sector, the largest contributor to growth in 1993–95 was real estate, but the profitability of this sector declined in 1996–97 owing to an excess supply of low-cost residential properties after the rationalization of the expatriate labor market in 1996 (see below), and an oversupply of commercial buildings in Abu Dhabi in 1997. The finance and insurance subsector also expanded strongly in 1993–96 in response to the need for trade and business financing, construction loans, and consumer banking services. Preliminary data for 1997 indicate that the growth in profitability of the subsector slowed in 1997; however, many banks achieved record profits (see Chapter IV). The largest contribution to growth in 1996–97 came from the wholesale and retail trade sector which benefited from the expanding tourism industry and from successful trade promotions including the annual Dubai Shopping Festival. In addition, trade in Dubai and Sharjah was boosted in 1995–96 by purchases of consumer goods for personal export by residents of the former Soviet Union countries. The government subsector (excluding the armed forces) also made significant contributions to real GDP growth during 1993–97, but its share in total GDP declined from 11.7 percent to 10.6 percent reflecting the recognition by governments that they could not afford to be the employer of last resort. Consequently, employment in government services rose at an annual average rate of only 2½ percent over 1993–97.

Agriculture

39. The agriculture and fisheries sector expanded in real terms at an average annual rate of 14½ percent between 1993 and 1997, and its share in total GDP at constant prices increased from 2.4 percent to 3.2 percent over the same period. The rapid growth of the sector reflects both an increase in the labor force (which averaged almost 9 percent per year) and investments in dams and irrigation equipment to bring more land under cultivation. Land reclaimed from the desert amounts to over 250,000 acres, including agricultural land and green areas. Among the various products, the output of vegetables rose at an annual average rate of 27 percent over 1993–97, poultry at 15 percent, and meat at 6 percent (Appendix Table 18). More modest growth of 2 percent per year was recorded for dates and fish products.

40. Official support for agriculture involves agricultural extension services by the Ministry of Agriculture throughout the U.A.E. and subsidization of inputs. The subsidies are administered by the Abu Dhabi Municipality (for that emirate) and by the federal government for Dubai, Sharjah, and the northern emirates. Subsidies are provided with the objectives of creating a green belt around settlements, maintaining a viable rural population, and achieving agricultural self sufficiency in products where the U.A.E. has a comparative advantage—dates and fish. Federal subsidies include the provision of free land if it is suited to irrigation and if it will improve the economies of scale of an individual farm. Other material inputs (fertilizer, irrigation equipment and water, upgraded fishing equipment, marine engines and fuel) attract a 50 percent subsidy if they promote more efficient production techniques. Federal subsidies are

also targeted by income level to assist low income farmers. In Abu Dhabi prior to 1996, all noncapital inputs including labor attracted a 100 percent subsidy and the Municipality purchased all output at a fixed market-related price. In 1996, the labor subsidy was removed and farmers were made responsible for marketing their production (except for dates which are still purchased officially); other material inputs continue to receive a 100 percent subsidy. Imports of all agricultural products are permitted without customs duty.

E. Employment, Wages and Prices

41. The population of the U.A.E. reached an estimated 2.58 million in 1997 reflecting an at an annual average rate of growth of 5 percent since 1990 (Appendix Table 23). This growth was due mainly to the inflow of foreign labor, but exact information on the share of nationals and expatriates in the population, labor force, and employment is not available because the release of the relevant data from the 1995 census has been embargoed by the authorities. Prior to the census, the International Labor Organization estimated that nationals comprised only 15–20 percent of the population and 10 percent of the labor force. It may be that the expatriate shares are higher than these estimates imply because the expansion in the non-oil economy has been mainly in labor intensive activities such as textiles, electronics, construction and the services sector. The population is concentrated in Abu Dhabi and Dubai which together account for 67 percent of the total.

Employment and wages

42. Employment in the U.A.E. expanded at an annual average rate of growth of 7.7 percent between 1993 and 1997 (Table 4). This reflected the very rapid growth of non-oil employment, particularly in trade and manufacturing (including natural gas and petroleum processing) where annual average increases of 13.7 percent and 10 percent, respectively, were recorded. Employment in agriculture also rose at an above average rate (8.7 percent) but its share in total employment was relatively small at about 7½ percent. Below average employment growth occurred in the crude oil and construction sectors, and especially in finance and insurance and government services.

43. The 1995 census provided information on the inter-emirate structure of the labor force and employment (Appendix Table 26). In that year Dubai had the highest labor force participation rate, followed by Abu Dhabi and Sharjah, but the female participation rate in Abu Dhabi was significantly lower than in most other emirates. This reflects a more traditional attitude to female employment in Abu Dhabi, its greater ability to provide employment for nationals in its own civil service, and the location of the U.A.E. police and defense forces primarily in the emirate. Unemployment in the U.A.E. averaged 1.8 percent of the labor force in 1995, but the rate was significantly higher in Umm Al-Qaiwan and Ras Al-Khaima reflecting their relative lack of natural resource endowments. In principle, unemployment statistics refer only to U.A.E. nationals because foreign workers must be sponsored for employment by a national employer.

Table 4. U.A.E.: Sectoral Distribution of Civilian Employment,
1993-97 1/

	1993	1994	1995	1996	Prel. 1997
(In thousands)					
Civilian employment	976.4	1,111.5	1,216.9	1,263.7	1,313.5
Crude oil production	16.8	17.4	18.9	19.6	20.5
Other production	959.6	1,094.1	1,198.0	1,244.1	1,293.0
Agriculture	71.4	81.4	91.1	95.5	99.5
Industry	331.6	357.6	400.1	418.8	432.1
Mining and quarrying	2.8	2.9	3.2	3.4	3.6
Manufacturing 2/	105.9	120.7	144.0	151.4	155.0
Electricity, gas, and water 3/	21.3	21.1	21.2	21.9	23.0
Construction	201.7	212.9	231.7	242.2	250.6
Services	556.7	655.1	706.8	729.9	761.3
Trade	157.6	174.2	197.3	209.2	209.2
Wholesale and retail trade 4/	136.1	185.2	203.4	212.7	227.8
Restaurants and hotels	34.0	39.7	44.2	47.2	49.9
Transport and communications	82.3	85.8	93.6	94.9	95.8
Finance and insurance	16.8	16.9	17.4	19.1	19.5
Real estate	24.3	26.9	31.6	32.5	33.3
Government services	129.2	131.1	137.0	140.1	142.8
Social and personal services	43.8	52.5	57.1	58.4	60.9
Domestic services of households	90.1	117.1	122.3	125.1	131.5
(In percent of total civilian employment)					
Civilian employment	100.0	100.0	100.0	100.0	100.0
Crude oil production	1.7	1.6	1.6	1.5	1.6
Other production	98.3	98.4	98.4	98.5	98.4
Agriculture	7.3	7.3	7.5	7.6	7.6
Industry	34.0	32.2	32.9	33.1	32.9
Mining and quarrying	0.3	0.3	0.3	0.3	0.3
Manufacturing 2/	10.8	10.9	11.8	12.0	11.8
Electricity, gas, and water 3/	2.2	1.9	1.7	1.7	1.8
Construction	20.7	19.2	19.0	19.2	19.1
Services	57.0	58.9	58.1	57.8	58.0
Trade	16.1	15.7	16.2	16.6	15.9
Wholesale and retail trade 4/	13.9	16.7	16.7	16.8	17.3
Restaurants and hotels	3.5	3.6	3.6	3.7	3.8
Transport and communications	8.4	7.7	7.7	7.5	7.3
Finance and insurance	1.7	1.5	1.4	1.5	1.5
Real estate	2.5	2.4	2.6	2.6	2.5
Government services	13.2	11.8	11.3	11.1	10.9
Other services	4.5	4.7	4.7	4.6	4.6
Domestic services of households	9.2	10.5	10.1	9.9	10.0

Source: Ministry of Planning.

1/ Excludes defense personnel and visitors to the U.A.E.

2/ Includes natural gas and petroleum processing industries.

3/ Includes gas reticulation.

4/ Includes repair services.

44. There have been no nationwide surveys of unemployment in the post-census years. However, in 1996 the Ministry of Labor established a register of U.A.E. nationals seeking jobs. It was determined at that time that about 7,300 persons were unemployed, of which, 10 had higher university degrees, 1,200 an undergraduate degree or equivalent, 5,700 a high school diploma, and about 400 were without a diploma. By 1998, voluntary withdrawal and increased employment had reduced the register to 2,500 nationals, most of whom are high school or university graduates. To some extent, this unemployment is frictional as about 65 percent of the unemployed are female, many come from the northern emirates where there are fewer job opportunities, and custom prevents unmarried women moving away from home to look for a job. However, a high proportion of university graduates have liberal arts degrees which are not in demand in the private sector.

45. Average compensation (wages and allowances) for the economy as a whole showed a moderate fluctuation of about 4 percent between 1993 and 1997 (Appendix Table 25). The recovery in average compensation in 1996-97 was due in part to the new residency law introduced in 1996 (see below). Nevertheless, the average annual compensation of Dh 37,900 in 1997 was still slightly lower than in 1993, reflecting the competitive conditions in private sector employment where about 90 percent of employees are expatriates. There is marked segmentation in the labor market between government and private employment; average government compensation in 1997 of Dh 107,800 was almost three times higher than the national average. This reflects the high proportion of U.A.E. nationals in government employment and the government's policy to transfer part of the oil wealth to national employees through high salaries.¹⁰ There is also a high proportion of nationals employed in the oil sector where average salaries are more than double the national average.

46. In 1996-97, the authorities introduced a number of measures to improve the operation of the expatriate labor market in which significant unemployment and underpayment of labor had developed over time.¹¹ New penalties for violation of the residency law were introduced in July 1996, and expatriates without valid work visas—i.e., who were not working for the sponsoring employer, but who had remained when their visas expired or who

¹⁰The starting compensation for a newly employed married university graduate in the Federal civil service (at grade 2.2) inclusive of transportation, housing, and social allowances is Dh 115,200 (US\$31,400) per year. The starting base salary of Dh 5,250 per month compares favorably with private sector salaries. A 1995 survey of private sector salaries in Dubai (excluding banking, insurance, and jobs in the Jebel Ali free trade zone) indicated that 91 percent of workers had a base salary of less than Dh 4,000 per month.

¹¹Existing laws limiting the inflow of unproductive expatriate labor were: (i) imposition of an annual fee payable by expatriate employers of household help equivalent to the employee's salary with a minimum fee of Dh 400 per month (introduced in 1994); and (ii) the requirement that an expatriate earn a minimum salary of Dh 4,000 per month (Dh 3,000 with employer-provided accommodation) for a visa to be issued to family members (introduced in 1995).

had transferred to another employer when the original sponsor went out of business—were given a three-month amnesty to leave the country without penalty.¹² In September 1996, the law was liberalized to permit workers to transfer their sponsorship to their current employer, and the amnesty was extended to end-year. It is officially estimated that some 150,000 workers transferred their sponsorship and about the same number left the country. However, many of the latter quickly returned with valid work permits so that the disruption to the construction industry and small business activity was only temporary. In May 1997, the flexibility of the expatriate labor market was enhanced by allowing the transfer of an employee's sponsorship from the original employer to another after one year if all parties agree.

47. The authorities have also taken steps to increase the participation of U.A.E. nationals in private sector employment.¹³ For many years, the federal government has provided technical training for nationals in the Higher Institutes of Technology in the skills demanded by the private sector,¹⁴ has supported the provision of internships and vocational schools by private employers and the emirates' Chambers of Commerce, and has made it known that the government can no longer afford to provide jobs for all nationals. New initiatives were taken in 1997-98:

(i) In order to provide additional funds for the training of nationals, the employment of expatriates was made more expensive by raising the fee for issuing a work visa and for visa renewal from Dh 80 to Dh 100, and for transfer of a visa to another employer from Dh 200 or Dh 1,000. These increases were implemented in two steps in November 1997 and March 1998.

(ii) Beginning in June 1997, private employers seeking work visas for expatriates must discuss the vacancy with the Ministry of Labor which reviews the qualifications of individuals on its register of job seekers. Interviews are arranged where possible, but there is no compulsion for nationals to take the position being discussed.

(iii) In order to narrow the gap between overall public and private sector compensation for nationals, the federal government announced in April 1998 that a defined benefit pension

¹²The new penalties were that illegal workers would be subject to imprisonment for up to three years and fined up to Dh 30,000, and smugglers of illegal workers would be subject to imprisonment for up to 15 years and fined up to Dh 100,000.

¹³A 1992 regulation requires the federal Civil Service Commission to approve the hiring of expatriates by individual Ministries only if no national on the list of job seekers has the necessary qualifications.

¹⁴Two 12-week courses per year for 500-600 persons per course, covering, inter alia, basic training in computers, secretarial work, public relations, marketing, and warehousing.

scheme for nationals in private sector employment will take effect at the beginning of 1999. A company with an initial capital of Dh 500 million from the federal budget will be established to administer the scheme under the guidance of the Ministry of Finance. The rate of contribution is 5 percent of current salary by the employee, 12½ percent by the employer, and 2½ percent by the federal government. Benefits are based on the employee's salary at retirement according to length of employment.¹⁵ Those currently employed may accrue previous years' service credits by a payment equivalent to 20 percent of the average of the last five years' salary per year accrued; they may request employers to transfer accrued end-of-service benefits for this purpose.¹⁶

(iv) In May 1998, a compulsory quota for employment of nationals in the banking sector was announced whereby the number of nationals employed by each bank must be increased by 4 percentage points per year from 1999 onward. No distinction is made for banks which already have a high proportion of nationals. If a quota target is not reached, the bank will not be issued additional expatriate work visas.

(v) Beginning in June 1998, companies seeking work visas for female expatriate employees sponsored by their husband or father must employ a national candidate on the Ministry of Labor's list of job seekers in addition to the expatriate employee, even if the national candidate's qualifications do not match those of the expatriate.

Prices

48. The Ministry of Planning publishes two inflation indices: a consumer price index (CPI) and a GDP deflator. Up to 1997, the CPI (1990=100) was based on weights derived from household expenditure surveys by Abu Dhabi (1982) and Qatar (1998). The deflator of gross value added for non-oil GDP is based largely on import prices. A new household expenditure survey was conducted in Abu Dhabi in 1996 and the results were used to compile a new basket and weights for the CPI from January 1998 onward. A new household expenditure survey is planned for Dubai in 1998-99. The CPI is compiled monthly and published annually.¹⁷

¹⁵Benefits are:

<u>Percent of salary</u>	<u>Years of service</u>	<u>Percent of salary</u>	<u>Years of service</u>
100	35	90	30
80	25	70	20
60	15		

¹⁶Expatriate workers accrue one month's base salary per year as an end-of-service benefit.

¹⁷The Ministry of Planning also publishes monthly prices of selected goods and services in all seven emirates.

49. Consumer price inflation decelerated from 4½–5 percent in 1993–95 to just over 3 percent in 1996–97 (Table 5 and Appendix Table 22). A similar slowdown was evidenced in the non-oil GDP deflator. In view of the openness of the economy, these developments largely reflected the movement of import prices. But in addition, consumer price movements are heavily influenced by the price movements of some nontraded goods, especially house rent and related housing items which has a weight of 29 percent. Up to 1996 there was an excess demand for housing due to the rapid growth of the expatriate labor force, but with the rationalization of the labor market in 1996, the demand for residential units moderated and the rent index declined by 3.7 percent in 1997.

III. GOVERNMENT FINANCE

A. Institutional Background

50. The public sector in the U.A.E. comprises: the federal government ministries and departments (23), independent and autonomous federal agencies (5), federal enterprises (22), the emirate governments (7), and local authorities (8). On a gross basis, the federal budget covers the operations of all the federal ministries and departments and the federal independent and autonomous agencies. It also includes the financial flows to and from the federal public enterprises. During 1977–80, jurisdiction over functions pertaining to justice, police, health, education, and information were transferred to the federal government. Since 1981, the federal government has also been partly responsible for administering the U.A.E.'s foreign aid program; however, many of the external grants continue to be extended directly by the individual emirates.

51. The budgetary accounts of the federal and emirate governments are maintained on a cash basis. The fiscal year in the U.A.E. is the calendar year.¹⁸ The review process and discussions with departments and agencies proceed during September-October. The budget cycle usually takes about five months, but the budget may not be approved and signed until well into the fiscal year. Supplementary appropriations can be requested at any time during the fiscal year.

52. For budgetary control and accounting purposes, federal revenues are treated strictly on a cash basis—except that they are deemed to include central bank deposits of profits accruing to the government but not paid or released in cash. The federal expenditure budget is also intended to be cash-based, with a corresponding cash accounting system. However,

¹⁸The Ministry of Finance circular requesting federal ministries and agencies to prepare their revenue and expenditure estimates for the following years' budget is issued in July. The circular provides a deadline of September 11. In practice, this deadline is rarely observed.

Table 5. U.A.E.: Price Indices and Changes in Prices, 1993-97

	1993	1994	1995	1996	<u>Prel.</u> 1997
	Price indices (1990=100)				
GDP deflator	114.2	105.6	108.0	109.7	110.4
Crude oil deflator	116.3	102.6	105.0	107.7	108.0
Non-oil deflator	105.7	107.0	109.4	110.6	111.4
Consumer price index	118.0	123.9	129.3	133.5	137.9
GDP deflator	1.2	-7.5	2.3	1.6	0.6
Crude oil deflator	0.6	-11.8	2.3	2.6	0.3
Other non-oil deflator	-4.7	1.3	2.2	1.2	0.7
Consumer price index	4.4	5.0	4.4	3.2	3.3

Sources: Ministry of Planning; and staff estimates.

because of the severe shortage of liquidity, the Ministry of Finance uses what is described as "an adjusted cash-based system of accounting" for virtually all payments except those for personnel. Journal vouchers are issued in lieu of cash payment for goods and services until such time as revenues become available from emirate contributions and profit transfers.

53. Oil and gas receipts are the main sources of revenue for the emirate governments of Abu Dhabi, Dubai, and Sharjah. Local authorities depend on grants from their respective emirates to finance most of their expenditures. The Dubai and Sharjah municipalities collect some revenues from municipal sources, which is directed to cover their operating expenses and municipal projects. The bulk of the federal government's revenues consists of cash contributions by Abu Dhabi and Dubai. Sharjah supplies gas to the northern emirate power plants in lieu of its contribution to the federal budget. The federal government also receives the proceeds from certain administrative fees and charges levied at the federal level, profits from the central bank and Emirates Telecommunications, and returns on some investments.

54. The U.A.E. consolidated budget reflects only the accounts of the federal government, Abu Dhabi, Dubai (central government or the Royal Court and the Dubai Municipality), Sharjah (except for some development expenditures under the control of the Ruler's Office), and Ras Al-Khaimah. Data on the fiscal accounts of the remaining emirates are not available; however, their inclusion in the consolidated fiscal accounts is unlikely to have a major impact. The Abu Dhabi and Dubai budgets constitute the bulk of the consolidated budget.

B. Structure of Revenues and Expenditures

55. The largest contribution to government revenues comes from the hydrocarbon sector. In the 1990s, the share of hydrocarbon receipts in total revenue varied from 70 percent to 75 percent, depending in large part on the oil world prices, foreign company profits, as well as the portion of export receipts allocated to the rulers of the emirates to finance extrabudgetary expenditures and investment. Abu Dhabi's hydrocarbon revenues, which account for about 80 percent of the total, are not necessarily related to the emirate's oil export receipts, since ADNOC transfers its net profit to the Abu Dhabi Department of Finance, and its net profit may vary considerably from year to year depending on the amount of export revenue retained to finance ADNOC's own investment program. Moreover, the Department of Finance allocates part of ADNOC's profits directly to the emirate's external reserve assets managed by the Abu Dhabi Investment Authority (ADIA) and the remainder to the budget.¹⁹ Abu Dhabi's income tax receipts are more directly linked to total export receipts in that the shares of foreign companies involved in crude oil and gas production (after payment of royalty and cost recovery) are taxed at the rate of 55 percent. Dubai's recorded oil revenues are not closely

¹⁹The staff understands that normally 55 percent of ADNOC's profits and 85 percent of the profits of other state-owned oil and gas companies are allocated to the Abu Dhabi budget.

related to oil export proceeds because such revenues are allocated to the budget as necessitated by the difference between the consolidated expenditures of that emirate—the Government of Dubai (the Royal Court) and the Municipality of Dubai—and the consolidated nonhydrocarbon revenues.

56. Nonhydrocarbon revenues comprise mainly customs duties, enterprise profit transfers (including the profits of the U.A.E. Central Bank and the telecommunications company), income tax, water and electricity charges, and other fees and charges. Such revenues rose steadily during the past three years, increasing from 6.2 percent of GDP in 1994 to 8.8 percent in 1997, due mainly to larger transfers of the central bank's accumulated profits and higher fees and charges. The latter have been raised on several occasions, including those related to the issuance and renewal of passports, and expatriate labor permits.

57. There are no federal or emirate personal income taxes or capital gains taxes. Profits taxes are levied at the emirate level on the petroleum and gas producing entities (Abu Dhabi) and on foreign financial institutions (Dubai). Moreover, there are no federal taxes on emirate property. The Dubai Municipality collects a property tax with a minimum rate of 10 percent on the rental value of commercial properties and 5 percent on residential properties. Other revenues include trade and vehicle license fees, building permits, passport and other documentation fees and charges, and other administrative fees and charges.

58. Overall spending has declined significantly in the past four years, from 42 percent of GDP in 1993 to about 37 percent of GDP in 1997, reflecting both the federal and emirate authorities' emphasis on fiscal restraint as being necessary for sound macroeconomic management. The shares of both current and development expenditures in GDP have been decreasing. As a share of total spending, budgetary expenditure (both current and capital) on public order and defense has decreased over the past four years, and as a ratio to GDP declined from about 7 percent in 1993 to 5.6 percent of GDP in 1997. However, spending on education and health have increased. Outlays on subsidies and transfers have remained at about 4 percent of GDP. Nonetheless, it is difficult to draw conclusions about the factors underlying developments in subsidies and transfers owing to two offsetting factors. On the one hand, recorded outlays have risen as the authorities have gradually incorporated into the budget transfers that were previously extrabudgetary expenditures and were therefore unrecorded. On the other hand, the authorities have taken measures in recent years to reduce subsidies on electricity and water. The bulk of net lending (loans and equity) represents subsidized lending by the Abu Dhabi government for commercial and residential real estate development. The share of capital expenditure in GDP has declined significantly, from about 9 percent in 1993 to 6 percent in 1997. Cutbacks during this period primarily affected the water and electricity sectors and road construction.

C. Fiscal Developments

Consolidated fiscal accounts

59. There has been a significant improvement in the public finances since 1994 reflecting favorable oil prices and policies of fiscal restraint (Table 6). Recognizing the need to diversify the revenue base and to address the deteriorating fiscal balance, the federal government and the emirates introduced non-oil revenue measures and took steps to further contain expenditures. Aided by favorable oil and gas export prices, total revenues rose from 26.7 percent of GDP in 1994 to 31.5 percent in 1997. Total expenditures declined as a share of GDP to 36.7 percent in 1997 (compared with 41.2 percent in 1994). The bulk of the fiscal retrenchment fell on capital spending, which declined in nominal terms and was significantly lower than budgeted. These measures resulted in narrowing of the overall deficit (excluding investment income) from 14.6 percent of GDP in 1994 to 5.2 percent in 1997. If income on Abu Dhabi's domestic and external reserve assets is included in the consolidated government revenues of the U.A.E., the overall fiscal balance for 1997 would show a small surplus of 0.4 percent of GDP, the first surplus in many years.²⁰

60. In 1996, as a result of an average increase in oil export prices of 19 percent, total hydrocarbon revenues rose by about 16 percent to Dh 37 billion (or 21 percent of GDP). Nonhydrocarbon revenues also rose sharply by 37 percent to Dh 14.4 billion. Among these revenues, profit transfers increased by about 50 percent, while income tax receipts rose from Dh 1.9 to 3.2 billion. Fees and charges also rose due to higher water and electricity consumption. Consequently, total revenue, excluding investment income, increased by about Dh 9 billion. Total expenditure, excluding a one-time transfer of Dh 7 billion to settle government obligations arising from the liquidation of the Bank of Credit and Commerce International (BCCI), declined as a share of GDP to 39 percent (compared with 40.4 percent in 1995), reflecting the authorities' continued efforts to restrain spending. The bulk of fiscal retrenchment fell on capital spending, which declined by 16 percent over the previous year and was substantially lower than budgeted.

61. The outcome for 1997 was significantly better than expected in the federal and emirate budgets. The consolidated government deficit narrowed to the equivalent of 5 percent of GDP, an improvement of four percentage points over the 1996 outturn. This improvement reflected a combination of factors—most importantly, the Dh 4.1 billion increase in hydrocarbon revenues arising from a sharp increase condensates exports and from a retroactive payment of US\$400 million for past deliveries of LNG to Japan, which more than offset a 5½ percent decline in the average crude oil export price. Nonhydrocarbon revenues

²⁰In conformity with the authorities' presentation, income on Abu Dhabi's reserve assets is normally treated as a financing rather than a revenue item. The income on external assets is shown in the services account of the balance of payments (Appendix Table 40) account as "investment income."

Table 6. U.A.E.: Consolidated Government Finances, 1993-97

	1993	1994	1995	1996	<u>Prel.</u> 1997
(In millions of U.A.E. dirhams)					
Total revenue	40,019	37,464	42,533	51,425	56,999
Hydrocarbon	32,044	28,694	32,033	37,007	41,138
Nonhydrocarbon, of which:	7,975	8,770	10,500	14,418	15,861
Customs	323	606	1,335	1,427	1,676
Profit transfer	1,202	1,422	1,311	1,989	2,302
Income tax	1,688	1,121	1,895	3,212	2,799
Fees and charges	2,280	2,980	3,909	4,649	5,037
Total expenditure	55,068	57,946	63,443	76,648	66,461
Current	42,048	42,204	45,758	62,353	51,008
Federal	14,973	15,236	15,645	16,456	17,591
Of which: Foreign grants	38	288	274	38	220
Abu Dhabi	21,540	21,453	23,745	39,428	25,698
Of which: Foreign grants	1,278	665	700	751	1,158
Dubai	5,171	5,106	5,849	5,839	7,040
Sharjah	364	409	380	444	489
Ras Al-Khaimah	...	...	139	186	190
Development	11,362	11,745	12,022	10,260	10,913
Federal	595	738	543	497	529
Abu Dhabi	7,801	8,813	8,114	7,450	7,609
Dubai	2,413	1,510	2,483	1,395	1,849
Sharjah	554	685	850	850	856
Ras Al-Khaimah	...	...	31	68	70
Loans and equity	1,657	3,997	5,663	4,035	4,540
Domestic	1,725	4,067	5,713	4,141	4,752
Foreign	-68	-70	-50	-106	-212
Overall deficit(-)	-15,049	-20,482	-20,909	-25,223	-9,462
Financing	15,049	20,482	20,909	25,223	9,462
Domestic bank	-2,702	2,195	-3,042	2,148	597
Exceptional financing 1/	17,751	18,287	23,951	23,075	8,865
Memorandum items:	(In percent of GDP)				
Total revenue (excluding investment income)	30.5	26.7	27.1	29.3	31.5
Hydrocarbon	24.4	20.4	20.4	21.1	22.7
Nonhydrocarbon	6.1	6.2	6.7	8.2	8.8
Investment income	3.7	5.3	6.3	6.1	5.7
Total expenditure	42.0	41.2	40.4	43.6	36.7
Current	32.0	30.0	29.1	35.5	28.2
Development	8.7	8.4	7.7	5.8	6.0
Loans and equity	1.3	2.8	3.6	2.3	2.5
Overall surplus(+)/deficit(-)	-11.5	-14.6	-13.3	-9.7	-5.2
Domestic bank financing	-2.1	1.6	-2.1	1.3	0.3
Exceptional financing 1/	5.3	5.8	8.7	3.0	4.9
Nominal GDP in millions of dirhams	131,221	140,482	157,144	175,781	181,012

Sources: Federal and emirate governments.

1/ Includes use of investment income and transfers from ADIA's foreign assets.

continued to rise, but at a much slower rate than in the previous year because of a Dh 0.4 billion decline in oil-related income tax receipts from foreign partners. Receipts from fees and charges continued to rise, reflecting higher fees including those related to the issuance and renewal of passports and expatriate labor permits, as well as increased consumption of water and electricity and upward adjustments to electricity and water charges in Dubai toward the end of the year.²¹

62. Growth in spending was constrained in most categories. The growth in wages and salaries decelerated from 8 percent in 1995 to about 4 percent in 1997 (Table 7). During the same period growth in spending on goods and services decelerated from 12 percent to less than 1 percent. However, the annual growth in subsidies and transfers remained about 16 percent because of the absence of fees and charges for public education and health services for nationals, and unchanged tariffs on the consumption of electricity and water for nationals. Foreign grants, after declining during 1994-96, were raised in 1997 to their 1993 level of Dh 1.4 billion. Development expenditure declined from 8.7 percent of GDP in 1993 to 6.0 percent in 1997 as a result of a sharp reduction in outlays on water and electricity (Table 8) Net lending (loans and equity) peaked in 1995 at 3.6 percent of GDP and then declined to 2.5 percent of GDP in 1997, reflecting the development of excess capacity in commercial construction in Abu Dhabi.

²¹In Abu Dhabi, electricity tariffs have remained unchanged since the second half of 1994 at 5 fils (Dh 1=fils 100) per kwh for U.A.E. nationals, 10 fils for government agencies, and 15 fils for expatriate households and commercial users. In Dubai, electricity tariffs for expatriate households and all businesses were increased by a total of 30 percent in two steps on December 1, 1997 and January 1, 1998 and are now 20 fils per kwh. U.A.E. nationals continue to pay 7.5 fils per kwh. Electricity tariffs in Sharjah are the same as in Dubai, as equivalent price increases were implemented in March 1998. In the northern emirates, the tariff for nationals is also 7.5 fils per kwh, but expatriates and businesses are charged 15 fils per kwh. The authorities estimate that an average tariff of 25 fils per kwh would cover operating and capital costs. Water is free for U.A.E. nationals in Abu Dhabi, and although there is a tariff of Dh 15 per 1,000 gallons in Dubai, Sharjah, and the northern emirates it is often not collected. In Abu Dhabi, expatriates and most commercial users pay a flat charge of Dh 50 per month for unlimited water consumption, although the consumption of some private businesses is metered. In Dubai, water tariffs for expatriates and businesses were raised by 45 percent in two steps in December 1997 and January 1998 to Dh 30 per 1,000 gallons, and this tariff was applied in Sharjah in March 1998. In the northern emirates, expatriates and businesses pay Dh 20 per 1,000 gallons. The authorities estimate that an average tariff of Dh 26 per 1,000 gallons would cover the operating and capital costs of desalination plants.

Table 7. Consolidated Government Current Expenditures by Economic Category, 1993-97

	1993	1994	1995	1996	<u>Prel.</u> 1997
(In millions of U.A.E. dirhams)					
Wages and salaries	10,646	10,914	11,814	12,579	13,115
Federal 1/	5,387	5,538	5,774	6,128	6,458
Abu Dhabi	2,478	2,641	2,816	3,181	3,283
Dubai 2/	2,781	2,735	3,037	3,054	3,125
Sharjah			187	216	249
Goods and services	15,175	15,648	17,570	18,295	18,359
Federal	8,246	8,270	8,242	8,273	8,760
Abu Dhabi	5,424	5,357	6,708	7,400	6,782
Dubai	1,505	2,021	2,462	2,435	2,620
Sharjah			158	187	197
Subsidies and transfers	4,822	4,172	5,364	18,634	6,887
Federal	1,302	1,140	1,355	1,342	1,648
Abu Dhabi	2,635	2,682	3,644	16,926	4,314
Dubai 2/	885	350	350	350	909
Sharjah			15	16	16
Total	30,643	30,734	34,747	49,508	38,361
Federal	14,935	14,948	15,370	15,743	16,866
Abu Dhabi	10,537	10,680	13,168	27,507	14,379
Dubai 2/	5,171	5,106	5,849	5,839	6,654
Sharjah			360	419	462
(In percent of total)					
Wages and salaries	34.7	35.5	34.0	25.4	34.2
Goods and services	49.5	50.9	50.6	37.0	47.9
Subsidies and transfers	15.7	13.6	15.4	37.6	18.0

Sources: Federal and Emirate governments.

1/ Excludes military wages and salaries.

2/ Dubai Municipality and staff estimates.

Table 8. U.A.E.: Consolidated Government Development Expenditures
by Function, 1993-97

	1993	1994	1995	1996	<u>Prel.</u> 1997
General administration	19	27	65	101	55
Education	118	146	175	219	196
Health	2	1	1	3	40
Housing and public amenities	3,146	4,417	4,194	4,609	4,168
Other social and community services	407	405	436	457	457
Economic services	6,623	5,575	5,109	3,357	3,178
Agriculture, forestry, fishing	532	493	381	366	458
Water and electricity	5,616	4,501	4,213	2,113	1,740
Transport and telecommunications	475	581	515	877	980
Unallocated	1,047	1,174	2,042	1,514	2,819
Total	11,362	11,745	12,022	10,260	10,913

Sources: Federal and Emirate governments.

Federal government fiscal developments

63. Federal government revenues comprise contributions by Abu Dhabi and Dubai and other receipts designated for the federal budget (Appendix Table 23). Abu Dhabi's contribution is the largest at about Dh 12 billion, comprising cash and payments in the form of services provided on behalf of the federal government. Dubai makes a fixed contribution of Dh 1.2 billion per year. Other federal receipts comprise transfers of enterprise profits (including the profits from the central bank and the telecommunications company), fees for electricity and water supplied by the federally-owned utilities in the northern emirates, and miscellaneous fees and charges such as passport fees, visa and residency fees for foreign workers, and various charges for services (car fees, documentation charges).

64. Federal expenditures currently make up approximately 27 percent of total consolidated (federal plus emirates') expenditures. Defense expenditures are the major single item, constituting about 48 percent of all current expenditures in 1997.²² Other current expenditures comprise education and health (25 percent), subsidies and transfers (12 percent), expenditure on public administration (12 percent) and foreign grants (1 percent). The main pressures on current expenditures over the past four years have been experienced in the health and education sectors. Virtually the entire increase in current spending over this period has occurred in salaries and allowances, as expenditures on materials and services have remained close to their 1994 nominal levels. Actual development expenditures have stabilized at around Dh 500 million per year since 1995 and have been significantly lower than the budgeted development expenditures. Constraints on federal expenditures have been applied through firm limits on civil service establishment levels (excluding health and education) and through effective caps on materials and services expenditures.

65. Both revenues and expenditures in terms of GDP remained steady during the past three years. Federal revenues amounted to about 11 percent of GDP, while expenditures represented 10 percent of GDP. Thus, the federal budget was in a small surplus during the past few years. The emirate contributions remained in the Dh 12–13 billion range, while other receipts doubled between 1993 and 1997, to an estimated Dh 6.1 billion. This is explained by a 95 percent increase in enterprise profit transfers during the same period, due mainly to the transfer of accumulated central bank profits. Receipts from fees and charges (largely from the issuance and renewal of passports, and work permits to expatriates) more than doubled. On the expenditure side, the federal wage bill increased by an average of 5 percent annually during 1995–97, reflecting mainly increases in the number of federal employees (mostly

²²Federal defense expenditures exclude the purchase of military hardware which is included in the Abu Dhabi budget under "payments services".

U.A.E. nationals) and a 25 percent increase in base salaries for nationals in December 1996.²³ Federal interior and defense expenditure, which represents the majority of total defense expenditure for the U.A.E., amounted to about 5 percent of GDP. Subsidies and transfers increased sharply in 1996 to about 1.2 percent of GDP and remained at this level in 1997.

66. The federal budget for 1998 projects a deficit of slightly less than 1 percent of GDP. Revenues are expected to increase by 1.4 percent over the outcome of the previous year, while total expenditures are projected to rise by about 17 percent. However, actual expenditures in the past have always been much lower than budgeted.

Fiscal developments in Abu Dhabi

67. Abu Dhabi's budget represents almost 75 percent of the consolidated government budget (Appendix Table 26). Hydrocarbon income is the major revenue item, which averaged about 86 percent of total revenue during 1995–97. Nonhydrocarbon revenues include receipts from the use of water and electricity (Dh 1.2 billion in 1997), income tax (Dh 2.8 billion) and other revenues comprising various fees and charges. In addition to current and development expenditure, Abu Dhabi's budgetary expenditures include domestic loans and equity directed to real estate development,²⁴ and foreign loans and equity. The largest expenditure item is contributions to the federal budget, of which, about 45 percent consists of current transfers and about 55 percent are "payments services" made on behalf of the federal government toward defense and security (including major defense hardware purchases), health, and education.

68. The favorable oil prices during 1995–97, combined with the increase in exports of condensates in volume terms and the retroactive LNG payment in 1997, resulted in a steady increase in hydrocarbon revenues, from Dh 25.5 billion in 1995 to over 34 billion in 1997. The sharp rise in oil revenue was also accompanied by a significant increase in nonhydrocarbon revenues through 1996, but lower income taxes on foreign oil companies reduced these revenues in 1997. Higher current expenditures offset the improvement in nonhydrocarbon revenues in 1995, but in 1996 the one-time transfer of Dh 7 billion to settle government obligations arising from the liquidation of the BCCI together with higher transfers for agricultural production and for the expropriation of private properties doubled current expenditures and boosted the overall deficit to Dh 26 billion, or 15 percent of the U.A.E.'s GDP. The deficit was financed by drawing down domestic bank deposits, by investment income on Abu Dhabi's domestic and external financial assets, and by transfers from ADIA.

²³Expatriate government employees received a lump-sum payment of one month's additional salary.

²⁴Such loans are effected through the Commercial Buildings Department (CBD) of the Abu Dhabi Government to private individuals who wish to provide land for development.

69. After increasing by 13 percent in 1996, the wage and salary bill rose by only 7 percent in 1997, notwithstanding the application of the 25 percent federal base salary increase to Abu Dhabi national civil servants in December 1996.²⁵ Compensations and transfers returned to about their pre-1996 level in 1997. Although loans and equity payments rose by Dh 0.4 billion in 1997 (because of the increase in committed projects in that year) and development expenditure increased by only Dh 0.2 billion (largely reflecting lower cash flow requirements of ongoing electricity, water, and road construction projects), these increases were offset by lower contributions to the federal budget in the form of payments for services. Consequently, the 1997 fiscal deficit narrowed to Dh 10.2 billion (6 percent of GDP). The deficit, which nearly corresponds to the U.A.E.'s consolidated budget deficit due to Abu Dhabi's large share in the consolidated fiscal operations, was mostly financed by investment income earned on Abu Dhabi's domestic and external financial assets, together with a small drawdown of domestic bank deposits.

Fiscal developments in Dubai

70. Dubai's budget comprises the consolidated budgets of the central government (Royal Court) and the Dubai Municipality.²⁶ While remaining at about Dh 5.5 billion in recent years, the share of hydrocarbon income in total revenue declined from about 90 percent in the early 1990s to 61 percent in 1997 as nonhydrocarbon revenues, particularly receipts from customs, increased sharply. Receipts from the Dubai Municipality have also increased substantially in recent years.²⁷

71. Dubai's consolidated budget has remained in deficit since the early 1990s (Appendix Table 28). However, the deficit narrowed significantly in 1996 and 1997 due, on the revenue side, to the full application of the increase in the U.A.E.'s customs tariff from 1 percent to 4 percent, and increased water and electricity consumption and improved collection of

²⁵Increases in wages and salaries reflect two main factors. The first is the ongoing localization of the government labor force which tends to increase the wage bill because nationals are paid more than expatriates. The second factor is the increase in the total number of government employees.

²⁶All oil receipts and departmental income accrue to the ruler who finances the emirate's expenditures directly through monthly payments; such contributions vary according to the budgetary needs. The Municipality has its own revenue sources and finances its deficits through contributions from the Ruler's office.

²⁷Municipality revenues derive from various sources: (i) vehicle registration charges; (ii) a residential buildings tax of 5 percent of the rental income on residential leases to expatriates; and (iii) a 10 percent levy on the rents derived from commercial property; (iv) a small "market tax" or fee charged for the rental of stalls in the various markets; and (v) part of the annual Health Certificate fee of Dh 200 paid by expatriates.

electricity tariffs. On the expenditure side, development expenditures were reduced sharply in 1996 (reflecting the completion of a new power plant in 1995) and rose modestly in 1997. The 1998 budget indicates that the deficit would continue to narrow despite a sharp fall in hydrocarbon revenues and a return of development spending to the level of 1995. Effective in 1998, Dubai's defense forces will be fully integrated into the U.A.E. national forces, and its defense expenditure will be taken over by Abu Dhabi, thus reducing current expenditures by about Dh 3 billion.

Fiscal developments in Sharjah

72. Sharjah's fiscal balance has always been in surplus in the 1990s. However, the surplus narrowed significantly in 1995-96 due to substantial increases in development expenditures, particularly outlays on large development projects such as roads, subsidized housing, and urban beautification.²⁸ In addition, nonhydrocarbon revenues declined owing to a reduction in land sales. In 1997, the surplus doubled to Dh 0.3 billion on account of higher hydrocarbon (gas) revenues and increase in profit transfers to the budget by state-owned companies (including some banks and a cement company) (Appendix Table 29). The 1998 budget envisages a surplus of Dh 0.3 billion; this, however, is unlikely to be achieved as the budget was drawn up before the extent of the decline in international oil and gas prices was known.

IV. MONEY AND BANKING

A. Structure of the Banking System

73. The U.A.E. banking system comprises the central bank, 19 locally incorporated commercial banks (with 262 branches and cash offices), 27 foreign banks (with 110 branches and cash offices), 1 restricted license commercial bank, 30 representative offices (which are not allowed to engage in deposit-taking or lending activities), a specialized bank, 2 investment banks, 2 development institutions, and 2 investment institutions. Foreign and domestic commercial banks are allowed to offer identical services. Since 1983 the central bank has imposed a moratorium on the opening of new banks.

B. Overall Monetary, Credit and Interest Rate Developments

74. The growth in broad money accelerated from 7 percent in 1996 to over 9 percent in 1997; this, however, was below the increase recorded in 1995 of more than 10 percent (Table 9 and Appendix Table 31). The net foreign assets of the banking system fell by 1.7 percent during 1997 (compared with a decline of 0.7 percent in 1996) as the net foreign

²⁸Sharjah's budget covers only the central government budget; it excludes the Sharjah Municipality budget and certain large development expenditures financed by the Ruler's Office. An example of the latter expenditure is the American University of Sharjah which opened in 1998.

Table 9. U.A.E.: Factors Affecting Changes in Domestic Liquidity, 1993-98 1/

(In percent of beginning period stock of domestic liquidity)

	1993	1994	1995	1996	1997	June 1998- June 1997
Net foreign assets	-0.9	-7.4	8.7	-0.6	-1.2	1.4
Foreign assets	-0.7	2.1	1.8	10.4	8.4	0.0
Central bank	2.1	3.5	3.5	2.7	1.3	-1.8
Commercial banks	-2.6	-1.4	-1.8	7.7	7.0	1.5
Restricted license banks	-0.2	-0.1	0.1	0.0	0.1	0.3
Foreign liabilities	-0.2	-9.5	6.8	-10.9	-9.6	1.4
Central bank	0.0	-0.1	0.3	0.1	0.0	0.1
Commercial banks	-0.3	-9.5	6.7	-10.8	-9.7	1.4
Restricted license banks	0.1	0.1	-0.1	-0.2	0.0	-0.1
Net domestic assets	-0.6	15.3	1.5	7.4	10.3	8.7
Claims on government (net)	-3.9	3.2	-4.1	2.6	0.7	-1.0
Claims	2.0	0.4	0.0	-3.0	-1.4	0.0
Deposits and lending	-5.9	2.8	-4.1	5.7	2.1	-1.0
Claims on official entities	2.0	4.4	0.0	-1.0	0.5	0.0
Claims on private sector	5.7	9.0	10.7	8.9	12.6	10.1
Claims on nonbank financial institut	1.2	-0.5	-0.2	-0.2	0.4	0.5
Capital and reserves	-1.0	-3.0	-2.8	-2.0	-2.5	-2.5
Other items (net)	-4.7	2.1	-2.1	-0.8	-1.5	1.6
Central bank	-0.7	-2.4	-2.3	-1.5	0.6	3.3
Deposit money banks	-4.1	4.6	0.2	0.5	-2.0	-1.5
Specialized banks	0.1	-0.1	-0.1	0.2	-0.1	-0.2
Domestic liquidity	-1.5	7.9	10.2	6.9	9.0	10.1
Money	4.6	1.5	2.2	1.8	3.6	4.7
Currency outside banks	0.8	0.5	0.5	0.4	0.7	1.1
Dirham demand deposits	3.8	0.9	1.7	1.3	2.9	3.7
Quasi-money	-6.1	6.4	8.0	5.1	5.5	5.3
Foreign currency deposits	-5.8	1.5	-0.3	1.9	1.4	1.5
Dirham time and savings deposits	-0.4	5.0	8.2	3.2	4.0	3.8
						(Annual percentage change)
Memorandum items:						
GDP at current market prices	0.9	7.1	11.9	11.9	3.0	...
Non-oil GDP	10.2	13.4	11.9	9.1	6.1	...

Source: Central Bank of the United Arab Emirates.

1/ As of January 1996, data exclude assets and liabilities of U.A.E. branches of BCCI (S.A.) Luxembourg.

asset position of the commercial banks deteriorated by Dh 2.4 billion (7 percent), mainly reflecting a sharp increase in their foreign liabilities (23 percent). This was in part offset by an accumulation of net foreign assets by the central bank, which increased by 4 percent (Dh 1.2 billion) over 1996. Other items (net) also made a negative contribution to liquidity growth in 1997, as in previous years.

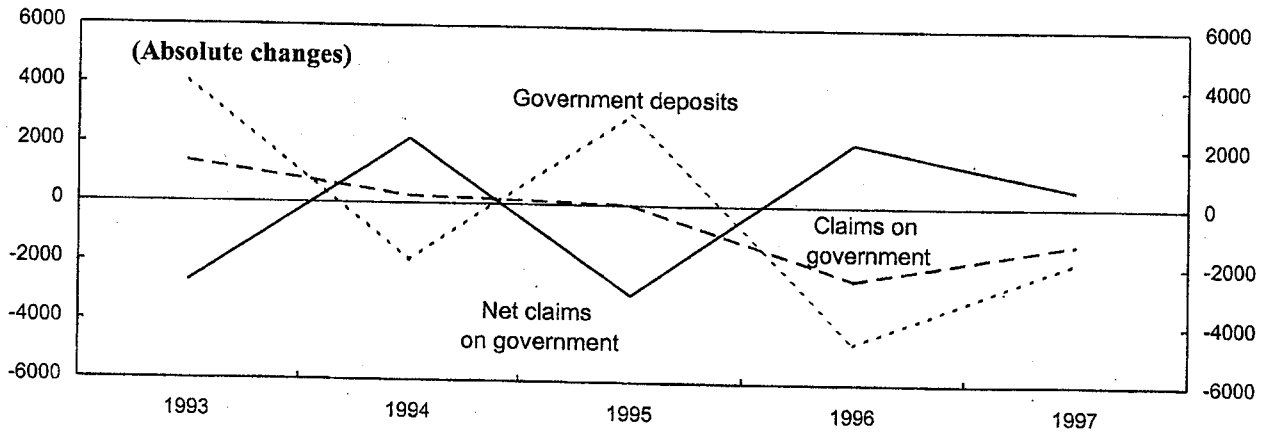
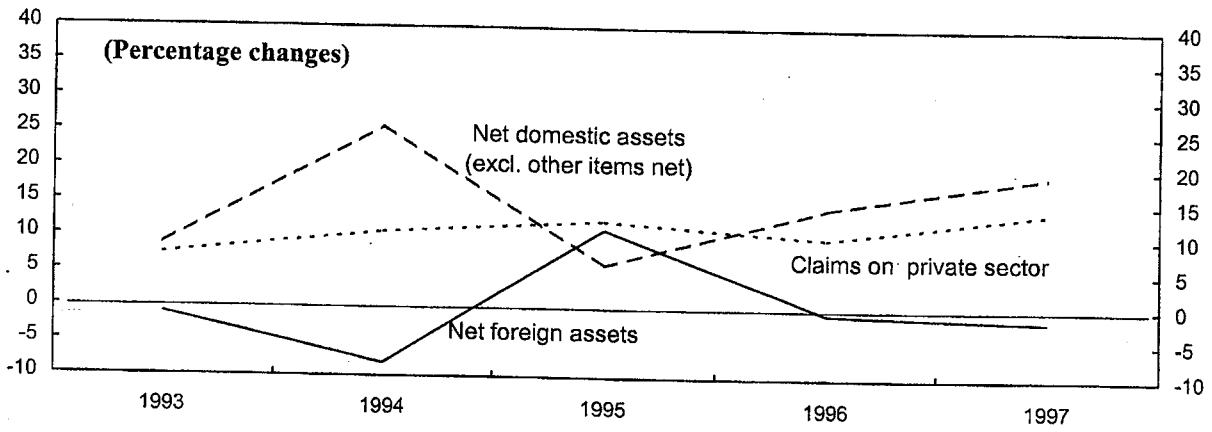
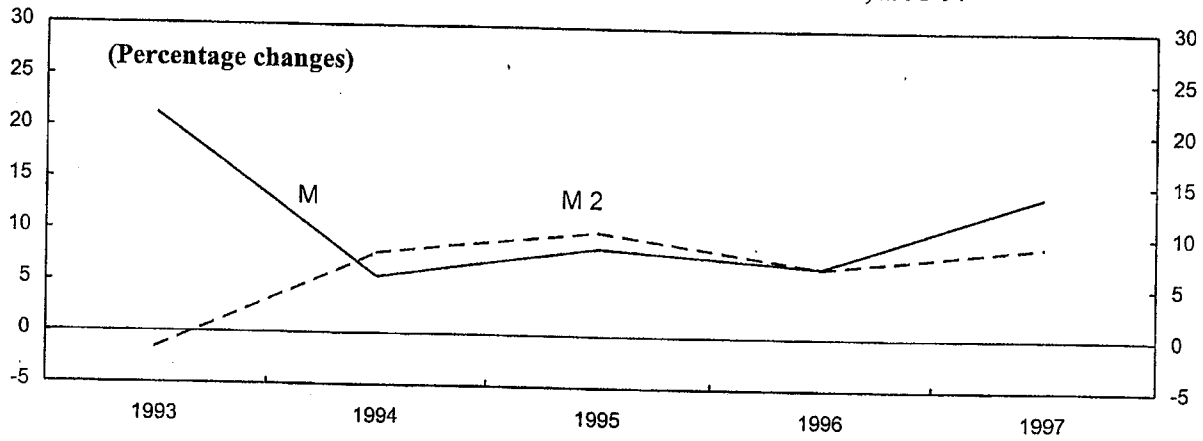
75. The main reason for the increase in the growth rate of broad money was a strong expansion of domestic credit (Chart 2). Net domestic assets increased by over 19 percent in 1997 (compared with 14 percent in 1996). The net credit position of the government in the banking system weakened somewhat. However, commercial bank lending to the private sector (excluding nonbank financial institutions) increased by almost Dh 11 billion or by 14 percent (equivalent to 12.6 percent of the initial stock of domestic liquidity) compared with just over 10 percent in 1996. In particular, consumer lending by commercial banks increased rapidly, by almost 29 percent between end-December 1996 and end-March 1998, so that the share of consumer lending in total commercial bank credit rose from 17 percent to 19 percent. This was due in part to a strong demand for loans to purchase shares in initial public offerings (IPOs) of newly formed joint stock companies (see Box 2).

76. In terms of the sectoral distribution of credit, commercial bank lending to the manufacturing sector increased from Dh 5.2 billion in 1996 to Dh 5.8 billion in 1997, an increase of 10.7 percent. There was also a sharp increase in commercial bank lending to the construction sector, which increased by 14.5 percent. Also increasing significantly—by 5.4 percent—was bank credit to the wholesale and retail sectors. Commercial bank lending to the transport and communications sectors saw a sharp increase of nearly 27 percent, although this was from a very low base (less than 3 percent of total bank credit).

77. Monetary developments in the first half of 1998 showed a further expansion in domestic liquidity at an annualized rate of 10 percent. This mainly reflected a slowing, but still strong rate of credit expansion by commercial banks to the private sector, which increased by almost 11 percent during the preceding 12 months. It also reflected a small improvement in the net foreign asset position of the banking sector compared with a year earlier and a positive contribution of other items (net) to monetary growth.

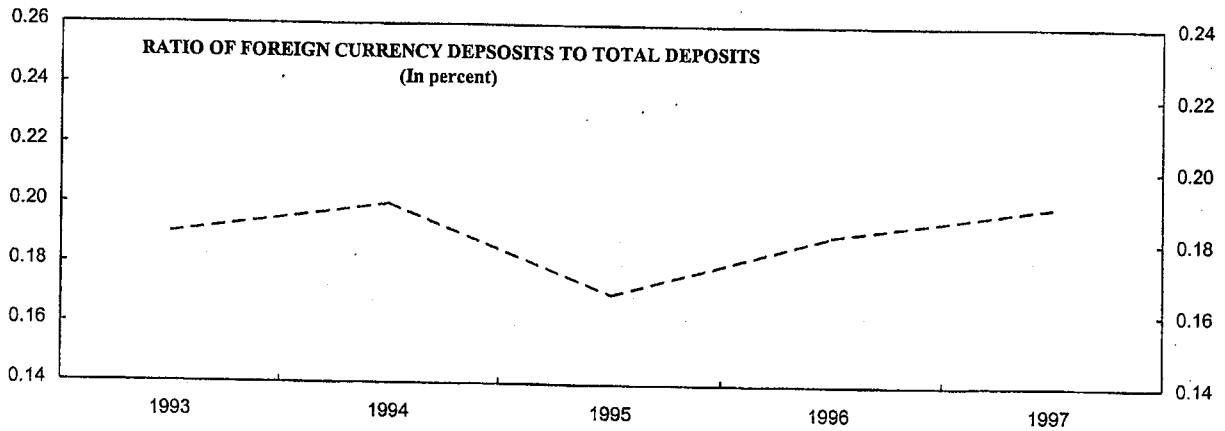
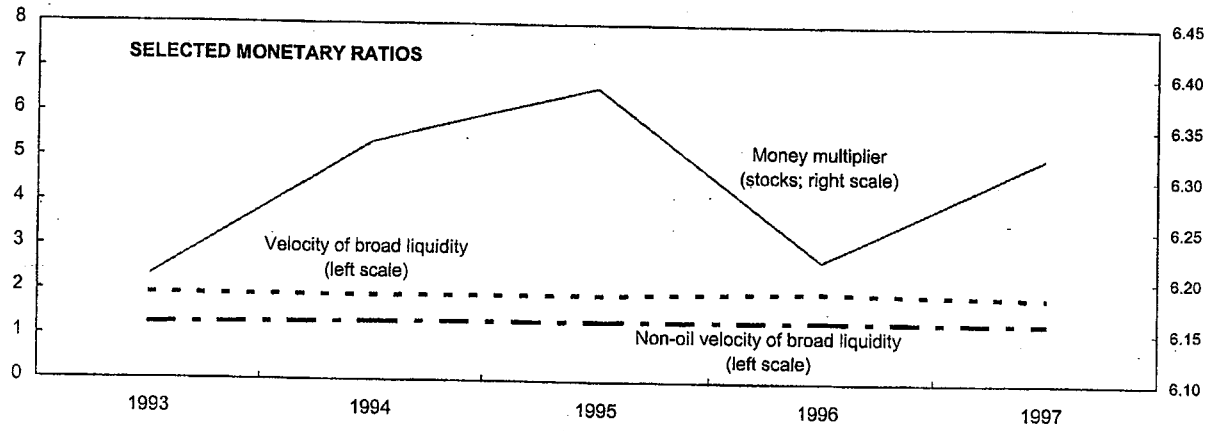
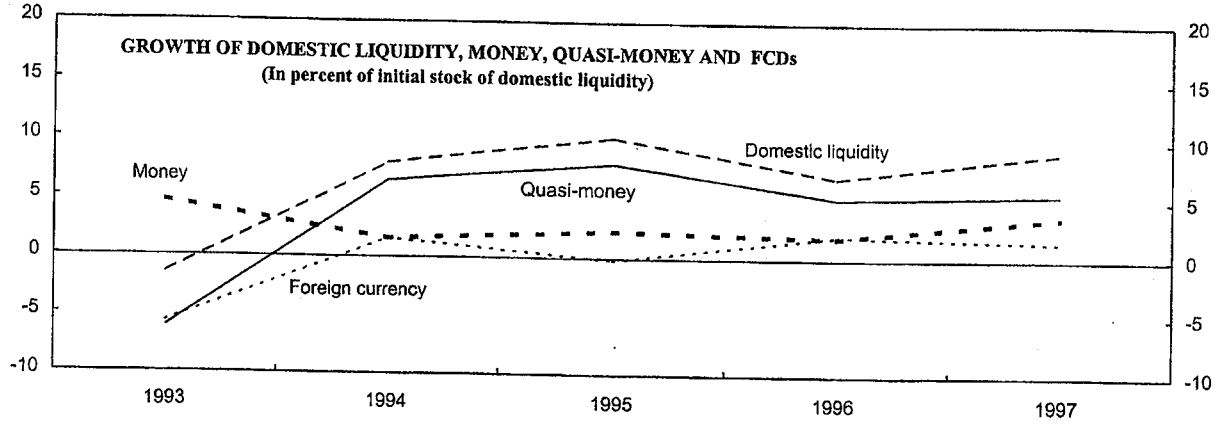
78. Mirroring the changes in the growth of domestic liquidity, the money multiplier fell from 6.39 in 1995 to 6.22 in 1996 and then rose to 6.32 in 1997 (Chart 3). At the same time the velocity of broad money, after rising steadily from 1.90 in 1994 to 2.02 in 1996, fell to 1.91 in 1997. Non-oil velocity followed a similar pattern, increasing from 1.32 in 1994 to 1.37 in 1996 before declining to 1.33 in 1997. The ratio of foreign currency deposits of residents to dirham deposits fell from 51 percent in 1990 (when there was great uncertainty associated with the crisis in the region) to 19 percent in 1993, and reflecting the confidence in the fixed exchange rate arrangement, has remained approximately at that ratio since then (Table 10). There was also a recent shift in the composition of dirham deposits away from time and savings deposits (which rose by 7 percent in 1997) toward demand deposits (which rose by 16 percent).

CHART 2
UNITED ARAB EMIRATES
CHANGES IN MAIN MONETARY AGGREGATES, 1993-97



Source: Data provided by the authorities of the United Arab Emirates.

CHART 3
UNITED ARAB EMIRATES
DOMESTIC LIQUIDITY EXPANSION AND SELECTED MONETARY RATIOS, 1993-97



Source: Data provided by the authorities of the United Arab Emirates.

Table 10. U.A.E.: Selected Balance Sheet Ratios for Commercial Banks, 1993-98

	1993	1994	1995	1996	1997	March 1997	March 1998
Reserves / Deposits	0.07	0.07	0.07	0.08	0.08	0.08	0.09
Capital and Reserves / Deposits	0.23	0.24	0.24	0.26	0.27	0.27	0.27
Private Sector Loans / Deposits	0.74	0.79	0.80	0.88	0.95	0.90	0.96
Private Sector Loans / Total Assets	0.38	0.39	0.41	0.43	0.45	0.42	0.46
Foreign Assets / Total Deposits	0.85	0.81	0.71	0.78	0.81	0.82	0.73
Net Foreign Assets / Total Deposits	0.51	0.40	0.40	0.37	0.33	0.32	0.29
Foreign Assets / Total Assets	0.43	0.40	0.37	0.38	0.38	0.38	0.35
Demand Deposits / Total Deposit 1/	0.16	0.17	0.16	0.18	0.19	0.19	0.21
Quasi Money / Total Deposits	0.65	0.68	0.67	0.72	0.74	0.73	0.72
Foreign Currency Deposits/Deposits 2/	0.19	0.20	0.17	0.19	0.20	0.19	0.19
Foreign Assets / Foreign Liabilities 3/	2.49	1.97	2.27	1.90	1.68	1.65	1.68

Source: Central Bank of the U.A.E.

1/ (Residents' local currency demand deposits + nonresidents' demand deposits) / total deposits.

2/ Foreign currency deposits of residents / total deposits.

3/ Gross foreign assets / Gross foreign liabilities.

79. The decline in velocity and the need for liquid deposits in 1997 reflect expanding investment opportunities in the domestic economy and strong investor confidence in the U.A.E. stock market where the transactions volume is estimated to have doubled compared with 1996. The EMNEX index—a composite index compiled by the Emirates Bank Group of 35 shares actively traded on the U.A.E. stock exchange—rose by about 40 percent in 1997. As of June 1998, the market capitalization was around Dh 117 billion, mostly in banking (52 percent of total market valuation), insurance (4½ percent) and services (43½ percent).

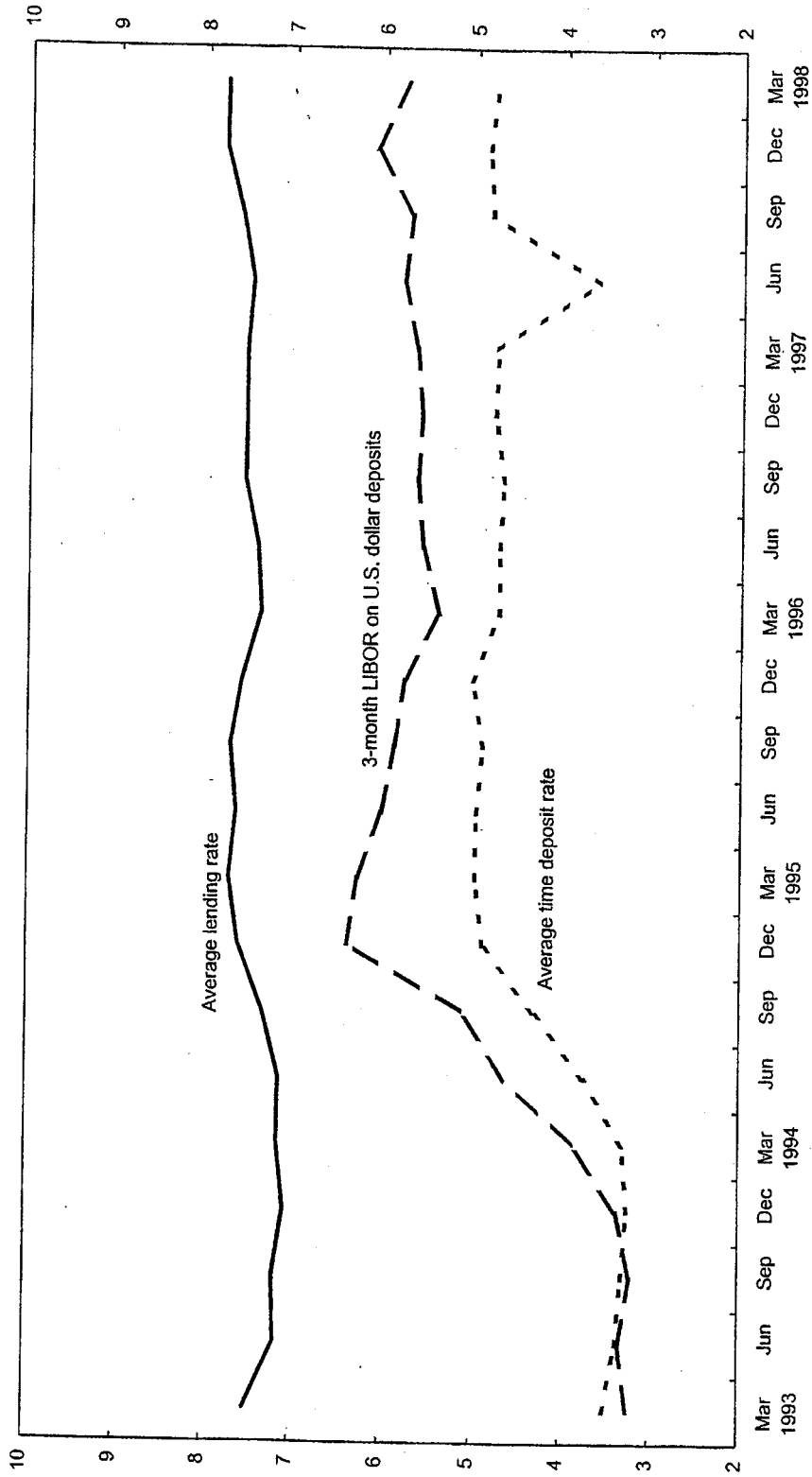
80. The good performance of the stock market in 1997 partly reflects strong profit growth in the U.A.E. banking sector. Preliminary earnings reports indicate that the nineteen domestic banks enjoyed an average increase of 26 percent in net profits in 1997, while the 28 foreign banks achieved an average net profit growth of 25 percent. Most of the domestic banks rewarded shareholders with high cash dividends, while some also issued bonus shares to boost their capital. Other factors behind this strong performance were the high level of oil prices through most of 1997, which helped to maintain the confidence of the private sector to expand its activities, and a new investment vehicle for small investors. The Emirates International Bank Group launched the first open-ended mutual fund in the U.A.E. in June 1997 with a minimum subscription of Dh 10,000, and two similar mutual funds have been opened in 1998. These funds allow non-U.A.E. nationals to purchase up to 20 percent of the shares on offer. The acceleration in domestic liquidity expansion in 1997 thus reflected not only strong consumer lending, but also increasing demand for liquidity to finance growing domestic investment opportunities.

81. The main objective of monetary policy is to maintain the nominal peg of the dirham to the U.S. dollar. The fixed exchange rate regime in turn means that the domestic interest rate structure tracks closely the movements of U.S. dollar rates (Chart 4). During 1997, the average interest rate on three-month dirham-denominated interbank borrowing was about 18 basis points below the three-month LIBOR rate on U.S. dollars, reflecting mainly the excess liquidity conditions in the banking system and lack of alternative instruments for short-term liquidity management. However, in the first quarter of 1998 the situation reversed, with the interest rate on dirham-denominated interbank borrowing about eight basis points above the three-month LIBOR rate on U.S. dollars, mainly because the latter fell fairly sharply (by 25 basis points). The increase in the demand for funds to finance activities in the domestic economy has also led to a small rise (of about 20 basis points) in the differential between dirham lending rates and time deposit rates over the past year.

C. Monetary Control and Central Bank Operations

82. The fixed exchange rate arrangement and an open capital account that is sensitive to interest rate differentials means that the growth of domestic liquidity is predetermined by the demand for broad money and the portfolio preference of asset holders between domestic and foreign assets (given prevailing domestic and foreign interest rates, wealth levels, liquidity preferences, and perceptions and attitudes toward risk). Monetary developments over the past few years indicate that the monetary authorities have found it somewhat difficult to contain

CHART 4
UNITED ARAB EMIRATES
AVERAGE INTEREST RATES, MARCH 1993-MARCH 1998
(In percent per annum)



Source: Data provided by the authorities of the United Arab Emirates.

the rapid growth of domestic liquidity. The instruments available to the central bank to exercise monetary control and influence short-term movements of the monetary aggregates are few and of limited effectiveness.

Reserve requirements

83. The structure of reserve requirements, last revised in October 1984 (central bank circular No. 300), is designed mainly to encourage banks to mobilize longer-term deposits. Reserve requirement ratios are applicable on both dirham and foreign currency deposits. The weighted average reserve requirement ratio is in the range 6.5–7 percent, and required reserves (including foreign currency deposits) held by the central bank bear no interest. The level of reserve requirements in the U.A.E. is reasonable as compared to other countries in the region and most industrial countries in the world. However, unlike most other countries, commercial banks receive no remuneration on their reserve holdings; this imposes a tax on the banking system and serves to increase banks' intermediation costs. In addition, the central bank discourages banks from making net short-term dirham placements abroad through a costly nonremunerated reserve requirement of 30 percent on banks' net dirham deposits abroad with a maturity of one year or less. The banks' excess reserves held at the central bank are negligible. Changes in reserve requirements are the only effective tool available to the monetary authorities to control the volume of credit expansion but are cumbersome to operate for purposes of short-term liquidity control.

Swap arrangements

84. Swap arrangements involve an outright sale by commercial banks of foreign currency denominated assets at the spot price and the injection of dirham liquidity of an equivalent amount, net of a service charge of 0.25 percent. The foreign currency denominated assets are to be repurchased at a specified future date. This arrangement was created at the request of local banks to overcome temporary shortages of dirham liquidity. Given the record of the stability of the nominal peg of the dirham to the U.S. dollar and a free payments system, there is almost no exchange rate risk associated with the purchase/repurchase of foreign currency denominated assets. Therefore the traditional role of a swap in providing a hedge against exchange rate risk does not apply in the U.A.E.

Central bank certificates of deposit (CDs)

85. Certificates of deposit (CDs) operate as a form of repurchase agreement and have been issued by the central bank as another tool for liquidity management. Prior to 1994, dirham-denominated CDs were to be purchased with U.S. dollars, the objective being to mop up excess foreign exchange liquidity. At maturity, holders could convert their CDs from dirhams to U.S. dollars at a slightly more favorable exchange rate (Dh 3.6725 per U.S. dollar) than the central bank's selling price (Dh 3.673 per U.S. dollar). Since 1994, CDs have been

made available on tap to banks for purchase with either dirhams or U.S. dollars. The available maturities on CDs are 1-, 3-, 6-, 9-, 12-, and 18-months. Banks can discount CDs at the central bank at any time, and penalties on early redemption are very small.

86. CDs are attractive to banks as they yield higher returns than those on domestic interbank claims. Also, CDs are used for short-term cash management. Banks' holdings of CDs fell from Dh 6.2 billion at the end of 1996 to Dh 5.3 billion at the end of 1997 before increasing again to Dh 5.9 billion at the end of March 1998. The vast majority of these holdings are short term, with a maturity of 1 month (66 percent of total holdings) or 3 months (8 percent).

87. To enhance the effectiveness of the CDs as a device for monetary control, and to help deepen the money market and facilitate banks' financial intermediation, it has been suggested that an auction system for CDs should be established. The central bank would preannounce the volume of CDs in accordance with the requirements for monetary control, and the interest rate would be market-determined consistent with the scarcity (or otherwise) of short-term funds in the money market. Subsequently, CDs could become tradable, initially among banks and ultimately with the nonbank public to develop a type of open market operation. However, in the prevailing conditions of excess liquidity in the money market, there would be no demand for CDs were they to be auctioned.

Overdraft facility

88. The central bank provides an overdraft facility to commercial banks which allows them to utilize their required reserves free of charge for up to six days. However, the average daily balance of the account (over each six-day period, and at month-end) must be maintained at a level equivalent to the bank's required reserves. Accordingly, commercial banks must redeposit to their reserve account within six days an amount that is sizable enough to yield a daily balance equivalent to the required reserves. In case this requirement is not met a penalty of 50 percent per annum is charged by the central bank on the overdrawn balance.

Bank supervision

89. Banking supervision and prudential regulation in the U.A.E. have been strengthened significantly in recent years following the BCCI scandal. The supervisory body is the Supervision and Examination Department of the central bank. The supervisory process includes the analysis of monthly, quarterly and semiannual returns, and annual audited balance sheets prepared by auditors and approved by the central bank.

90. The staff of the Bank Supervision Department conducts on-site examinations of all banks at least once every 18 months, and more frequently if necessary. There are three types of examinations—full scope; targeted; and limited. Full scope examinations carry out

CAMEL²⁹-type evaluations of the banks, and examine in detail the bank's internal processes for risk-management and control. Around 70–80 percent of the bank's loans and advances are inspected. Where a previous examination, or recent developments in the various prudential indicators have identified a particular area of concern, the staff might instead conduct a targeted examination, focusing in detail on the potential problem area. If a particular bank has a history of high ratings in the past and the asset quality of the bank is strong, the staff might instead conduct a limited examination. These are less detailed than full-scope examinations but look into the same issues, with around a 20–30 percent coverage of loans and advances. If any problem areas are identified a targeted examination could be carried out, and/or the frequency of on-site visits to the bank could be increased. With regard to foreign banks, the examinations look into two additional issues: (i) the extent and quality of supervision by the head office abroad, and (ii) the financial strength of the banking group as a whole at a global level, and the willingness of the head office to support the bank branch in case of financial difficulty.

Key indicators of the soundness of the banking system

- **International Accounting Standards:** In 1994, the U.A.E. Central Bank proposed that all domestic banks move toward adopting International Accounting Standards (IAS). However, progress in this area has been slow, and disclosure requirements are minimal. In particular, there are no disclosure requirements for nonbank financial institutions. As of June 1998, only eight of the nineteen local banks had adopted the IAS.³⁰
- **Nonperforming loans and provisions:** Current accounting practices require banks to classify loans into four categories—unclassified, substandard, doubtful, and lost. An account in which payment of principal or interest is in arrears beyond 180 days is

²⁹The acronym stands for Capital, Assets, Management, Earnings and Liquidity. A rating of between 1 and 5 is given for each of these, with 1 representing a strong performance and 5, a weak performance.

³⁰The eight banks are: Middle East Bank, Emirates Bank International, Commercial Bank of Dubai, United Arab Bank, National Bank of Fujairah, National Bank of Ras Al-Khaimah, National Bank of Sharjah and Union National Bank. Private sector deposits with these banks represented around 26 percent of total private sector deposits of U.A.E. incorporated banks at year-end 1997.

usually classified as nonperforming.³¹ Since mid-1991 a provision of 100 percent is required against lost loans, as well as against the amounts of expected losses on loans classified as substandard or doubtful. The required provisions against unclassified loans is 85 percent. Moreover, banks are required to credit interest on loans in arrears by more than six months to an "interest-in-suspense" account rather than the profit and loss account. The bulk of the nonperforming loans of the banking system is inherited from the 1970s and 1980s. While the legal system in the U.A.E. does not allow banks to write off any of their bad loans, they are allowed to accumulate doubtful and substandard loans as long as there is adequate provisioning for such loans. For all U.A.E. incorporated banks the proportion of gross classified loans to total gross loans fell from 33 percent at end-1995 to 31 percent at end-1996 and to 28 percent at end-1997. The ratio of provisions to gross classified loans was around 90 percent at end-1997.

- **Capital adequacy ratio:** Since July 1, 1993, banks have been subject to a maximum total assets-to-capital ratio of 10 to 1. Provisions for bad and doubtful loans and balances in "interest-in-suspense" accounts are excluded from the denominator. Banks are also required to build reserves by transferring at least 10 percent of their annual net profits into reserves until the latter are equal to 50 percent of their paid-up capital. Authorization from the central bank is required for any payment of dividends. Banks are also required to make provisions that are in line with the Basle Committee's recommendations. These regulations are fully enforced and, as a consequence, the banking system in the U.A.E. is adequately capitalized. In 1997, the average ratio of capital to risk-weighted assets for all local banks was 21 percent, with the percentage varying from a low of 10 percent to a high of 59 percent.³²
- **Risk Bureau Reporting System:** This is a service of credit-risk assessment provided by the central bank to commercial banks. At present banks report on a monthly basis to the central bank a list of clients who have borrowed in excess of Dh 250,000 (US\$68,100). Once the information is consolidated (at a highly aggregated level) they are provided to banks at no cost. There are two major problems in the current system:

³¹Circular no. 313, December 1984, gave fairly broad guidelines for the classification of loans among the various categories. The Supervision and Examination Department of the Central Bank classifies loans as follows:

- substandard - arrears in payment of principal or interest of 90–180 days.
- doubtful - arrears in payment of principal or interest of 180–360 days.
- lost - arrears in payment of principal or interest of 360 days or more.

³²These risk-weighted capital-asset ratios do not include current year earnings. When these are included the ratios would be higher.

(i) it is not designed to identify the size and timing of any loan default by an individual borrower. Therefore, in practice one can default on one bank and continue to borrow from others (within the large exposure limits) without being disciplined.

(ii) consumer loans, and in particular credit card loans, are not properly covered by this system. The central bank is currently reviewing various proposals to improve the entire system by introducing a new reporting form.

- **Loan-to-stable-resource ratio** (central bank circular No. 394): Banks are required to maintain an advance to deposit ratio not higher than 1:1 between (i) loans and advances (including interbank placements with a remaining life of more than three months) on the one hand, and (ii) a base comprising free capital and reserves, interbank deposits received with a remaining life of more than six months, 85 percent of interbank deposits received with a remaining life of less than six months, and nongovernment deposits on the other.
- **Personal loan limit:** Personal loans are defined as loans that are given to individuals for specific purposes, secured by assigning salary and end-of-service benefits or any regular income from a well-defined source. The ceiling for personal loans is currently set at Dh 250,000. It is prohibited to include private houses, and individual or bank guarantees as securities for personal loans. At present credit card loans are excluded from the personal loan limit.
- **Large exposure limits:** With a view to curbing the excessive concentration of credit to a single borrower or a group of related borrowers, the central bank issued on July 16, 1994 an update of circular 16/93 relating to the monitoring of large exposure limits to banks, banking groups, members of a bank's board of directors, and the bank's own employees.

91. Despite the overall soundness of the U.A.E. banking system as a whole, in November 1997 there were rumors that the Mashreq Bank had experienced losses as a result of the Asian crisis and that the bank was in a precarious financial position. After reviewing the situation, the central bank quickly issued a strong statement in support of the bank, which later announced record net profits. In March 1998, the Dubai Islamic Bank ran into financial difficulties and was provided assistance through an infusion of capital from the central bank of U.A.E. (Dh 0.9 billion) and the emirate of Dubai. The central bank also took over the management of the bank. On March 30, 1998, all reporting on this subject was banned in the U.A.E., unless specifically approved by the Dubai authorities.

92. During 1997-98 the central bank issued three new circulars. The first, circular 18/97 (July 9, 1997), exempted short-term funds received by banks through public subscriptions in shares of U.A.E. incorporated companies from cash reserve requirements.

93. The second circular also relates to bank loans extended to finance purchases of company shares in IPOs. Almost all IPOs in 1997 were oversubscribed, giving rise to concern about excessive lending by commercial banks and finance companies to customers seeking to acquire these shares. In response, the central bank issued circular 19/97 (November 4, 1997). According to this circular no loans can be extended by institutions operating in the U.A.E. for the purpose of buying shares in joint stock companies, either newly established or under establishment, unless there are "tangible securities." Also, the margin requirements for bank lending to both founding shareholders and prospective subscribers in public subscriptions were tightened: lending to founder shareholders should not exceed 50 percent of the nominal value of shares pledged to the borrower, and lending for public subscription must not exceed 10 percent of the nominal value of the shares subscribed to, except in circumstances where the bank handling the subscription agrees to refund excess subscriptions directly to the lending bank, loans up to 50 percent of the nominal value of the subscribed shares are permitted. Circular 19/97 also states that loans extended against the pledge of allotted shares in IPOs in new companies should not exceed 50 percent of the shares' book value. This ceiling will remain for the first five years of operations by the new company. For companies that have been in operation for more than five years, lending for share purchase should not exceed 70 percent of the shares' market value. These new rules also apply to share acquisitions in other member countries of the Cooperation Council for the Arab States of the Gulf (GCC).

94. The third circular 163/98 (February 28, 1998), was issued to counter money laundering. It instructed banks to examine the accounts of individuals and commercial entities with more care, and to pay close attention to cases where movements in accounts are not commensurate with the income of the concerned individual or commercial entity. To this end, the banks should immediately notify the central bank in cases where substantial movements in an account occur without a convincing explanation, especially when the account owner remits or withdraws the amounts after a short period of time.

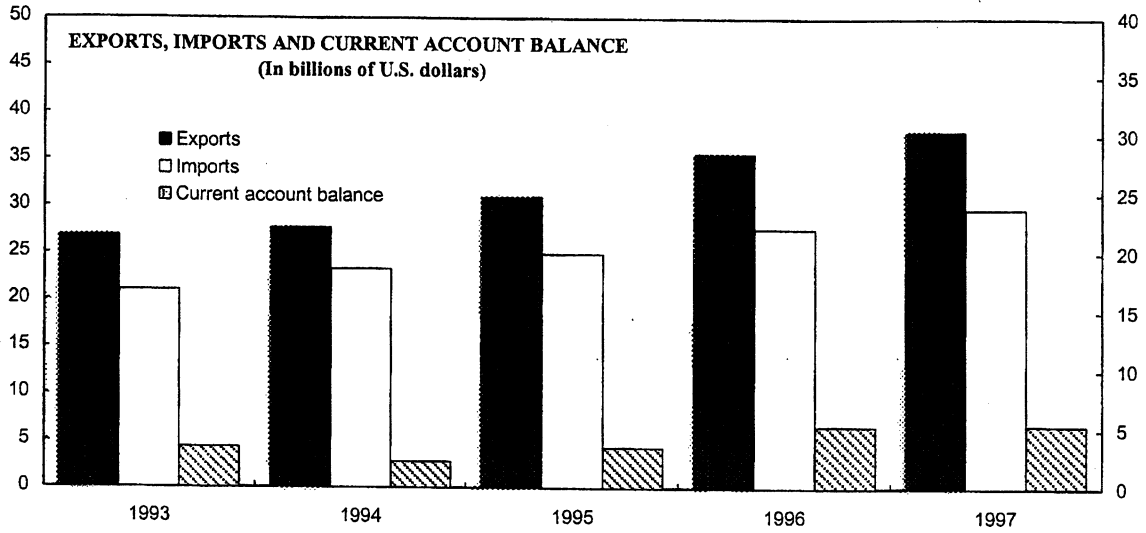
V. THE EXTERNAL SECTOR

A. Overview

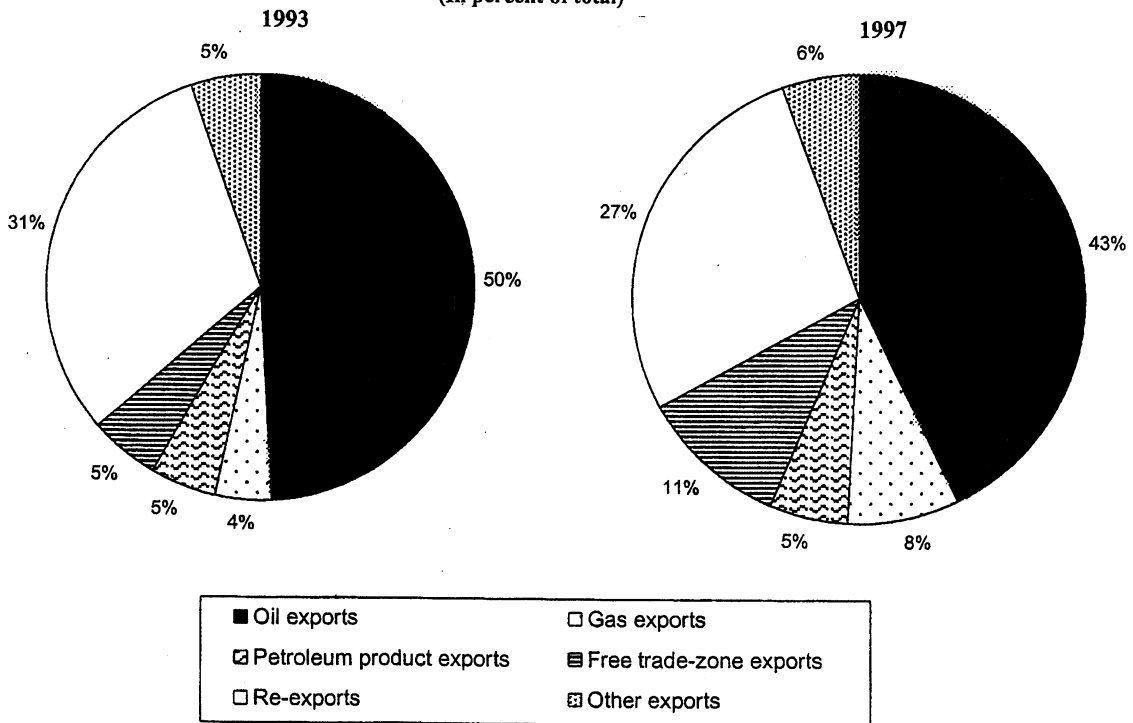
95. International trade has always been a major contributor to economic growth in the U.A.E., and its importance has increased since the regional crisis in 1991 due to the growth of both the reexport trade and domestic exports of petrochemicals, aluminum, and nonmonetary gold. The increase in reexports stems from higher trade with Iran, Pakistan, India, the Baltic countries, Russia, and the other countries of the former Soviet Union.³³ The growth of domestic non-oil exports has been due primarily to the expansion of free zone exports (Chart 5). During 1993-97, the share of free zone exports in total exports more than doubled, indicating the expansion of trade generated from Dubai's Jebel Ali Free Zone (JAFZ) and

³³A significant proportion (estimated at about 40 percent) of reexports is not recorded by customs.

CHART 5
UNITED ARAB EMIRATES
BALANCE OF PAYMENTS DEVELOPMENTS, 1993-97



COMPOSITION OF EXPORTS
(In percent of total)



Sources: U.A.E. Central Bank, customs departments; and Abu Dhabi National Oil Company.

more recently by the Sharjah International Airport Free Zone. In 1997 alone, 205 foreign companies from over 70 countries were established in the JAFZ bringing the total number of companies to 1,230 with aggregate investments worth more than US\$2.3 billion.

Developments in the external current account and overall balance of payments mainly reflect fluctuations in oil exports earnings and international oil prices. Changes in fiscal policy also have an effect on the current account balance since a large portion of government expenditures is on imported goods and services. In addition, the increasing diversification of the economy is reflected in the trade account as the composition of exports has broadened. Given the high value of oil exports, the U.A.E. has traditionally experienced current account surpluses.

96. The analysis of the balance of payments developments is hindered by the lack and low quality of data on all aspects except the trade account, and even in the trade account the lag in the provision of data from some emirates is extremely long. Despite the central bank's efforts to improve the provision and reliability of the data, there are still deficiencies in data on workers' remittances, investment income, and private and official capital flows. Oil and gas export receipts are recorded by the emirate agencies in charge of oil production instead of the emirates' customs departments, and these data are held to be confidential in Dubai and Sharjah. Estimates of these emirates' oil and gas exports are made by the central bank. Private investment income is not available from banking statistics and must be estimated by the central bank. Short term private capital movements reflect only banking system data and therefore are underestimated; this partly explains the large errors and omissions.³⁴ Furthermore, data on foreign direct investment or remittances of profits and cost recovery payments by foreign oil companies is not provided by the emirate agencies to the central bank. Non-oil trade data are comprehensive for the four largest emirates (Abu Dhabi, Dubai, Sharjah, and Ras Al-Khaima).³⁵ For the other emirates, data are estimated based on the trade trend in Abu Dhabi and Dubai. Because of the data deficiencies in the capital account, the overall balance is defined as the change in the net foreign assets of the central bank. Net errors and omissions are negative and sizable indicating the exclusion of significant outflows from the balance of payments presentation.

97. During 1994-96, both the trade and current accounts recorded sizable surpluses (Table 11). The current account surplus widened from 7.4 percent of GDP in 1994 to 13.8 percent in 1996, reflecting mainly higher crude oil export prices. In 1997, higher gas and

³⁴Like other oil-exporting GCC countries, the U.A.E. does not impose any restrictions on capital movements. Therefore, private capital transactions are not reported in the capital account.

³⁵Import data are provided according to the Harmonized System.

Table 11. United Arab Emirates: Balance of Payments, 1993-97

(In billions of U.S. dollars)

	1993	1994	1995	1996	<u>Prel.</u> 1997
Current account	4.3	2.8	4.3	6.6	6.7
(In percent of GDP)	12.1	7.4	10.1	13.8	13.6
Trade balance	5.7	4.5	6.1	8.0	8.3
Exports (f.o.b.)	26.8	27.7	31.0	35.6	38.0
Crude oil and petroleum products	13.5	13.2	14.3	16.6	16.1
Crude oil	12.3	11.9	12.8	14.8	14.3
Petroleum products	1.3	1.3	1.5	1.8	1.8
Other 1/	0.12	0.13	0.13	0.13	0.14
Gas 2/	1.0	1.0	1.5	1.9	2.7
Non-oil exports	4.4	5.0	6.7	7.8	9.9
Free zone exports	1.3	1.6	2.4	3.2	3.6
Exports (by Emirates)	1.3	1.2	1.6	1.6	1.9
Nonmonetary gold exports	1.8	2.2	2.7	3.1	4.5
Reexports	7.8	8.4	8.4	9.1	9.1
Imports (f.o.b.)	-21.0	-23.3	-24.9	-27.6	-29.7
Free zone imports	-1.2	-1.4	-2.3	-2.9	-3.1
Imports (by Emirates)	-17.3	-18.6	-18.7	-20.3	-20.3
Nonmonetary gold imports	-2.6	-3.2	-3.9	-4.4	-6.4
Services (net)	2.0	1.7	1.7	2.4	2.2
Investment income	3.9	3.7	4.8	4.8	4.5
Banking system and private	1.2	1.8	2.1	2.0	2.2
Others (ADIA)	2.7	2.0	2.6	2.8	2.3
Other 3/	-1.9	-2.0	-3.1	-2.5	-2.3
Transfers (net)	-3.4	-3.4	-3.5	-3.8	-3.8
Private	-3.0	-3.1	-3.2	-3.6	-3.4
Public	-0.4	-0.3	-0.3	-0.2	-0.4
Capital account	2.1	2.0	2.9	-0.1	-0.4
Short-term private capital 4/	0.5	0.2	0.4	-1.7	-1.7
Official capital 5/	1.6	1.8	2.6	1.6	1.3
Errors and omissions	-5.5	-4.2	-6.6	-5.9	-6.0
Overall balance	0.9	0.7	0.7	0.6	0.3
(In percent of GDP)	2.4	1.7	1.7	1.3	0.6
Financing	-0.9	-0.7	-0.7	-0.6	-0.3
Net foreign assets of					
Central Bank (increase -)	-0.9	-0.7	-0.7	-0.6	-0.3
Memorandum items:					
Imports net of reexports					
(In percent of GDP)	-26.5	-26.8	-24.0	-23.3	-22.6
Gross official reserves of the Central					
Bank (in months of imports, f.o.b)	3.3	3.4	3.6	3.6	3.6
Current account (in percent of GDP)	12.1	7.4	10.1	13.8	13.6
Overall balance (in percent of GDP)	2.4	1.7	1.7	1.3	0.6

Sources: ADNOC, U.A.E. customs departments, U.A.E. Central Bank, and staff estimates.

1/ Including fertilizers and lubricants exports.

2/ 1997 datum includes a one time payment to ADGAS of US\$400 million by TEPCO for the retroactive adjustment of LNG prices.

3/ Including transport, travel and government services.

4/ Change in the gross foreign assets of commercial banks.

5/ Represents mainly the counterpart of liquidation of official foreign assets to finance the budget deficits. 1996 datum includes payments by the Abu Dhabi government of about US\$2 billion toward the settlement of obligations arising from the liquidation of the former BCCI.

non-oil exports raised total exports despite a decline in crude oil exports. This was accompanied by a slowdown in import growth, and with an improvement in the services account, the current account surplus was maintained approximately unchanged at 13.6 percent of GDP.

External Developments during 1995–96

98. Reflecting higher international oil prices, oil exports rose by 7 percent in 1995. Non-oil exports increased by 34 percent, due mainly to higher nonmonetary gold exports and exports from free zone areas which surged by 50 percent. Total exports rose by 12 percent to US\$31 billion. The growth of free zone and nonmonetary gold exports was associated with sharp rises in free zone and nonmonetary gold imports; however, imports for domestic use increased only modestly owing to a build up of stocks of imported goods in 1994 and a reduction in imports of high-cost plant and equipment for power generation. Dubai recorded an increase in domestic imports of 5 percent but the imports of the other emirates declined (Appendix Table 35). Total imports increased by only 7 percent to US\$24.9 billion and the trade surplus widened to US\$6.1 billion. There was little change in net services and transfers. In the services account, higher investment income on official foreign assets was offset by higher net outflows for transport, travel, and government services, and there was also a small increase in outward private transfers. Consequently, the improvement in the current account surplus almost matched that in the trade surplus; the current account surplus widened by US\$1.5 billion to US\$4.3 billion (10.1 percent of GDP). With higher transfers from emirate external reserve assets to finance budget deficits, the surplus on capital account increased by US\$0.9 billion. However, as the overall balance (the increase in the net foreign assets of the central bank) remained unchanged at US\$0.7 billion (1.7 percent of GDP), the improvements in the current and capital accounts involved a sizable increase in (negative) net errors and omissions.

99. In 1996, oil export receipts rose by 15 percent to US\$14.8 billion reflecting an increase in average export prices of 19 percent and a reduction in export volume due to higher refinery input. Gas exports also benefited from international price movements, increasing by 26 percent to US\$1.9 billion. Non-oil exports again performed well, rising by 26 percent to US\$7.8 billion due mainly to higher free zone exports. Total domestic exports stagnated as a fall in Dubai's exports was compensated by higher exports from the other emirates. Nonmonetary gold exports rose by around 15 percent to US\$3.1 billion. With buoyant demand in neighboring countries on account of the high oil prices and in the wider region, re-exports increased by about 8 percent. Total imports rose by around 11 percent to US\$27.6 billion as non-oil GDP growth remained strong. Imports of vehicle and other transport equipment, and miscellaneous manufactured goods rose respectively by 35 percent and 18 percent (Appendix Table 36). As a result, the trade surplus improved by US\$1.9 billion to US\$8.0 billion. Although investment income remained constant, the net services account surplus widened by 40 percent to US\$2.4 billion, reflecting mainly higher tourism inflows. However, these developments were partly offset by the departure of a large number of illegal expatriate workers who repatriated their savings so that private transfers increased by

US\$0.4 billion. As a result, the current account surplus increased to US\$6.6 billion (13.8 percent of GDP). By contrast, the capital account moved into a deficit position (US\$0.1 billion), owing to higher borrowing abroad by commercial banks, and lower official capital inflows as the need to finance the budget deficit diminished. The net foreign asset position of the central bank improved by US\$0.6 billion. Correspondingly, the overall balance of payments surplus declined from 1.7 percent of GDP to 1.3 percent of GDP in 1996 and net errors and omissions increased.

External sector developments in 1997

100. In 1997, a 5.3 percent decline in the average oil export price more than offset higher condensate exports so that oil export receipts decreased by about 3 percent to US\$14.3 billion. Although gas export prices also declined, gas export receipts increased by 42 percent to US\$2.7 billion reflecting higher exports of NGLs and the retroactive payment of US\$400 million in LNG export receipts. Despite the modest oil price decline, import demand in the U.A.E.'s major markets remained strong, and non-oil exports rose by 28 percent to US\$9.9 billion. All export components performed well, with free zone exports rising by 12.5 percent, domestic exports by 19 percent, and nonmonetary gold exports by 45 percent. However, for the first time since 1990, reexports did not increase in value terms. This in part reflected declining prices as imports for reexport became cheaper as a result of the Asian currencies' depreciation. But it also reflected a loss of markets in Iran which increased its tariffs on imports from the U.A.E. and relied increasingly on its own free trade zones. Moreover, reexports toward former Soviet republics in the Caucasus and Central Asia declined as exporters set up direct relations with those countries and transshipment costs through Iran increased. The increase in non-oil exports more than compensated for the drop in oil exports so that total exports rose by 7 percent to US\$38 billion. Notwithstanding the decline in import prices and a more moderate rate of growth of non-oil domestic activity, total imports rose by about 8 percent to US\$29.7 billion.³⁶ This reflected higher free zone and nonmonetary gold imports; the value of imports for domestic use declined slightly. As a result of these developments, the trade surplus widened by US\$0.3 billion to US\$8.3 billion. Despite further growth in tourism receipts, a reduction in investment income on Abu Dhabi's external reserve assets was mainly responsible for a drop in the net services account surplus of US\$0.2 billion. Higher official transfer payments offset a decline in private transfers (as the expatriate labor market returned to normal) and net transfers remained unchanged. Consequently, the current account surplus increased to US\$6.7 billion (13.6 percent of GDP). The major influence on the capital account was the continuing fiscal consolidation which required lower official inflows for deficit financing so that the capital account deficit widened by US\$0.3 billion. The overall surplus was halved to US\$0.3 billion (0.6 percent of GDP) representing a smaller improvement in the net foreign asset position of the central bank. Consequently, errors and emissions remained large at US\$6.0 billion.

³⁶The June 1998 World Economic Outlook indicated that the U.A.E.'s import prices for non-oil commodities declined by an average of 6.6 percent in 1997.

101. With regard to the direction of trade, the share of industrial countries in the U.A.E.'s total imports declined from 59 percent to 53 percent during 1993–96 (Appendix Table 37). In 1997, this share fell further to 50 percent in the first half of 1997 owing to a drop in imports of machinery and equipment. The counterpart of this development was a rise in the share of non-Arab developing countries, especially China, in total imports in 1997. The share of exports to industrial countries in U.A.E.'s total exports—which is dominated by oil and gas exports to Japan—declined from around 49 percent to 45 percent from 1993 to the first half of 1997, while the share of exports to non-Arab developing countries rose from 24 percent to 32 percent over the same period (Appendix Table 38). However, in the first half of 1997, the share of exports directed to Korea, Singapore and Thailand declined.

VI. THE EXCHANGE AND TRADE SYSTEM

A. Exchange Rate System

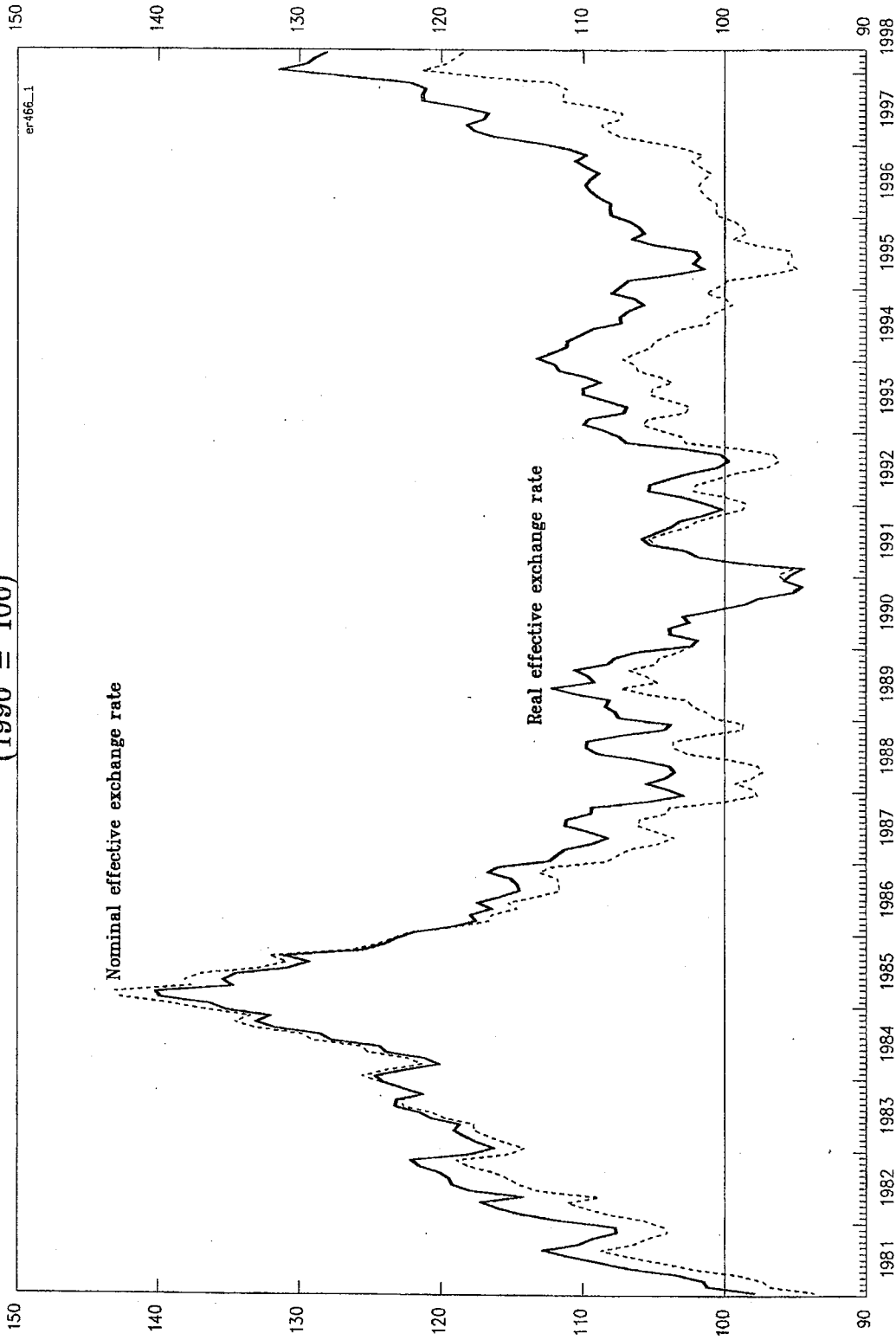
102. Since January 28, 1987, the U.A.E. dirham has been officially pegged to the SDR at a rate of 4.76190; the margins were set initially at 2.25 percent and were widened on August 15, 1987 to 8.25 percent. In practice, the dirham has been effectively pegged to the U.S. dollar, the intervention currency, which the central bank buys and sells at rates which it sets. On November 25, 1997, the spread between the selling and buying rates of the U.A.E. dirham vis-à-vis the U.S. dollar was narrowed from Dh. 0.004 to Dh. 0.001, and as the selling rate remained unchanged at Dh. 3.6730, the middle rate was depreciated from Dh 3.671 to Dh 3.6725. The U.A.E. Central Bank publishes buying and selling rates for the U.S. dollar only. While commercial banks are free to engage in foreign exchange transactions at rates of their choosing, in practice these rates have been close to those quoted by the central bank. For currencies other than the U.S. dollar, the rates quoted by commercial banks are determined on the basis of the previous day's closing rates in New York as well as the international quotations in the GCC area and the Far East. There are no taxes and subsidies on purchases or sales of foreign exchange.

103. From September 1989 to December 1997, the dirham depreciated by about 5.5 percent in terms of the SDR. On the basis on weights derived from its non-oil trade,³⁷ the nominal effective exchange rate of the dirham for the period September 1989 to December 1997 appreciated by 10 percent. Over the same period, the real effective exchange rate of the dirham appreciated by 19.2 percent (Chart 6).

104. There are no exchange controls in the U.A.E. and no registration requirements for inward or outward transfers. Import and export licences, where required, are issued by the authorities of the emirate concerned. Similarly, there are no rules in force governing prescriptions of currency, and there are no payment restrictions imposed for security purposes.

³⁷The weights are those used in the Fund's Information Notice System (INS).

UNITED ARAB EMIRATES
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, 1981-98
(1990 = 100)



Sources: International Monetary Fund, Information Notice System, and International Financial Statistics.

B. Imports and Import Payments

105. Imports of products manufactured by foreign companies proscribed by the Arab League are prohibited, as are imports from, exports and reexports to, and all other transactions and settlements with Israel. In addition, imports of a few commodities from any source are prohibited for religious, health, or security reasons. Virtually all other commodities may be freely imported without an individual import permit, but only licenced parties can enter the import trade and each importer can import only the commodity or commodities specified in the licence. There are no restrictions on the availability of foreign exchange for payments with respect to permitted imports. In August 1994 the U.A.E. raised the uniform tariff rate from 1 percent to 4 percent under a GCC resolution calling for uniform maximum import tariffs in all GCC member states. Alcohol and tobacco imports are subject to a higher tariff. A number of import items are exempt from customs duty, including all goods that originate in other GCC countries. Since March 1989 U.A.E. textile exports to the United States have been subject to a visa system whereby free access is accorded in the case of the provision of a certificate of origin. Previously such exports were subject to quota restrictions.

106. While each emirate establishes its own export regulations, virtually all commodities may be exported or reexported freely without a licence to any destination except Israel. There are no repatriation or exchange surrender requirements for exports or reexports; the proceeds may be disposed of freely, regardless of the currency involved.³⁸ All payments for current invisibles, except those few that are expressly prohibited, may be made freely. Travelers may bring in or take out any amount in domestic or foreign banknotes. There are no requirements regarding receipts from current invisibles.

C. Capital Transactions

107. No exchange controls are imposed on capital receipts or payments by residents or nonresidents. With the exceptions noted below for GCC nationals, at least 51 percent of the shares of U.A.E. corporations must be held by nationals or organizations of the U.A.E.; the majority of the board of directors, together with the chairman, must also be nationals of the U.A.E. Profits on foreign capital invested in the U.A.E. may be remitted freely. Residents and nonresidents may freely purchase, hold, and sell gold in any form, at home or abroad. They may also import and export gold in any form without a permit, but the import for trade purposes may be undertaken only by licensed parties. Gold bullion is exempt from import duty, but jewelry is not.

³⁸The U.A.E. has no bilateral payments arrangements. There are bilateral trade and economic cooperation agreements with a number of countries. The U.A.E. is also a signatory to the Arab League Transit Agreement.

D. Cooperation Council for Arab States of the Gulf

108. Nationals of the other member countries of the GCC are permitted to hold (i) up to 75 percent of the equity of companies in the industrial, agricultural, fisheries, and construction sectors, and in consultancies; and (ii) up to 100 percent of the equity of companies in the hotel industry. Nationals of other member countries of the GCC are also permitted to engage in wholesale and retail trade activities, except in the form of companies, in which case they are subject to the requirement of 51 percent minimum U.A.E. ownership.

109. Goods originating from member countries (Kuwait, Oman, Bahrain, Qatar, and Saudi Arabia) are exempt from import duties, provided that at least 40 percent of the value added is produced in the GCC region, and that at least 51 percent of the capital of the producing firm is owned by citizens of the GCC member countries. In addition, free movement of goods in transit, services, and indigenous workers is provided in the GCC region. Citizens of these countries are allowed to purchase and own shares of industrial companies in all the member countries.

110. Citizens of GCC member countries are allowed to borrow from the specialized credit institutions of member countries. In particular, with the purpose to promote the coordination of bank regulation, a joint committee of the monetary authorities has been established. The committee's recommendations regarding the adoption of the BIS capital standards in the GCC countries have been implemented in the U.A.E. In the wake of the regional crisis of 1990-91, the GCC monetary authorities collaborated to protect the declared parities of members' currencies by buying and selling each other's currencies at rates consistent with those parities.

111. In 1994-95, rules of national origin were defined and a minimum tariff of 4 percent and a maximum duty of 20 percent were agreed. In 1995 efforts continued in the GCC toward furthering the goal of regional economic integration, industrial cooperation, and harmonization of customs tariffs. Discussions among the members are continuing on a common external tariff. In addition, discussions on a free trade area have been held between the GCC countries and the European Union (EU). Negotiations are ongoing for the possible removal of the six percent duty imposed on 35 percent of the U.A.E.'s primary metal exports to the EU.

E. World Trade Organization Membership

112. In March 1994, the U.A.E. joined the General Agreement on Tariffs and Trade (GATT). In order to join the World Trade Organization (WTO), the U.A.E. had to make commitments on market access, particularly for agricultural and industrial products, and specific commitments on services. In February 1996, negotiations were completed on the schedules of the U.A.E. containing these commitments. By signing the Protocol of Accession, the U.A.E. became a WTO member and acceded to the WTO agreement as ratified, amended or modified prior to the U.A.E.'s membership.

113. By becoming a member, the U.A.E. is committed to implement the WTO agreement, including maximum tariffs and trade liberalization on a most-favored-nation basis. The U.A.E. has adopted WTO rules for customs valuation (based on c.i.f. value), and has no quantitative restrictions on trade, no preferential tariffs, and no export subsidies. The present tariff structure is transparent with a unified rate at 4 percent for all goods (with the exception of a rate of 100 percent for alcohol and tobacco), which is substantially lower than the ceiling specified under the WTO agreement. However, the level of exemption is relatively high (about 40 percent of total imports) pertaining to the imports of the public sector.

114. The U.A.E. has committed to tie its tariff schedule on the most-favored-nation basis with the bound rate of import duties on agricultural and industrial products set at 15 percent (with exceptions for some specified products). Given the current level of tariffs in the U.A.E., this commitment provides sufficient flexibility for the tariff structure to be adjusted in the future if and when the need arises. The U.A.E.'s commitment to a zero duty rate for pharmaceuticals and certain types of organic chemicals will become effective only after 10 years to 15 years. The U.A.E.'s commitment to bind duty rates in the range of 5-10 percent on other goods (i.e., chemicals, fertilizers, aircraft and related parts, machineries, and most intermediate goods) presents no constraint on the economy as the present duty rates on these imports are between zero and 4 percent. With regards to intellectual property rights, the U.A.E. is working to implement the provisions by the year 2000 as required in its accession agreement.

115. Within the WTO agreement, the U.A.E. has horizontal (applying to all sectors) and sector-specific commitments. By comparison with other countries, the specific commitments made by the U.A.E. on services are relatively few and they essentially safeguard the U.A.E.'s economic interests. Horizontal commitments relate to the presence of commercial entities and natural persons. Foreign services companies may establish a commercial presence in the U.A.E. through either a representative office or through incorporation as a company in the U.A.E., with maximum foreign equity participation of 49 percent subject to the U.A.E. law. In addition, acquisition of land and real estate is not permitted for foreigners or to companies in which foreign nationals have a share holding. Sector-specific commitments apply mainly to services and construction sectors. While limitations on national treatment remain to be applied to services (except banking and financial services, research and development, and tourism), limitations on market access for commercial presence are removed for some subsectors including professional services, computer and related services, research and development, advertising, testing and analysis, courier services, construction, environmental services, and tourism.

116. The U.A.E.'s accession agreement also specifies a final list of exemptions for measures inconsistent with the WTO agreement. Indefinite exemptions are allowed for the preferential treatment of services supplied by the GCC nationals, and for the U.A.E.'s right to authorize the entry, establishment, and operation of foreign financial services (including banks and insurance companies) and the opening of new branches.

Table 12. U.A.E.: Sectoral Origin of GDP at Constant (1990) Prices, 1993-97

	1993	1994	1995	1996	Prel. 1997
(In millions of U.A.E. dirhams)					
Gross domestic product	128,018	134,368	145,283	159,889	163,309
Crude oil production 1/	46,780	43,416	45,660	52,479	50,150
Other production	81,238	90,952	99,623	107,410	113,159
Agriculture	3,032	3,979	4,287	4,793	5,216
Industry	25,373	28,101	30,667	33,035	35,087
Mining and quarrying	358	386	509	518	544
Manufacturing 2/	11,030	13,742	15,582	17,103	18,043
Electricity and water	2,668	2,555	2,222	2,359	2,473
Construction	11,317	11,418	12,354	13,055	14,027
Services	52,833	58,872	64,669	69,582	72,856
Trade	14,986	16,210	16,951	18,796	19,963
Wholesale and retail trade	13,145	14,260	14,925	16,253	17,242
Restaurants and hotels	1,841	1,950	2,026	2,543	2,721
Transportation, storage, and communication	7,412	7,886	9,459	9,889	10,166
Finance and insurance	6,234	7,342	8,375	9,228	9,637
Real estate	9,393	11,884	13,782	14,961	15,355
Government services	14,932	15,200	15,807	16,624	17,362
Other services	2,368	3,259	3,445	3,755	4,085
Less: imputed bank service charges	-2,492	-2,909	-3,150	-3,670	-3,711
(In percent of GDP)					
Gross domestic product	100.0	100.0	100.0	100.0	100.0
Crude oil production 1/	36.5	32.3	31.4	32.8	30.7
Other production	63.5	67.7	68.6	67.2	69.3
Agriculture	2.4	3.0	3.0	3.0	3.2
Industry	19.8	20.9	21.1	20.7	21.5
Mining and quarrying	0.3	0.3	0.4	0.3	0.3
Manufacturing 2/	8.6	10.2	10.7	10.7	11.0
Electricity and water	2.1	1.9	1.5	1.5	1.5
Construction	8.8	8.5	8.5	8.2	8.6
Services	41.3	43.8	44.5	43.5	44.6
Trade	11.7	12.1	11.7	11.8	12.2
Wholesale and retail trade	10.3	10.6	10.3	10.2	10.6
Restaurants and hotels	1.4	1.5	1.4	1.6	1.7
Transportation, storage, and communication	5.8	5.9	5.8	6.2	6.2
Finance and insurance	4.9	5.5	9.5	5.8	5.9
Real estate	7.3	8.8	9.5	9.4	9.4
Government services	11.7	11.3	10.9	10.4	10.6
Other services	1.8	2.4	2.4	2.3	2.5
Less: imputed bank service charges	-1.9	-2.2	-2.2	-2.3	-2.3

Source: Ministry of Planning.

1/ The concept of "product value at constant prices" used for crude oil and refined petroleum products is different from that for other sectors. While for each non-oil sector the value of production at current producer prices is deflated by an index of producer prices applicable to that sector, the deflator used for the oil sector consists of the ratio of an index of oil sector export prices to an index of prices of all imports to the U.A.E. Movements in crude oil production as reflected in this table may, therefore, differ from movements in the volume of production shown in Table 3.

2/ Includes natural gas and petroleum processing industries.

Table 13. U.A.E.: Sectoral Origin of GDP at Factor Cost, Current Prices, 1993-97

	1993	1994	1995	1996	Prel. 1997
(In millions of U.A.E. dirhams)					
Gross domestic product	133,206	141,909	156,902	175,368	180,262
Crude oil production	47,341	44,558	47,949	56,520	54,162
Other production	85,865	97,351	108,953	118,848	126,101
Agriculture	3,156	4,158	4,501	5,052	5,503
Industry	26,498	30,184	33,753	36,510	38,946
Mining and quarrying	389	421	563	577	605
Manufacturing 1/	11,140	14,342	16,345	17,975	19,000
Electricity and water	2,769	3,010	3,231	3,467	3,729
Construction	12,200	12,411	13,614	14,491	15,612
Services	56,211	63,009	70,699	77,286	81,652
Trade	15,733	17,271	18,296	21,102	22,585
Wholesale and retail trade 2/	13,776	15,173	16,088	18,203	19,483
Restaurants and hotels	1,957	2,098	2,208	2,899	3,102
Transportation, storage, and communication	7,923	8,564	10,537	11,184	11,650
Finance and insurance	6,627	7,672	8,836	9,883	10,408
Real estate 3/	10,210	12,977	15,712	16,861	17,351
Government services	15,588	15,914	16,708	17,788	18,855
Other services 4/	2,542	3,512	3,754	4,131	4,514
Less: imputed bank service charges	-2,412	-2,901	-3,144	-3,663	-3,711
(In percent of GDP at current factor cost)					
Crude oil production	35.5	31.4	30.6	32.2	30.0
Other production	64.5	68.6	69.4	67.8	70.0
Agriculture	2.4	2.9	2.9	2.9	3.1
Industry	19.9	21.3	21.5	20.8	21.6
Mining and quarrying	0.3	0.3	0.4	0.3	0.3
Manufacturing 1/	8.4	10.1	10.4	10.2	10.5
Electricity and water	2.1	2.1	2.1	2.0	2.1
Construction	9.2	8.7	8.7	8.3	8.7
Services	42.2	44.4	45.1	44.1	45.3
Trade	11.8	12.2	11.7	12.0	12.5
Wholesale and retail trade 2/					
Restaurants and hotels	1.5	1.5	1.4	1.7	1.7
Transportation, storage, and communication	5.9	6.0	6.7	6.4	6.5
Finance and insurance	5.0	5.4	5.6	5.6	5.8
Real estate 3/	7.7	9.1	10.0	9.6	9.6
Government services	11.7	11.2	10.6	10.1	10.5
Other services 4/	1.9	2.5	2.4	2.4	2.5
Less: imputed bank service charges	-1.8	-2.0	-2.0	-2.1	-2.1

Source: Ministry of Planning.

1/ Includes natural gas and petroleum processing industries.

2/ Includes repair services.

3/ Includes business services.

4/ Excludes repair and business services.

Table 14. U.A.E.: Use of Resources at Current Prices, 1993-97

	1993	1994	1995	1996	Prel. 1997
(In millions of U.A.E. dirhams)					
Total consumption	84,019	91,353	101,153	111,025	111,711
Public	23,497	24,350	25,850	26,780	26,702
Private	60,522	67,003	75,303	84,245	85,009
Total fixed investment	35,389	41,081	44,693	47,858	51,227
Public	12,991	16,869	20,241	21,389	22,374
Private	22,398	24,212	24,452	26,469	28,853
Change in inventory stock	1,731	1,850	1,962	2,090	2,225
Domestic expenditure	121,139	134,284	147,808	160,973	165,163
Net exports of GNFS	10,082	6,198	9,336	14,808	15,849
Exports of GNFS	97,380	100,754	108,374	123,897	128,075
Imports of GNFS	-87,298	-94,556	-99,038	-109,089	-112,226
Nominal GDP at market prices	131,221	140,482	157,144	175,781	181,012
Subsidies less indirect taxes	1,985	1,427	-242	-413	-750
Subsidies	3,207	2,570	1,812	1,733	1,700
Indirect taxes	1,222	1,143	2,054	2,146	2,450
Nominal GDP at factor cost	133,206	141,909	156,902	175,368	180,262
(In percent of GDP at market prices)					
Total consumption	64.0	65.0	64.4	63.2	61.7
Public	17.9	17.3	16.4	15.2	14.8
Private	46.1	47.7	47.9	47.9	47.0
Total fixed investment	27.0	29.2	28.4	27.2	28.3
Public	9.9	12.0	12.9	12.2	12.4
Private	17.1	17.2	15.6	15.1	15.9
Change in inventory stock	1.3	1.3	1.2	1.2	1.2
Domestic expenditure	92.3	95.6	94.1	91.6	91.2
Net exports of GNFS		4.4	5.9	8.4	8.8
Exports of GNFS	74.2	71.7	69.0	70.5	70.8
Imports of GNFS	-66.5	-67.3	-63.0	-62.1	-62.0
Nominal GDP at market prices	100.0	100.0	100.0	100.0	100.0
Subsidies less indirect taxes	1.5	1.0	-0.2	-0.2	-0.4
Nominal GDP at factor cost	101.5	101.0	99.8	99.8	99.6

Source: Ministry of Planning.

Table 15. U.A.E.: Distribution of GDP at Current Factor Cost by Emirate, 1993-97

(In millions of U.A.E. dirhams)

	1993	1994	1995	1996	<u>Prel.</u> 1997
Gross domestic product	133,206	141,909	156,902	175,368	180,262
Abu Dhabi	81,177	83,246	90,593	104,442	106,684
Dubai	32,087	36,811	41,250	44,883	46,556
Sharjah	10,987	12,688	15,076	15,501	16,091
Ajman	1,802	2,295	2,526	2,686	2,803
Umm al Qaiwan	885	833	917	988	1,022
Ras al Khaimah	4,133	3,979	4,313	4,547	4,694
Fujairah	2,135	2,057	2,227	2,321	2,413

Source: Ministry of Planning.

Table 16. U.A.E.: Gross Fixed Capital Formation by Sector at Current Prices, 1993-97

	1993	1994	1995	1966	<u>Prel.</u> 1997
(In millions of U.A.E. dirhams)					
Total fixed investment	35,389	41,081	44,693	47,858	51,227
Crude oil production	6,930	6,770	6,811	7,075	7,170
Other production	28,459	34,311	37,882	40,783	44,057
Agriculture	819	985	831	990	1,150
Industry	12,536	12,970	13,576	15,042	15,762
Mining and quarrying	155	177	188	195	200
Manufacturing 1/	4,710	5,327	5,973	7,215	7,700
Electricity and water	5,780	5,420	5,200	5,232	5,262
Construction	1,891	2,046	2,215	2,400	2,600
Services	15,104	20,356	23,475	24,751	27,145
Trade	2,645	3,041	3,324	3,591	3,934
Wholesale and retail trade 2/	1,174	1,413	1,498	1,619	1,764
Restaurants and hotels	1,471	1,628	1,826	1,972	2,170
Transportation, storage, and communications	5,205	5,871	6,882	7,666	8,552
Finance and insurance	83	114	159	186	189
Real estate	4,113	6,931	8,597	8,680	9,670
Other services 2/	3,058	4,399	4,513	4,628	4,800
(In percent of GDP at market prices)					
Crude oil production	5.3	4.8	4.3	4.0	4.0
Other production	21.7	24.4	24.1	23.2	24.3
Agriculture	0.6	0.7	0.5	0.6	0.6
Industry	9.6	9.2	8.6	8.6	8.7
Mining and quarrying	0.1	0.1	0.1	0.1	0.1
Manufacturing 1/	3.6	3.8	3.8	4.1	4.3
Electricity and water	4.4	3.9	3.3	3.0	2.9
Construction	1.4	1.5	1.4	1.4	1.4
Services	11.5	14.5	14.9	14.1	15.0
Trade	2.0	2.2	2.1	2.0	2.2
Wholesale and retail trade 2/	0.9	1.0	1.0	0.9	1.0
Restaurants and hotels	1.1	1.2	1.2	1.1	1.2
Transportation, storage, and communications	4.0	4.2	4.4	4.4	4.7
Finance and insurance	0.1	0.1	0.1	0.1	0.1
Real estate	3.1	4.9	5.5	4.9	5.3
Other services 3/	2.3	3.1	2.9	2.6	2.7

Source: Ministry of Planning.

1/ Includes investment in natural gas and petroleum processing.

2/ Includes repair services.

3/ Includes government services.

Table 17. U.A.E.: Domestic Refined Petroleum Product Prices in 1998

	Domestic Price		Domestic prices		International
	US\$/liter	US\$ / liter	US\$/bbl	US\$/MT	Prices 1/ US\$/MT
Gasoline (unleaded premium) 2/	0.24	0.24	37.63	320	150
Kerosene 2/	0.24	0.24	37.63	312	132
Gas oil 3/	0.19	0.19	30.21	227	127

Sources: Abu Dhabi National Oil Company, and Petroleum Market Intelligence (for international prices).

1/ Average ex-refinery prices, Mediterranean/Italy, April 1998.

2/ Unchanged in 1994-98.

3/ Increased by 11.8 percent in 1996.

Table 18. UAE: Agricultural Production, 1992-97

	1992	1993	1994	1995	1996	Prel. 1997
(In thousands of metric tons)						
Plant products						
Dates and fruits	269	275	277	267	296	300
Vegetables	487	537	961	1,116	1,309	1,411
Other crops	456	480	484	432	477	486
Animal products						
Meat	15	16	17	18	19	20
Poultry	16	17	22	23	29	30
Eggs (millions)	218	231	223	242	239	256
Milk and dairy products	80	86	93	103	112	117
Fish products	95	100	100	105	107	109
(Change in percent)						
Plant products						
Dates and fruits	24.0	2.4	0.6	-3.6	10.9	1.4
Vegetables	42.4	10.3	79.0	16.1	17.3	7.8
Other crops	11.5	5.2	0.9	-10.7	10.4	1.9
Animal products						
Meat	7.1	3.3	7.1	8.4	5.6	5.3
Poultry	6.7	3.8	32.5	4.5	26.1	3.4
Eggs (millions)	3.8	5.8	-3.2	8.4	-1.2	7.1
Milk and dairy products	8.1	7.5	8.6	10.3	8.7	4.5
Fish products	3.3	4.8	0.4	5.0	1.9	1.9

Sources: Ministry of Planning; and Ministry of Agriculture and Fisheries.

Table 19. U.A.E.: Annual Consumer Price Index Numbers by Major Groups, 1993-97 1/

	1993	1994	1995	1996	<u>Prel.</u> 1997
	(1990=100)				
Consumer price index	118.0	123.9	129.3	133.5	137.9
Foodstuff, beverages, and tobacco	112.2	116.3	122.2	126.3	134.8
Ready-made clothes, clothes, and footwear	121.8	125.9	128.4	134.8	143.5
House rent and related housing items	117.4	130.5	135.8	137.1	132.0
Furniture and furnishing items	116.5	120.0	125.8	130.1	134.3
Medical care and health services	114.0	117.4	122.0	127.4	147.9
Transportation and communication	114.9	116.4	120.2	126.7	143.9
Recreational, educational, and cultural services	123.9	127.3	133.7	138.7	147.4
Other goods and services	113.2	115.2	123.8	136.6	137.0
Consumer price index	4.4	5.0	4.4	3.2	3.3
Foodstuff, beverages, and tobacco	3.0	3.7	5.1	3.4	6.7
Ready-made clothes, clothes, and footwear	3.8	3.4	2.0	5.0	6.5
House rent and related housing items	7.4	11.2	4.1	1.0	-3.7
Furniture and furnishing items	-1.4	3.0	4.8	3.4	3.2
Medical care and health services	5.8	3.0	3.9	4.4	16.1
Transportation and communication	8.9	1.3	3.3	5.4	13.6
Recreational, educational, and cultural services	1.5	2.7	5.0	3.7	6.3
Other goods and services	1.9	1.8	7.4	10.3	0.3

Source: Ministry of Planning.

1/ Commodity weights are based on a household expenditure survey of Abu Dhabi (1996).

Table 20. U.A.E.: Population by Emirate, 1980-97

(In thousands)

Emirate	1980	1985	1990	1993	1994	1995	1996	<u>Prel.</u> 1997
Abu Dhabi	451	538	772	871	879	942	952	1,000
Dubai	279	336	484	548	605	689	695	737
Sharjah	160	216	303	342	392	403	412	435
Ajman	36	51	74	83	96	121	123	133
Umm al Qaiwan	12	21	26	30	40	36	36	39
Ras al Khaimah	74	94	125	141	142	144	147	153
Fujaira	32	44	60	68	76	76	78	83
Total	1,044	1,300	1,844	2,083	2,230	2,411	2,443	2,580

Source: Ministry of Planning.

Table 21. U.A.E.: Average Annual Compensation by Economic Sector,
1993-97 1/ 2/

(In thousands of U.A.E. dirhams)

	1993	1994	1995	1996	1997
Crude oil	80.6	80.5	76.0	89.1	88.3
Agriculture	12.6	12.7	13.8	14.0	14.0
Mining and quarrying	28.2	28.3	28.4	27.4	26.4
Manufacturing 3/	24.7	24.2	24.1	24.3	24.6
Electricity, gas, and water 4/	42.2	45.0	47.0	48.6	48.3
Construction	36.3	36.9	37.7	37.9	38.0
Wholesale and retail trade 5/	22.3	25.7	25.2	27.1	26.5
Restaurants and hotels	22.4	20.7	20.6	21.2	22.0
Transport, storage, and communications	33.7	35.1	36.2	36.5	37.2
Finance and insurance	84.3	95.7	98.0	94.7	96.8
Real estate	26.5	27.1	25.4	27.4	27.7
Government services	104.1	104.0	103.8	107.6	107.8
Social and personal services	29.9	28.5	27.8	28.4	29.0
Domestic services of households	9.9	9.7	10.0	10.3	10.4
Weighted average	38.4	37.3	36.9	38.0	37.9

Source: Ministry of Planning.

1/ Calculated on the basis of wages and allowances and the number of workers in each sector.

2/ Excludes defense personnel and visitors to the U.A.E.

3/ Includes natural gas and petroleum processing industries.

4/ Includes gas reticulation.

5/ Includes repair services.

Table 22. U. A. E.: Labor Market Indicators, 1995

	Abu Dhabi	Dubai	Sharjah	Ajman	Umm-al-Qaiwan	Ras-al-Khaimah	Al-Fujairah	U.A.E.
Population (thousands)								
Male	650.7	478.2	254.3	72.8	20.9	84.0	45.8	1,606.8
Female	291.7	211.2	148.5	48.7	14.4	59.3	30.4	804.2
Total	942.5	689.4	403.0	121.5	35.4	143.3	76.2	2,411.0
Labor force participation rate (in percent)								
Male	74.4	79.8	69.5	65.6	62.3	59.9	57.9	73.4
Female	16.7	23.5	20.0	22.2	20.0	16.7	15.6	19.4
Total	56.5	62.6	51.2	48.3	45.1	42.0	40.2	55.4
Labor force 1/								
Male	484.1	381.7	176.6	47.8	13.1	50.3	26.5	1,180.1
Female	48.9	49.6	29.7	10.8	2.9	9.9	4.1	155.8
Total	532.9	431.3	206.3	58.6	15.9	60.2	30.6	1,335.9
Female share in labor force (in percent)								
1995	9.2	11.5	14.4	18.5	18.1	16.5	13.5	11.7
1985	8.5	9.4	11.3	9.9	12.3	12.8	10.8	9.6
Unemployment (in percent of labor force)								
Male	1.3	1.4	2.3	3.1	6.4	3.5	2.6	1.7
Female	2.4	2.0	2.8	1.7	3.4	3.3	1.8	2.4
Total	1.4	1.5	2.4	2.8	5.8	3.5	2.5	1.8

Source: Ministry of Planning, final results 1995 census.

1/Economically active population aged 15 years and older.

Table 23. U.A.E.: Federal Government Financial Operations, 1993-98

	1993	1994	1995	1996	Prel. 1997	Budget 1998
(In millions of U.A.E. dirhams)						
Total revenue	15,546	16,448	16,894	18,072	19,628	19,895
Emirate contributions	12,572	12,732	12,708	12,555	13,520	13,949
Abu Dhabi	11,372	11,532	11,508	11,355	12,320	12,749
Foreign loans and grants	38	233	235	0	220	260
Cash Payments	5,004	5,000	4,965	5,074	5,600	5,600
Services	6,330	6,298	6,308	6,281	6,500	6,889
Dubai	1,200	1,200	1,200	1,200	1,200	1,200
Other receipts	2,974	3,716	4,186	5,517	6,108	5,946
Enterprise profits	1,202	1,422	1,311	1,989	2,302	2,319
Electricity and water	182	230	309	322	323	324
Other fees and charges	1,590	2,064	2,566	3,206	3,483	3,303
Total expenditure	15,571	15,975	16,188	16,953	18,187	21,393
Current	14,973	15,236	15,645	16,456	17,591	19,410
Interior and defense	7,781	7,891	7,983	8,110	8,466	8,741
Education and health	3,522	3,725	3,886	4,237	4,535	4,804
Other ministries	2,330	2,192	2,146	2,055	2,217	3,116
Subsidies and transfers	1,302	1,140	1,355	2,016	2,153	2,449
Foreign grants	38	288	274	38	220	300
Development	595	738	543	497	529	1,343
Loans and equity	3	1	0	0	67	640
Domestic	0	0	0	0	48	
Foreign	3	1	0	0	19	
Overall surplus(+)/deficit(-)	-25	473	706	1,119	1,441	-1,498
(In percent of GDP)						
Memorandum items:						
Total revenue	11.8	11.7	10.8	10.3	10.8	11.0
Total expenditure	11.9	11.4	10.3	9.6	10.0	11.8
Overall surplus(+)/deficit(-)	0.0	0.3	0.4	0.6	0.8	-0.8

Source: Ministry of Finance.

Table 24. U.A.E.: Major Federal Government Budgetary Subsidies and Transfers, 1993-98

	1993	1994	1995	1996	<u>Prel.</u> 1997	<u>Budget</u> 1998
(In millions of U.A.E. dirhams)						
U.A.E. University	508	439	490	594	607	700
Higher College of Technology	122	94	115	263	299	360
Pensions	327	384	431	497	675	720
Marriage Fund	0	150	160	250	210	250
U.A.E. TV	0	0	0	169	169	208
Other	173	73	81	96	91	208
Accumulated settlements	174	0	78	147	102	3
Total	1,302	1,140	1,355	2,016	2,153	2,449

Source: Ministry of Finance.

Table 25. U.A.E.: Federal Government Development Expenditures, 1993-98

	1993	1994	1995	1996	<u>Prel.</u> 1997	<u>Budget</u> 1998
(In millions of U.A.E. dirhams)						
Agriculture	18	10	11	8	13	35
Electricity and water	139	269	65	61	30	395
Transport and communications	1	10	23	10	23	65
Public works and housing	242	268	184	104	74	220
Education	118	146	175	219	196	205
Health	2	1	1	3	40	89
Interior and justice	13	19	54	82	34	63
Other	62	15	30	9	12	156
Foreign affairs					107	115
Total	595	738	543	497	529	1,343

Source: Ministry of Finance.

Table 26. U.A.E.: Abu Dhabi Government Financial Operations, 1993-97

	1993	1994	1995	1996	<u>Prel.</u> 1997
(In millions of U.A.E. dirhams)					
Total revenue	27,871	25,538	29,409	36,332	39,732
Hydrocarbon	24,519	22,651	25,532	30,714	34,347
Nonhydrocarbon	3,352	2,887	3,877	5,618	5,385
Customs	72	128	257	285	293
Water and electricity	508	686	1,016	1,107	1,214
Income tax	1,688	1,121	1,895	3,212	2,799
Other	1,084	952	709	1,014	1,079
Investment income	4,900	7,435	9,857	10,720	10,260
Total expenditure	42,442	45,833	49,083	62,353	49,980
Current	11,844	11,345	13,507	27,928	15,537
Wages and salaries	2,478	2,641	2,816	3,181	3,283
Goods and services	5,424	5,357	6,347	7,053	6,782
Compensations and transfers	2,635	2,682	3,644	16,926	4,314
Interest payments	29	0	0	17	0
Foreign grants	1,278	665	700	751	1,158
Development	7,801	8,813	8,109	7,451	7,609
Loans and equity	1,654	3,996	5,663	4,035	4,473
Domestic	1,725	4,067	5,713	4,141	4,704
Foreign	-71	-71	-50	-106	-231
Contributions to Federal budget	21,143	21,679	21,804	22,939	22,361
Current transfers	11,447	11,571	11,566	11,439	12,200
Cash payments	5,004	5,000	4,965	5,074	5,600
Services	6,330	6,298	6,308	6,365	6,600
Foreign loans and grants	113	273	293	0	0
Payments services 1/	9,696	10,108	10,238	11,500	10,161
Overall surplus(+)/deficit(-)	-14,571	-20,295	-19,674	-26,021	-10,248
Memorandum items:					
Excluding contributions to Federal budget					
Total expenditure	21,299	24,154	27,279	39,414	27,619
Budget surplus	6,572	1,384	2,130	-3,082	12,113

Source: Department of Finance of Abu Dhabi.

1/ Payments made by Abu Dhabi on behalf of the Federal Government, including payments for military and security services, health and education, and other government agencies, for which a breakdown is not available.

Table 27. U.A.E.: Abu Dhabi Government Development Expenditures,
1993-97

	1993	1994	1995	1996	<u>Prel.</u> 1997
	(In millions of U.A.E. dirhams)				
Agriculture	514	483	370	358	445
Electricity and water	4,131	3,714	3,286	2,052	1,511
Industry	11	53	32	28	47
Transport and communications	474	571	492	867	957
Housing	371	615	786	704	829
Urban development	1,551	2,525	1,944	2,143	2,509
Sewerage	319	425	730	782	756
Sports and recreation	407	405	436	457	457
General administration	6	8	11	19	21
Commerce	17	14	27	40	77
Total	7,801	8,813	8,114	7,450	7,609

Source: Department of Finance of Abu Dhabi.

Table 28. U.A.E.: Dubai Government Financial Operations, 1993-98

	1993	1994	1995	1996	<u>Prel.</u> 1997	<u>Budget</u> 1998
(In millions of U.A.E. dirhams)						
Total revenue	7,710	6,742	7,436	7,922	9,285	7,950
Oil and gas	6,806	5,472	5,556	5,369	5,663	3,000
Non-oil	904	1,270	1,880	2,553	3,622	4,950
Customs	251	478	965	1,006	1,238	1,245
Other	342	431	479	1,047	1,634	2,505
Municipality	311	361	436	500	750	1,200
Total expenditure	8,784	7,815	9,533	8,434	10,089	8,602
Current	5,171	5,106	5,849	5,839	7,040	4,895
Police and defense	2,828	2,855	2,938	2,884	2,980	0
Health	639	704	736	756	1,050	1,180
Radio and TV	165	190	227	245	286	310
Aviation	97	102	121	128	269	302
Municipal	428	387	448	508	690	703
Other	1,014	868	1,381	1,318	1,765	2,400
Development	2,413	1,510	2,483	1,395	1,849	2,507
Municipal, <i>of which</i> :	949	788	1,264	1,044	1,100	1,600
Roads and pavement	578	459	433	650	...	...
Sewerage	85	125	118	226	...	...
Electricity and water	1,346	518	862	0	199	207
Other	118	204	358	351	550	700
Contribution to Federal government	1,200	1,200	1,200	1,200	1,200	1,200
Overall deficit/surplus	-1,074	-1,073	-2,097	-512	-804	-652

Source: Department of Finance of Dubai.

Table 29. U.A.E.: Sharjah Government Financial Operations, 1993-98

	1993	1994	1995	1996	<u>Prel.</u> 1997	<u>Budget</u> 1998
(In millions of U.A.E. dirhams)						
Total revenue	1,464	1,468	1,292	1,456	1,674	1,583
Hydrocarbons	719	571	945	924	1,128	980
Nonhydrocarbons	745	897	347	532	546	603
Departmental receipts, <i>of which:</i>	403	487	201	279	296	303
Land sales and profit transfers	342	410	146	253	250	300
Port authority	...	...	57	62	65	67
Customs	...	...	113	136	145	149
Fees and charges	...	...	9	11	12	12
Other	...	...	22	70	74	75
Total expenditure	918	1,094	1,230	1,294	1,345	1,258
Current	364	409	380	444	489	508
Wages and salaries	...	...	187	216	249	260
Goods and services	...	...	158	187	197	201
Subsidies and transfers	...	...	15	16	16	17
Other	...	...	20	25	27	30
Development	554	685	850	850	856	750
Overall surplus	546	374	62	162	329	325

Source: Department of Finance of Sharjah.

Table 30. U.A.E.: Ras Al Khaimah Government Financial Operations,
1993-96

	1993	1994	1995	1996
Total revenues	230	217
Regular revenues	32	28
Real estate revenues	4	5
Fees and charges	8	3
Transfers	20	20
Nonregular revenues	195	190
Others	3	0
Total expenditures	170	254
Current expenditures	139	186
Wages and salaries	35	39
Interest payments	3	3
Rental payments	0	1
Subsidies and transfers	35	35
Others	65	108
Development expenditures	31	68
Real estate	25	24
Transportation	3	3
Goods and services	3	7
Others	0	34
Budget balance (- deficit)	60	-37
Financing	-60	37
Bank	-45	36
Nonbank	-15	1

Source: The Central Bank of U.A.E.

Table 31. U.A.E. : Monetary Survey, 1993-98 1/

(In millions of U.A.E. dirhams)

End of Period Stock	1993	1994	1995	1996	1997	June 1997	June 1998
Net foreign assets	62,551	57,474	63,887	63,430	62,365	60,087	61,331
Foreign assets	89,596	91,015	92,375	100,825	108,151	105,909	105,914
Central bank	23,090	25,512	28,089	30,263	31,431	33,414	31,808
Commercial banks	66,070	65,114	63,794	70,068	76,152	72,173	73,497
Restricted license banks	436	389	492	494	568	322	609
Foreign liabilities	-27,045	-33,541	-28,488	-37,395	-45,786	-45,822	-44,583
Central bank	-313	-380	-175	-75	-52	-70	-11
Commercial banks	-26,511	-33,031	-28,096	-36,906	-45,362	-45,510	-44,255
Restricted license banks	-221	-130	-217	-414	-372	-242	-317
Net domestic assets	5,916	16,406	17,514	23,553	32,488	29,808	37,601
Claims on government (net)	-9,457	-7,262	-10,304	-8,156	-7,559	-4,990	-5,917
Claims	11,506	11,764	11,787	9,314	8,099	10,054	10,030
Deposits and lending	-20,963	-19,026	-22,091	-17,470	-15,658	-15,044	-15,947
Claims on official entities	2,823	5,869	5,858	5,069	5,511	5,215	5,197
Claims on private sector	57,731	63,914	71,843	79,067	90,051	84,777	93,865
Claims on nonbank financial instit.	3,014	2,656	2,526	2,330	2,689	2,928	3,360
Capital and reserves	-19,061	-21,108	-23,162	-24,819	-26,981	-25,803	-28,042
Other items (net)	-29,134	-27,663	-29,247	-29,938	-31,223	-32,319	-30,862
Central bank	-8,913	-10,534	-12,218	-13,455	-12,911	-16,849	-13,886
Deposit money banks	-20,052	-16,919	-16,768	-16,372	-18,107	-15,352	-16,706
Specialized banks	-169	-210	-261	-111	-205	-118	-270
Domestic liquidity	68,467	73,880	81,401	86,983	94,854	89,895	98,932
Money	18,174	19,182	20,824	22,266	25,368	24,403	28,643
Currency outside banks	5,667	6,030	6,404	6,767	7,366	6,938	7,889
Dirham demand deposits	12,507	13,152	14,420	15,499	18,002	17,465	20,754
Quasi-money	50,293	54,698	60,577	64,717	69,486	65,492	70,289
Foreign currency deposits	14,924	15,936	15,741	17,311	18,570	16,832	18,192
Dirham time and savings deposits	35,369	38,762	44,836	47,406	50,916	48,660	52,097
Memorandum items:							
Dirham-denominated liquidity	53,543	57,944	65,660	69,672	76,284	73,063	80,740
Change in percent	5.8	8.2	13.3	6.1	9.5	-7.0	1.9
Foreign currency deposits—residents	14,924	15,936	15,741	17,311	18,570	16,832	18,192
Change in percent	-21.1	6.8	-1.2	10.0	8.1	-7.6	0.6
Ratio of foreign currency deposits to dirham deposits (in percent)	27.9	27.5	24.0	24.8	24.3	23.0	22.5

Source: Central Bank of the United Arab Emirates.

1/ As of January 1996, data exclude assets and liabilities of UAE branches of BCCI (S.A.) Luxembourg.

Table 32. U.A.E.: Summary Accounts of the Central Bank, 1993-98

(In millions of U.A.E. dirhams)

End of Period Stock	1993	1994	1995	1996	1997	June 1997	June 1998
Foreign assets	23,090	25,512	28,089	30,263	31,431	33,414	31,808
Balances abroad in FC	5,932	6,723	18,523	22,401	28,314	27,610	25,963
Investments abroad in FC	15,366	16,609	7,566	5,769	1,148	3,959	3,727
Other 1/	964	1,386	1,000	1,013	963	858	989
IMF reserve position	828	794	1,000	1,080	1,006	987	1,129
Net claims on government	-828	-794	-1,000	-1,080	-1,006	-567	-601
Claims	0	0	0	0	0	420	528
Less: IMF reserve position 2/	-828	-794	-1,000	-1,080	-1,006	-987	-1,129
Claims on official entities	0	0	0	0	0	0	0
Claims on private sector 3/	21	18	30	27	22	16	17
Claims on commercial banks 4/	50	50	50	50	50	50	50
Unclassified assets	75	77	74	63	68	584	349
Total assets	22,408	24,863	27,243	29,323	30,565	33,497	31,623
Total liabilities	22,408	24,863	27,243	29,323	30,565	33,497	31,623
Vertical check	0	0	0	0	0	0	0
Reserve money	11,040	11,665	12,743	13,986	15,006	14,341	16,053
Currency outside banks	5,667	6,030	6,404	6,767	7,366	6,938	7,889
Cash held by banks	837	981	984	1,060	1,282	1,211	1,242
Banks' deposits 5/	4,536	4,654	5,355	6,159	6,358	6,192	6,922
Certificates of deposit	2,084	4,834	5,924	6,206	5,288	9,397	5,385
Government deposits 6/	5,890	6,292	6,822	7,413	8,618	7,506	7,938
Foreign liabilities	313	380	175	75	52	70	11
Capital and reserves	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Unclassified liabilities 7/	1,581	192	79	143	101	683	736

Source: Central Bank of the United Arab Emirates.

1/ Mainly gold, which is valued at cost price.

2/ Excludes lending to the Fund by Abu Dhabi for the supplementary facility.

3/ Loans to staff.

4/ Includes overdraft lending to banks, which the authorities classified in the unclassified assets from December 1990 onward. Overdrafts amounted to Dh 506 million in that month and Dh 860 in December 1991 and Dh 79 in December 1992. There were no outstanding overdrafts in December 1993 and December 1994.

5/ Includes restricted license banks.

6/ Mainly in foreign currency.

7/ The timing of central bank profit distribution has varied over the period.

Table 33. U.A.E.: Summary Accounts of the Commercial Banks, 1993-98

(In millions of U.A.E. dirhams)

End of Period Stock	1993	1994	1995	1996	1997	June 1997	June 1998
Reserves	5,368	5,631	6,334	7,210	7,635	7,399	8,162
Cash	837	981	984	1,060	1,282	1,211	1,242
Deposits with central bank	4,531	4,650	5,350	6,150	6,353	6,188	6,920
Foreign assets	66,070	65,114	63,794	70,068	76,152	72,173	73,497
Notes and coins	30	34	46	41	41	33	37
Due from head offices and branches	2,137	1,848	2,187	961	1,828	1,085	2,067
Money at call and short notice	1,580	4,231	3,186	4,642	5,163	2,664	3,571
Demand and time deposits abroad	43,884	38,936	38,176	42,511	45,813	45,669	43,874
Investments abroad	6,398	8,437	8,061	9,562	10,413	10,367	11,666
Loans and advances 1/	10,720	10,058	10,495	11,024	11,504	10,539	10,323
Other	1,321	1,570	1,643	1,327	1,390	1,816	1,959
Claims on government	12,334	12,558	12,787	10,394	9,105	10,621	10,631
Claims on official entities 2/	2,791	5,869	5,840	5,064	5,511	5,203	5,197
Claims on private sector	57,691	63,836	71,759	78,927	89,925	84,649	93,783
Claims on nonbank fin. inst.	3,014	2,656	2,526	2,330	2,689	2,928	3,360
Certificates of deposit	2,084	4,834	5,924	6,206	5,288	9,397	5,385
Unclassified assets 3/	2,715	3,422	4,166	4,680	5,657	5,317	7,062
Assets = liabilities	152,067	163,920	173,130	184,879	201,962	197,687	207,077
Monetary deposits 4/	12,507	13,152	14,420	15,499	18,002	17,465	20,754
Quasi monetary deposits	50,241	54,634	60,537	64,676	69,437	65,452	70,248
Foreign currency deposits	14,872	15,872	15,701	17,270	18,521	16,792	18,151
Local currency deposits	35,369	38,762	44,836	47,406	50,916	48,660	52,097
Foreign liabilities	26,511	33,031	28,096	36,906	45,362	45,510	44,255
Due to head offices and branches	16,508	20,382	14,211	21,151	31,301	28,650	30,506
Borrowing from banks abroad	707	1,215	781	858	619	1,767	1,015
Deposits of banks abroad	5,266	7,053	8,221	9,736	7,489	9,746	6,857
Nonresidents' demand deposits	279	255	234	278	383	3,794	381
Nonresidents' savings deposits	89	135	190	259	297		367
Nonresidents' time deposits	1,697	2,252	2,578	3,061	3,724		3,653
Other 5/	1,965	1,739	1,881	1,563	1,549	1,553	1,476
Government deposits	14,830	12,550	15,156	9,962	6,948	7,446	7,932
Government lending funds	243	184	113	95	92	92	77
Credit from central bank		0	0	55	50	561	321
Capital and reserves	17,516	19,563	21,616	23,273	25,435	24,257	26,496
Unclassified liabilities	30,219	30,806	33,192	34,413	36,637	36,904	36,994
Memorandum items:							
Total							
Loans	75,830	84,919	92,912	96,715	107,230	103,401	112,971
Deposits	77,578	80,336	90,113	90,137	94,387	90,363	98,934
Loan/deposit ratio	98	106	103	107	114	114	114
Less government							
Loans	63,496	72,361	80,125	86,321	98,125	92,780	102,340
Deposits	62,748	67,786	74,957	80,175	87,439	82,917	91,002
Loan/deposit ratio	101	107	107	108	112	112	112

Source: Central Bank of the United Arab Emirates.

1/ Includes bills purchased and discounted.

2/ Official entities are companies with significant participation by the governments, including Dubai Aluminum Company, Dubai Gas Company, the Abu Dhabi National Oil Company, other oil and gas companies owned by Abu Dhabi, and cement companies established by several emirate governments.

3/ Includes commercial banks' net lending to restricted license banks.

4/ Mainly consists residents' local currency demand deposits.

5/ Includes commercial prepayments.

Table 34. U.A.E.: Consolidated Balance Sheet of Restricted Licence Bank, 1993-98 1/

(In millions of U.A.E. dirhams)

End of Period Stock	1993	1994	1995	1996	1997	June 1997	June 1998
Reserves	5	5	5	5	4	4	4
Cash	0	0	0	0	0	0	0
Deposits with central bank	5	5	5	5	4	4	4
Foreign assets	436	389	492	494	568	322	609
Claims on government	0	0	0	0	0	0	0
Claims on official entities	32	0	18	5	0	12	0
Claims on private sector	19	60	54	113	104	112	65
Claims on banks 2/	65	28	68	113	102	30	73
Other assets	1	2	2	1	2	5	2
Total assets	558	484	639	731	780	485	753
Total liabilities	558	484	639	731	780	485	753
Vertical check	0	0	0	0	0	0	0
Quasi monetary deposits 3/	52	64	40	41	49	40	41
Foreign liabilities	221	130	217	414	372	242	317
Government deposits	0	0	0	0	0	0	0
Liabilities to banks	227	236	326	221	302	149	341
Capital and reserves	45	45	46	46	46	46	46
Other liabilities	13	9	10	9	11	8	8

Source: Central Bank of the United Arab Emirates.

1/ Banca Commercial Italiana.

2/ Including international banks.

3/ Foreign currency deposits.

Table 35. United Arab Emirates: Balance of Payments, 1993-97

(In billions of U.A.E. Dirhams)

	1993	1994	1995	1996	<u>Prel.</u> 1997
Current account	15.9	10.4	15.9	24.3	24.6
(In percent of GDP)	12.1	7.4	10.1	13.8	13.6
Trade balance	21.1	16.5	22.6	29.5	30.3
Exports (f.o.b.)	98.3	101.9	114.0	130.7	139.5
Crude oil and petroleum products	49.6	48.5	52.5	60.9	59.1
Crude oil	45.0	43.8	46.9	54.3	52.4
Petroleum products	4.6	4.7	5.7	6.6	6.7
Other 1/	0.5	0.5	0.5	0.5	0.5
Gas 2/	3.5	3.6	5.4	7.1	9.9
Non-oil exports	16.2	18.5	24.7	28.7	36.5
Exports (by Emirates)	4.6	4.4	5.9	5.9	6.8
Abu Dhabi	0.2	0.3	0.3	0.7	0.6
Dubai	3.5	3.3	4.7	4.2	5.4
Other Emirates	0.9	0.9	0.9	1.0	0.8
Free zone exports	4.8	5.9	8.7	11.6	13.3
Nonmonetary gold exports	6.8	8.2	10.1	11.2	16.4
Reexports	28.5	30.8	30.9	33.5	33.5
Imports (f.o.b)	-77.3	-85.4	-91.4	-101.2	-109.1
Imports (by Emirates)	-63.3	-68.4	-68.6	-74.4	-74.3
Abu Dhabi	-13.5	-16.8	-15.2	-14.5	-14.4
Dubai	-44.0	-45.4	-47.5	-53.8	-53.6
Other Emirates	-5.9	-6.2	-5.8	-6.1	-6.4
Free zone imports	-4.2	-5.3	-8.4	-10.8	-11.4
Nonmonetary gold imports	-9.7	-11.7	-14.4	-16.0	-23.4
Imports net of re-exports	-34.8	-37.6	-37.7	-40.9	-40.9
Services (net)	7.3	6.2	6.2	8.8	8.1
Investment income	14.2	13.7	17.5	17.8	16.6
Banking system and private	4.4	6.5	7.8	7.4	8.0
Others (ADIA)	9.8	7.2	9.6	10.4	8.6
Other 3/	-6.9	-7.5	-11.3	-9.0	-8.5

Table 35. United Arab Emirates: Balance of Payments, 1993-97

(In billions of U.A.E. Dirhams)

	1993	1994	1995	1996	<u>Prel.</u> 1997
Transfers (net)	-12.4	-12.3	-12.8	-13.9	-13.9
Private	-11.1	-11.4	-11.9	-13.1	-12.5
Public	-1.3	-0.9	-1.0	-0.8	-1.4
Capital account	7.6	7.5	10.8	-0.3	-1.3
Short-term private capital 4/	1.8	0.9	1.3	-6.3	-6.1
Official capital 5/	5.8	6.6	9.5	6.0	4.8
Errors and omissions	-20.3	-15.4	-24.1	-21.8	-22.2
Overall balance	3.2	2.4	2.6	2.2	1.1
(In percent of GDP)	2.4	1.7	1.7	1.3	0.6
Financing	-3.2	-2.4	-2.6	-2.2	-1.1
Net foreign assets of Central Bank (increase -)	-3.2	-2.4	-2.6	-2.2	-1.1
Memorandum item:					
Imports net of re-exports (in percent of GDP)	-26.5	-26.8	-24.0	-23.3	-22.6
Gross official reserves of the central bank (in months of imports, f.o.b)	3.3	3.4	3.6	3.6	3.6
Current account (in percent of GDP)	12.1	7.4	10.1	13.8	13.6
Overall balance (in percent of GDP)	2.4	1.7	1.7	1.3	0.6

Sources: ADNOC, U.A.E. Customs Departments, the U.A.E. Central Bank, and Fund staff estimates.

1/ This includes fertilizers and lubricants exports.

2/ 1997 datum includes a one time payment to ADGAS of US\$400 million by TEPCO for the retroactive adjustment of LNG prices.

3/ This includes transports, travel and government services.

4/ Change in the gross foreign assets of commercial banks.

5/ Represents mainly the counterpart of liquidation of official foreign assets to finance the budget deficits. 1996 datum includes payments by the Abu Dhabi government of about US\$2 billion toward the settlement of obligations arising from the liquidation of the former BCCI.

Table 36. U.A.E.: Merchandise Imports by Harmonized system Sections, 1993-97 1/

(In millions of U.A.E. dirhams)

	1993	1994	1995	1996	1997 3/
Live animals, animal products	1,085	1,160	2,240	2,457	1,779
Vegetable products	2,509	2,397	4,249	4,610	3,229
Fats, oil and waxes.	164	200	437	457	337
Foodstuffs, beverages, spirits, and tobacco	1,380	1,641	2,175	2,372	1,843
Mineral products	950	1,041	1,240	1,261	1,010
Chemicals and related materials	2,671	2,957	4,390	4,893	3,971
Plastics and rubber	1,756	1,980	3,220	3,709	2,582
Raw hides, leather, and articles thereof	373	387	486	564	446
Wood, cork, and articles thereof	829	877	1,068	972	674
Wood pulp, paper, and paperboard	564	675	1,323	1,257	918
Textiles and textile articles	9,255	9,247	10,423	11,781	8,302
Footwear and other accessories.	875	1,090	1,334	1,681	1,023
Stone, plaster, cement, ceramic, and glassware	1,033	1,058	1,798	1,948	1,373
Pearls, precious stones, and precious metals	3,607	2,516	2,507	2,178	2,093
Base metals and related products	3,623	3,797	7,635	7,598	5,419
Machinery and electrical equipment	11,278	12,589	20,523	20,760	14,398
Vehicles and other transport equipment	5,268	4,906	6,990	9,480	7,978
Optical and medical equipment	1,612	1,755	2,293	2,494	1,858
Arms and ammunition	7	8	37	7	9
Miscellaneous manufactured goods	1,676	1,946	2,580	3,040	2,371
Works of art and antiques	16	3	81	76	74
Unclassified imports from other emirates 2/	21,961	26,016	1,437	2,028	0
Total imports	72,493	78,246	78,466	85,625	61,687

Source: The U.A.E. Central Bank.

1/ Imports of the emirates of Abu Dhabi, Dubai, and Sharjah. Abu Dhabi and Sharjah converted to the harmonized system in 1994. Figures for 1993 and 1994 therefore cover only the imports of Dubai.

2/ Includes unclassified imports of Fujairah and Ras Al-Khaimah; for 1993 and 1994 it also includes Abu Dhabi and Sharjah.

3/ Data reported are up to September 1997.

Table 37. U.A.E.: Direction of Trade: Imports, 1993-97

(In percent of total)

	1993	1994	1995	1996	1997 1/
Total imports, f.o.b.	100.0	100.0	100.0	100.0	100.0
Industrial countries, <i>of which:</i>	58.8	58.3	53.1	53.5	50.2
Japan	14.5	11.6	8.7	8.7	10.2
United States	9.2	8.7	8.2	9.5	9.4
United Kingdom	8.3	7.2	7.7	8.2	8.7
Italy	5.6	9.5	6.8	6.0	5.2
Germany	7.2	8.2	6.7	5.4	6.9
France	4.2	3.6	5.3	4.0	3.9
Netherlands	1.8	1.8	1.9	1.5	1.7
Australia	1.4	1.3	1.3	1.6	2.0
Switzerland	1.4	1.3	1.5	1.6	1.6
Developing countries	36.7	40.3	45.6	45.4	48.8
Arab countries, <i>of which:</i>	6.7	6.4	5.2	5.0	6.2
Saudi Arabia	2.5	2.7	2.2	2.1	3.5
Other developing countries, <i>of which:</i>	30.1	33.9	40.4	41.4	42.6
India	5.6	5.4	5.4	5.5	5.8
Korea, Republic of	5.1	6.0	5.5	5.6	5.1
Hong Kong	0.9	0.9	4.9	4.8	0.8
China	6.5	6.7	4.5	4.1	8.0
Pakistan	1.2	0.9	1.5	1.7	1.1
Iran, Islamic Republic of	1.3	1.3	1.1	1.0	1.4
Other unspecified	4.5	1.4	1.3	1.0	1.0

Source: International Monetary Fund, Direction of Trade Statistics.

1/ Data reported are based on information available for the first semester of 1997.

Table 38. U.A.E.: Direction of Trade: Exports, 1993-97

(In percent of total)

	1993	1994	1995	1996	1997 1/
Total exports, f.o.b.	100.0	100.0	100.0	100.0	100.0
Industrial countries, <i>of which</i> :	49.3	46.6	45.5	46.1	45.1
Japan	38.5	38.5	37.9	38.4	36.2
United States	3.3	2.0	1.8	1.8	2.1
United Kingdom	1.6	1.5	1.7	2.0	1.9
Australia	2.4	1.9	1.7	1.6	1.8
France	0.7	0.3	0.3	0.2	0.1
Germany	0.7	0.6	0.6	0.5	0.8
Italy	0.3	0.3	0.3	0.2	0.5
Netherlands	0.4	0.3	0.2	0.2	0.1
Developing countries	36.5	38.8	40.0	41.5	41.8
Arab countries, <i>of which</i> :	13.0	11.6	10.5	9.8	10.7
Oman	4.9	4.1	3.8	3.5	3.7
Saudi Arabia	1.2	1.3	1.4	1.3	1.1
Other developing countries, <i>of which</i> :	23.5	27.2	29.5	31.7	32.1
Korea, Republic of	5.3	4.6	5.8	7.1	6.1
Iran, Islamic Republic of	4.7	3.9	3.6	3.4	3.7
Singapore	3.9	3.7	5.4	6.9	6.4
India	2.8	5.5	5.9	6.0	6.6
Thailand	1.9	2.4	2.3	2.6	2.4
Kenya	1.1	1.1	1.1	1.1	1.6
Hong Kong	1.7	2.4	1.5	0.9	1.3
Pakistan	1.4	1.2	2.0	2.1	1.9
Philippines	1.1	1.0	0.8	0.7	0.9
Other unspecified	14.2	14.6	14.4	12.4	13.1

Source: International Monetary Fund, Direction of Trade Statistics.

1/ Data reported are based on information available for the first semester of 1997.

