August 2005
IMF Country Report No. 05/268

United Arab Emirates: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix paper for the **United Arab Emirates** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **June 17, 2005.** The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the United Arab Emirates or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund ● Publication Services
700 19th Street, N.W. ● Washington, D.C. 20431
Telephone: (202) 623 7430 ● Telefax: (202) 623 7201
E-mail: publications@imf.org ● Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

THE UNITED ARAB EMIRATES

Selected Issues and Statistical Appendix

Prepared by Mohamad Elhage, S. Nuri Erbas, Mitra Farahbaksh, Mangal Goswami, and Holger Floerkemeier (all MCD)

Approved by the Middle East and Central Asia Department

June 17, 2005

Contents Page

Text Boxes

Tables

Statistical Appendix Tables

I. Overview

1. The U.A.E.'s impressive economic growth over the last decade has been marked by the rapid development of the non-oil economy, making it one of the most diversified economies among its Gulf Cooperation Council (GCC) peers. That said, the economy still remains dependent on oil and the labor market remains segmented, with nationals continuing to have a strong preference to be employed in the public sector and jobs in the private sector continue to be filled by expatriates.

2. This Selected Issues paper highlights the achievements in the diversification of the economy and the developments and outlook of the hydrocarbon sector, while providing some insight into the labor market issues in the U.A.E. In addition, the recent developments in the equity markets across the GCC countries and some aspects of the U.A.E. securities markets are analyzed.

3. Chapter II provides a description of the development of the non-oil sector and the diversification drive of the U.A.E. economy. It shows that, prudent macro management, openness to trade, trade facilitation and a favorable business environment have enhanced non-oil diversification by stimulating trade and trade related services. However, to sustain the diversification drive, reforms to address the current shortcomings of the investment climate are going to be critical.

4. Chapter III is a survey of the hydrocarbon sector. It illustrates the development of the hydrocarbon industry; describes institutional arrangements; and discusses the significance of this sector both for the domestic economy and the global oil market. While the study covers all oil and gas producing Emirates, it pays special attention to the Emirate of Abu Dhabi, which accounts for more than 90 percent of the U.A.E.'s total hydrocarbon reserves and production.

5. Chapter IV covers the main issues in the labor market. Emerging labor market strains in the U.A.E. indicate that unemployment among nationals is likely to pose a problem in the medium to long term. Without employment creation in the private sector, the present living standards might come under pressure for future generations. In the face of the foregoing constraints, the authorities are pursuing a number of important policies to increase employment of nationals. While these steps are in the right direction, fundamental measures need to be taken to increase employability of nationals in the private sector.

6. Chapter V highlights the significant growth in GCC equity markets over the last few years. This chapter describes the key characteristics of the GCC equity markets, including the current regulatory frameworks and institutions governing these markets. It also explores empirically the reasons behind the recent significant developments in the GCC markets by studying the dynamic relations between stock prices and some of the main variables thought to affect the markets, including the price of oil and interest rates.

II. The United Arab Emirates: A Model for Economic Diversification in the Region[1]

A. Introduction

7. **An outward-oriented development strategy,** based on: (i) an open trade regime and unrestricted capital outflows; (ii) a deregulated and competitive business environment with low taxes; (iii) a well-developed physical and institutional infrastructure; and (iv) an open and unrestricted labor market, has resulted in an impressive economic growth and diversification of the U.A.E.'s economy. The non-oil sector has registered an average growth rate of 8 percent since 1995, compared to an average of about 5 percent for the other Gulf Cooperation Council (GCC) countries.

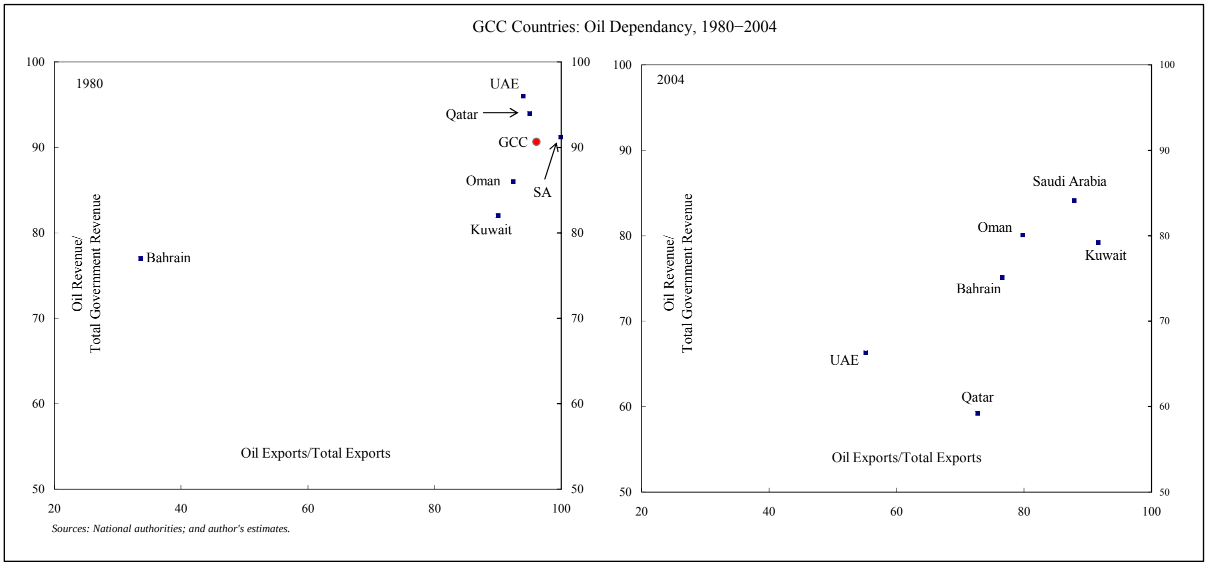
8. **This chapter attempts to provide some insight into the economic success achieved so far in diversifying the U.A.E. economy and the reasons behind it.** The first section discusses the transformation of the economy from primarily an oil based one to a relatively more diversified economy. It highlights the critical role of oil rich Abu Dhabi in effectively deploying part of its financial resources to develop the country's infrastructure base. The second section captures the core elements of the diversification strategy—an open trade regime combined with a relatively favorable business environment and investment climate have driven the growth dynamics of the non-oil sector. The role of Dubai has been key in the development of the non-oil exports. The last section draws some policy implications.

B. Transformation of the Economy: Reduction in Oil Dependency

9. **The U.A.E. has seen unprecedented transformation from a loose confederation of states, with a primarily rural and trading history, to an emerging regional economic hub.** The pace of reduction in oil dependency in the U.A.E. has been the fastest in the GCC countries. Based on the oil dependency ratio, measured by the ratio of the oil revenue as a share of total government revenue to oil exports as a share of total exports, the U.A.E. has gone from being one of the most dependent (about 90 percent) in 1980 to one of the least oil dependent by 2004 (about 50–60 percent). In contrast, the average decline in the oil dependency ratio of other GCC countries has been more modest.

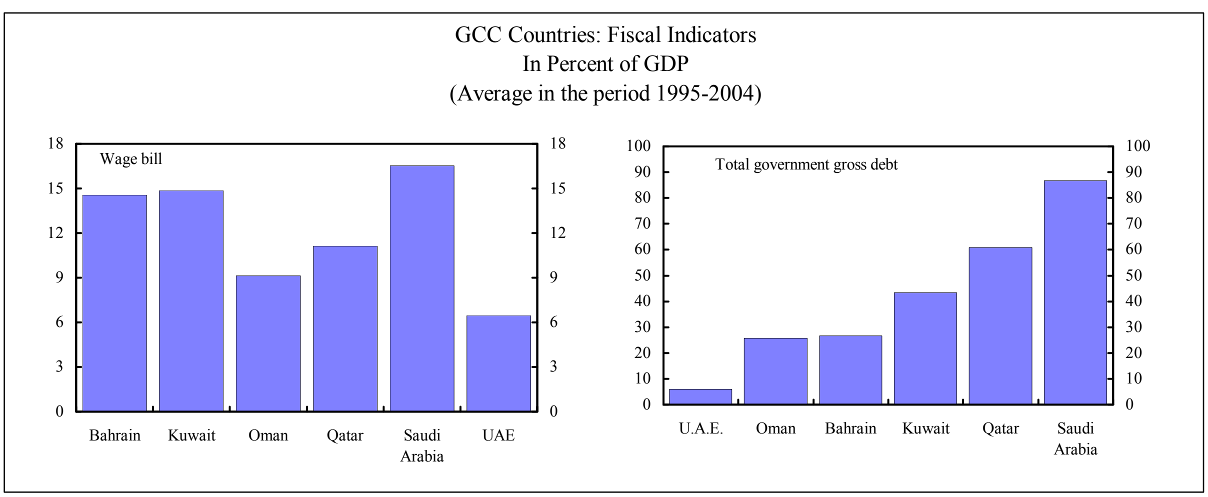
---

[1] Prepared by Mangal Goswami.



10. **The political structure of the Federation gives a great deal of independence to the individual Emirates in pursuing an economic strategy based on their respective comparative advantages.** Abu Dhabi has exploited its comparative advantage in large scale capital and energy intensive downstream industries such as petrochemicals and fertilizers. Dubai—with its depleting oil resources—has pursued an outward oriented strategy to develop as a commercial hub with entrepôt trade, finance and tourism. Sharjah has traditionally developed small scale light manufacturing and tourism. While cement production is one of the oldest industries in Ras al-Khaimah, other industries such as pharmaceuticals have also emerged. The Northern Emirates developed in the areas of shipping, agriculture, mining, and quarrying. The Emirate of Fujairah is a popular tourist destination due to its temperate climate.

11. **In general, the U.A.E. has pursued prudent fiscal policy over the years, as observed through its non-oil fiscal balance, gross debt, and wage bill.** Subsidies have also been relatively low compared to most other GCC countries. Also, most government controlled entities, like petrochemical plants, water and power, have been commercially operated.

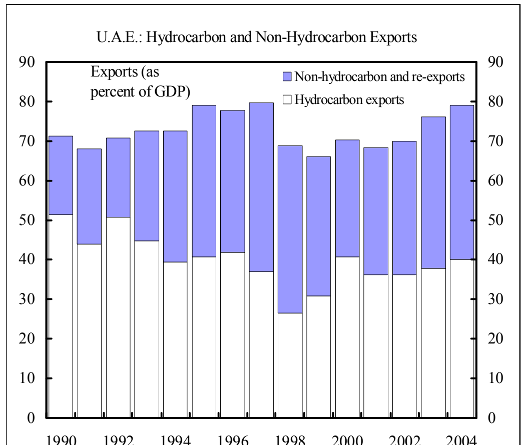


The success of the non-oil sector

12. **Openness to trade, trade facilitation, and a favorable business environment have enhanced non-oil diversification by stimulating trade and trade related services.** Fundamental structural reforms in recent years together with liberal and market-oriented policies have fostered the rapid expansion of the non-oil economy with a well integrated trading system that has also ushered the participation of the private sector. The diversification of the economy has also been driven by the rapid expansion of the services sector in the areas of tourism, finance, transport, and communication. This has been facilitated by the access to a large pool of expatriate labor at competitive wages. At end-2004, expatriate workers accounted for 91.5 percent of total employment in the U.A.E. (see Chapter IV).

Non-oil exports

13. **The U.A.E. has had a history of one of the lowest tariff and nontariff barriers among the Fund members** along with Singapore, Hong Kong SAR, and Australia. Compared to an average tariff rate of 19 percent for the Middle East region in 1997, the U.A.E. had an average tariff of 8 percent. Reflecting the trade policies followed thus far, share of non-oil exports (including re-exports) to GDP has grown from less than 10 percent in the early 1980s to more than 35 percent currently and larger than the share of oil to GDP (Table II.1).



Source: National authorities and staff estimates

Table II.1: Simple Average Tariffs 1/

Country Name	Average Tariffs 1997	2004
Bahrain	8.0	5.0
Egypt	35.5	9.1
Iran	28.0	22.7
Jordan	23.7	13.0
Kuwait	6.0	5.0
Lebanon	17.5	5.7
Libya	21.5	18.5
Oman	4.8	5.0
Pakistan	35.0	16.5
Qatar	7.0	5.2
Saudi Arabia	12.3	6.0
Sudan	28.0	22.6
Syrian Arab Republic	35.0	25.0
United Arab Emirates	**8.0**	**5.0**
Yemen, Republic of	12.9	12.6
Average	**19**	**12**

1/ Average tariff is the unweighted mean of all tariff lines and includes other duties and charges.

14. **The export structure of the U.A.E. has evolved from a dependence on domestic industry based products such as petrochemicals, fertilizers, cement, and aluminum to more diversified products such as electronics, light machinery and transport equipments mainly from the free zone exports.** Non-oil export diversification in the U.A.E. is among the highest relative to its GCC peers except for Bahrain. Trade diversification indicators compiled by UN Comtrade show that the U.A.E. has performed well in key products such as IT and consumer electronics, basic manufactures, non-electronic machinery, transport equipment and chemicals (Box II.1). Employment in the non-oil sector has grown at an annual average rate of about 8.7 percent, and gross fixed investment in this sector increased annually by 9 percent during 1991–2004.

Box II.1: Trade Diversification

Revealed Comparative Advantage (RCA) is a tool for assessing export diversification of countries in their principal export sectors. The RCA is the share of a given sector in national exports over the share of this sector in the world exports. A value of one indicates the highest degree of specialization across countries. Based on the RCA of the selected products, U.A.E. is doing favorably in diversifying and specializing in the IT and consumer products, non-electronic machinery, electronic components, and some manufacturing. In all these product categories, the RCA continues to improve relative to 2002. However, the clothing sector has been performing poorly.

Specialization Index - Revealed Comparative Advantage

	2002		2004	
	Rank	RCA	Rank	RCA
IT & consumer electronics	39	0.33	33	0.42
Non-electronic machinery	54	0.34	50	0.41
Transport equipment	71	0.09	66	0.16
Basic manufactures	76	0.68	76	0.66
Electronic components	82	0.07	81	0.09
Clothing	82	0.58	91	0.41
Misc. manufacturing	91	0.25	87	0.29
Chemicals	95	0.28	94	0.28

Source: U.N. Comtrade database.

The market share of non-electronic machinery and IT & consumer electronics has grown significantly, driven by increased competitiveness and regional demand. Electronic components and non-electronic machinery have also seen sizeable gains in market share. Chemicals and basic manufactures have also gained world market share, albeit at a slower pace.

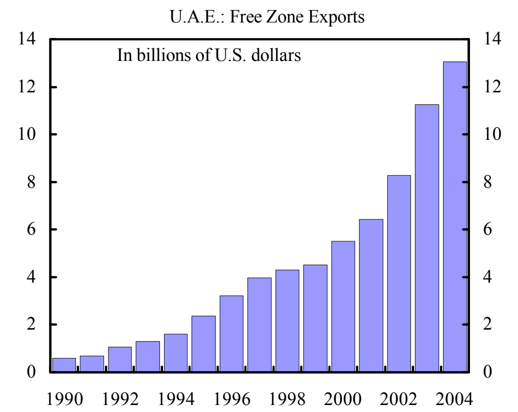
U.A.E. Relative Change in World Market Share during 1999-2003

Product	Change in percent
IT & Consumer electronics	59.69
Electronic components	16.71
Non-electronic machinery	10.29
Chemicals	5.21
Transport equipment	2.47
Basic manufactures	2.28

Source:U.N. Comtrade

1/ Relative Change in World Market Share reflects changes in competitivenes, geographic and product specialization, and adaptation to world demand by the given country.

15. **The rapid pace of nonhydrocarbon export expansion has been driven mainly by the Free Trade Zones (FTZs).** The FTZs host a large number of international companies that cater to the markets in the Middle East and the Indian sub-continent. These FTZs have been attractive ventures as they have no restrictions on foreign ownership and repatriation of capital and profits, and operate in a tax free environment with world class infrastructure. Jebel Ali Free Zone in Dubai currently hosts over 2200 companies with total annual revenue of over $8 billion. The facilities in the FTZ offer warehousing for storage and distribution of products or as a factory for assembly and light production. The bulk of the companies are active in assembly of electronic products, light engineering and manufacturing, as well as central distribution centers.

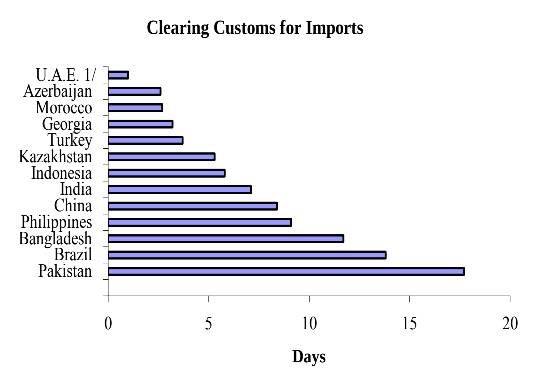


Source: National authorities and staff estimates

16. **The U.A.E. has also positioned itself as a major re-export center for the region.** As a result, the re-export market has seen rapid growth from $5.5 billion in 1990 to $27.4 billion in 2004. The main re-export markets include Iran and Saudi Arabia which captured about 30 percent of the total followed by other regional economies and the Asian countries.

Trade facilitation and services

17. **Trade facilitation has been pivotal in enhancing the non-oil trade.** Efficiently functioning ports and customs with minimal administrative procedural and logistical obstacles have contributed to the growth in trade and trade related services through the provision of good quality backbone services such as transportation, finance, and information and communication technology. The high quality infrastructure and efficient operations of the ports and airports have reduced: (i) transactions cost in trade-related activities; (ii) clearing of goods in customs: and (iii) shipping goods overseas. The turnaround time for re-exports is less than one day in Jebel Ali port.



Source: World Bank Investment Climate Survey.
1/ Based on Jebel Ali Free Zone Authority's information.

18. **Tourism has become one of the most rapidly growing industries in services.** Dubai is becoming a destination for leisure tourism. The Dubai Shopping Festival and the

Dubai Horse Race have become international events contributing to the rise in tourism. Currently about over 5 million tourists visit Dubai annually, with the industry targeting 15 million by 2010. Passengers traveling through Dubai International Airport have increased from about 22 million in 2000 to more than 40 million in 2004. Large scale projects like the three Palm Islands, Dubailand, and Dubai Healthcare City are expected to spur further growth in the non-oil economy in the coming years.

19. **The services sector has also been boosted by the launching of free zones for media, knowledge, and technology services.** The latter, is a free zone encompassing information and communications technology (ICT) infrastructure dedicated to promoting media, e-commerce, software development and back office operations for the region. It offers ready-to-operate office spaces with advanced infrastructure. The establishment of Dubai Industrial City, a free industrial zone slated largely for manufacturing activity, is expected to further boost the international statute of the non-oil economy.

20. **Dubai is vying to be the leading financial capital of the Middle East region.** The recent establishment of the Dubai International Financial Center (DIFC) is an important step in that direction. DIFC is a financial free zone that is expected to provide more diversification and sophistication in the financial sector including investment banking. The regulatory structure has been based on international best practices. As of mid-March 2005, 11 financial institutions have been granted licenses to operate within the free zone and it is expected that this number will rise to about 50 by end-year.

Favorable business environment and investment climate

21. **The U.A.E., led by Dubai, has strived to provide a stable economic and efficiently functioning business environment.** In this regard, a streamlined regulatory environment has bolstered the "efficiency premium" that the U.A.E. has thrived on, and fostered an efficient organization of the production process, distribution of goods, and response to the client base.

22. **The perception of the global business community has been favorable in terms of economic, financial, and investment risks in the case of the U.A.E.** Various surveys have given the U.A.E. a relatively high score not only when compared to its GCC and regional peers but on a global scale. The Global Competitiveness Index for 2004[2], which comprises of three pillars—macroeconomic environment, the state of the country's public institutions and the country's technological readiness—ranks U.A.E. 16th in the world with a high score of 5.21 and at the top of the list among GCC countries (Table II.2).

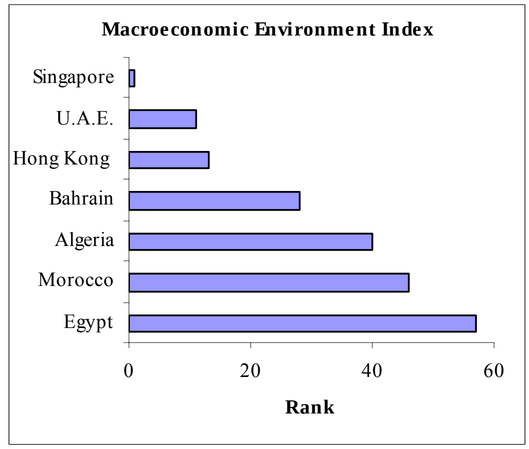
---

[2] World Economic Forum.

Table II.2: Growth Competitiveness Index

	Rank	Score
U.A.E.	16	5.21
Singapore	7	5.56
Hong Kong	21	5.06
Chile	22	5.01
Bahrain	28	4.91
Tunisia	42	4.51
Morocco	56	4.06

Source: World Economic Forum.



Source: World Economic Forum.

23. **The U.A.E. fares very well in most of the priority areas of investment climate constrains** that a World Bank Investment Climate Survey has identified based on responses from more than 26,000 firms in 53 developing countries. A compilation of survey data from a number of sources, notably the Arab Executive Opinion Survey[3], provides a useful rendition of the state of play in the U.A.E. investment and business environment:

- *Policy uncertainty:* The U.A.E. has consistently pursued a liberal and market-oriented policy which has continued to be the bedrock of its economic success in diversifying away from oil.

- *Macro stability:* Macroeconomic stability has been maintained over the past few decades with prudent macroeconomic management enabling a significant accumulation of assets. The macro stability of the economy as observed in the Macroeconomic Environment Index—a sub-component of the Growth Competitiveness comprising of growth, government balance, national savings rate, inflation, composition of government spending, real effective rate, interest rate spreads between lending and borrowing—ranks the U.A.E. among the top fifteen in the world along with Singapore, the U.K., and Switzerland.

- *Tax rate:* The U.A.E. has a very favorable tax environment that encourages businesses to operate in the country, especially in the FTZs where in most cases there are no corporate and income taxes.

- *Costs and Access to Finance:* Based on the World Bank's survey for Doing Business, the cost to create collateral and the cost of starting a business as a percent of income

[3] Arab Competitiveness Report 2002.

per capita is low when compared to its regional average. Bank financing is relatively accessible although capital markets are still in the incipient stages. However, due to low disclosure standards, protecting investors still needs reform, and in areas such as enforcing contracts the U.A.E. lags the regional average and global benchmarks such as OECD average (Table II.3).

- *Labor Regulations:* Based on the World Bank's Survey of Doing Business, the difficulties facing firms in hiring and firing workers is the least rigid compared to its peers in the region.

- *Courts and Legal System:* Individual Emirates such as Dubai have adopted the Dubai International Arbitration Centre (DIAC) based on International Chamber of Commerce rules, which would help solve business disputes quicker and address the shortcomings of the existing legal framework. The amended Company Law and the new FDI law are currently in the pipeline for parliamentary approval.

Table II.3: Doing Business–Snapshot of Business Environment

Indicator	U.A.E.	Average	
		Regional	OECD
Rigidity of employment index (Avg. hours, hiring & firing) 1/	33.0	38.7	34.4
Cost to create collateral (percent of income per capita)	9.4	18.5	5.2
Protecting investors			
Disclosure index (ownership, audit, financial information) 2/	2.0	2.6	5.6
Enforcing contract			
Number of procedures	53.0	38.0	19.0
Cost (percent of debt)	16.0	17.9	10.8

Source: The World Bank.

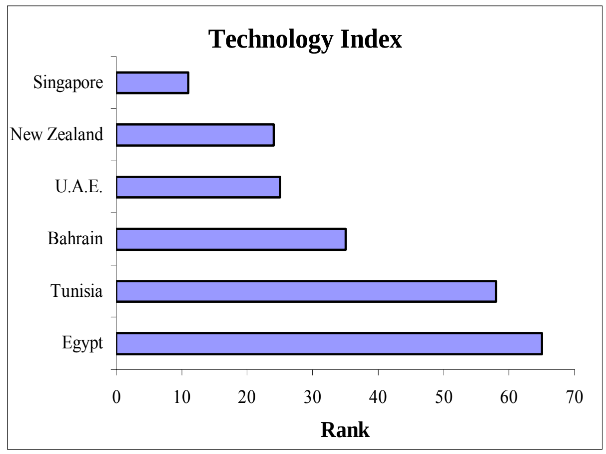
1/ Lower score = less rigid.
2/ Higher score = more disclosure of information.

- *Regulations and tax administration:* Based on the Executive Opinion Survey in the Arab World, the U.A.E. ranks first in having the least burdensome administrative regulations and the lowest level of hidden import barriers and the highest intensity of local competition. When benchmarked on global standards, the U.A.E. ranks fourth, following Singapore, Hong Kong and Iceland as having the least burdensome administrative regulations.

- *Electricity:* The quality of electricity supply is excellent. A nationwide electricity grid will further enhance the current situation and also preempt any potential demand issues from the rapidly growing economy and the population.

- *Transportation:* The U.A.E. has one the best transportation infrastructures in the world providing excellent ports and airports.

24. **The U.A.E. has also led the way in the region in embarking on the technology frontier.** The Technology Index Component of the Global Competitiveness Index—which measures internet access to schools, frequency of interruptions, government priority in ICT, personal computer and internet users per capita—ranks the U.AE. 25th on a global scale. At the firm level, technological absorption has been among the most advanced including the services provided by Dubai Internet City to enhance capacity (Table II.4).



Source: World Economic

Table II.4 Public Access To Internet

	Score
Bahrain	6.32
U.A.E.	6.08
Qatar	6.04
Kuwait	5.95
Oman	4.33
Saudi Arabia	3.71

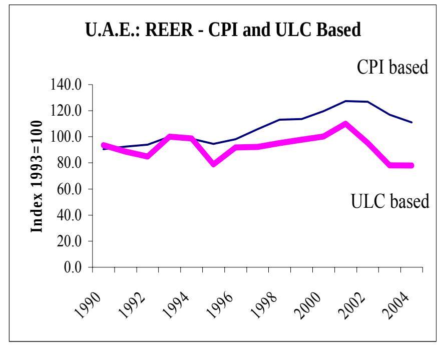
Source: The Arab World Competitiveness Report 2003–04.
Scale 1=very limited; 7=pervasive

Labor policy

25. **The flexible labor policy adopted thus far in the U.A.E. has been an important contributing factor behind the diversification of the non-oil economy.** Such a policy has allowed the U.A.E. to have access to abundant supply of labor at internationally competitive wages. About 90 percent of the labor force in the U.A.E. are expatriates and work mainly in

the private sector. This labor policy has been a key contributor to maintaining the competitiveness of the non-oil economy.

26. **While the CPI-based real effective exchange rate appreciated by about 20 percent since 1990, the unit labor cost (ULC)-based real effective rate actually depreciated by 17 percent,** implying that competitiveness of the non-oil economy has been largely maintained based on ULC.



Sources: National authorities; and Fund staff estimates.

C. Conclusion

27. **The prudent management of oil wealth, trade openness, and an efficiently functioning business environment** has supported a higher intensity of trade integration and diversification relative to the U.A.E.'s GCC peers. Dubai as the country's commercial capital has played a key role in this area. However, the U.A.E.'s key challenge in the future is to leverage on its current diversification dynamics and broaden the role of the private sector further by liberalization beyond the FTZs and Dubai. To this end, the proposed amendments to the Company Law and the new FDI law, by reducing foreign ownership restrictions and further strengthening the investment climate (e.g., contract enforcement, legal framework, property rights), would address the key shortcomings in the current business environment. With the key Emirate of Abu Dhabi already implementing its privatization plan, this has the potential to amplify the ongoing reforms in improving the investment climate and cement the U.A.E.'s position as the leading business hub in the region.

REFERENCES

World Bank, 2003. "Trade, Investment, and Development in the Middle East and North Africa." Washington D.C..

World Economic Forum, 2003. "The Arab World Competitiveness Report 2002–03", Oxford University Press, New York.

United Arab Emirates, 2003. Yearbook.

III. A Survey of the U.A.E. Hydrocarbon Sector[4]

A. Introduction

28. **The United Arab Emirates (U.A.E.) has one of the most diversified oil exporting economies in the Middle Eastern region.** Nevertheless, overall economic developments remain dependent on the hydrocarbon sector, which accounts on average for about 30 percent of GDP. Hydrocarbon related industries, such as refining and petrochemicals, also contribute significantly to economic activity.

29. **While the relative economic importance of oil production has diminished in recent years, it still has an important impact on the development of the individual Emirates' economies** through the financing of modern infrastructure, social services, and industrial development. Likewise, the natural resource-poor northern Emirates have benefited greatly from Abu Dhabi's oil riches through direct financial transfers, transfers from the Federal government, and subsidized energy supplies.

30. **Abu Dhabi accounts for more than 90 percent of the federation's oil and gas reserves and production.** The direct reliance of the local economies on the hydrocarbon sector differs greatly between the individual Emirates and the sector's GDP share varies from more than 50 percent in Abu Dhabi to zero in the small northern Emirates of Ajman, Fujairah, and Umm al-Quwain. Oil and gas production contribute about 6 percent to Dubai's GDP, while its share is about 12 percent in Sharjah and 4 percent in Ras al-Khaimah (Table III.1).

Table III.1. The Hydrocarbon Sector in 2004

	U.A.E. Total	Abu Dhabi	Dubai	Sharjah	Ras Al-Kaimah	Other 1/
Oil reserves (in bn barrel)	**97.8**	92.2	4.0	1.5	0.1	0.0
Gas reserves (in Tcf)	**212.0**	196.1	4.1	10.7	1.1	0.0
Hydrocarbon GDP (in bn $)	**33.6**	30.6	1.8	1.0	0.1	0.0
Total GDP (in bn $)	**103.1**	59.4	30.1	8.3	2.1	3.2
HC GDP (in percent of GDP)	**32.5**	51.6	6.1	12.3	4.0	0.0

Sources: U.A.E. authorities; EIA.
1/ Ajman; Fujairah; and Umm Al-Quwain.

31. **Oil production is currently near capacity at about 2.5 mbd, accounting for three percent of world oil production.** This makes the U.A.E. the 9th largest crude oil producer and 6th largest net oil exporter worldwide. With official reserves of around 98 billion barrels,

[4] Prepared by Holger Floerkemeier.

which will last for more than 100 years at the current production rate, the country owns almost 10 percent of the world's proven oil reserves.

32. **The U.A.E. has the world's fifth largest natural gas reserves**, which amount to almost four percent of the world's total. However, the gas sector still has not yet developed to its full potential, and both domestic utilization as well as exports of natural gas products is likely to increase in the future. The U.A.E.'s current share in global natural gas production is just under 1.7 percent, up from 0.4 percent in 1980. About 85 percent of output is consumed domestically.

B. The Oil Sector

Development of the U.A.E. oil industry

33. **Oil in commercial quantities was discovered in Abu Dhabi in 1958, and exportation of crude oil began in 1962.** While some small, wholly foreign owned international oil companies have been active in Abu Dhabi since 1965, the bulk of oil production has always been with the Abu Dhabi Company for Onshore Oil Operations (ADCO) and the Abu Dhabi Marine Operating Company (ADMA-OPCO). Since 1974, the Abu Dhabi government holds 60 percent of the equity of the two main producing companies.[5] A third large, partly state-owned company, the Zakum Development Company (ZADCO), was established in the mid-1980s.[6] The Abu Dhabi National Oil Company (ADNOC) has been entrusted with the management of the government's equity shares in these companies (Box III.1).

34. **Although exploration concessions have been granted in each of the other six Emirates, actual field developments have been limited to Dubai, Sharjah, and Ras al-Kaimah.** Oil was discovered in Dubai in 1966 and in Sharjah in 1972. Ras al-Khaimah joined the ranks of the oil producing Emirates in 1983. While the scale of crude oil production in both Sharjah and Ras al-Khaimah has remained very modest, Dubai developed into a sizable oil producer during the 1970s. However, production has been falling since the 1990s due to the advanced depletion of the Emirate's oil reserves.

35. **The majority of crude oils extracted in the U.A.E. are considered light but sour.** The sulfur content is particularly high in the case of the crude oils from the offshore fields. Therefore, these crude oils are traded at significantly lower prices than the leading benchmark crude oils from Texas (WTI) and the North Sea (Brent) (Table III.2).

---

[5] The other shareholders of ADMA-OPCO are Japan Oil Development Company (JODCO, 12 percent), British Petroleum (BP, 14.66 percent), and Total (13.33 percent). The remaining shares of ADCO are held by ExxonMobil, BP, Shell, and Total (9.5 percent each), and Partex (2 percent).

[6] The government's share in ZADCO was 88 percent until spring 2005, when ExxonMobil acquired a 28 percent share. The other shareholders are JODCO and Total.

Box III.1: The Abu Dhabi National Oil Company (ADNOC)

The Abu Dhabi National Oil Company (ADNOC) was established in November 1971. The company's main objectives are (1) to act on behalf of the Abu Dhabi government in taking up its option for participation in oil exploration concessions; (2) to manage the government's participation share in the equity of the partly government-owned concessionaires; and (3) to be responsible for the supply, distribution, and marketing of oil products in Abu Dhabi.

The company has also been responsible for foreign investment in oil-related industries. In 1982 it established the International Petroleum Investment Company (IPIC) in partnership with Abu Dhabi Investment Authority (ADIA), in order to invest in oil exploration, refinery operations, petrochemicals, and alternative energy sources outside Abu Dhabi.

ADNOC initially sold most of its participation oil back to the international co-owners of ADCO and ADMA. However, encouraged by its greater marketing experience, the proportion of crude oil marketed directly by ADNOC to parties other than the foreign equity holders rose quickly. In addition, ADNOC got engaged through various subsidiary companies in gas production and processing, oil and gas shipping, refining, exploration and oil field development, oil industry related services, petrochemicals, and fertilizer production. Today, most activities of ADNOC are carried out by its 15 subsidiaries.

In June 1988 the management of the oil industry in Abu Dhabi was reorganized. An 11-member Supreme Petroleum Council (SPC) was established to manage the Emirates' oil affairs, and the Abu Dhabi Department of Petroleum which formerly had been responsible for policy formulation was abandoned. The formation of the SPC in effect consolidated the Department of Petroleum and the Board of ADNOC into one body.

Table III.2. Characteristics of Main Crude Oils

		Abu Dhabi			Dubai	For Comparison	
	Murban	Umm Shaif	Lower Zakum	Upper Zakum	Fateh	WTI	Brent
Company	ADCO	ADMA	ADMA	ZADCO	DPC		
API gravity 1/	39º	37.4º	40.6º	33.1º	32º	39.6º	38.3º
Sulfur content 2/	0.78	1.21	1.02	2.00	2.00	0.24	0.37
2004 price average ($/b) 3/	36.80	36.57	36.87	34.20	33.63	41.51	38.26

Sources: ADNOC; Energy Information Agency; McQuilling Services, LLC; www.mcqservices.com.

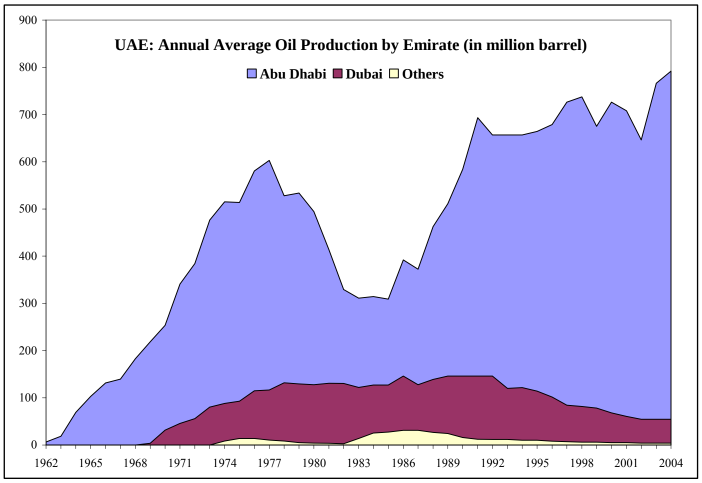
1/ API gravity: American Petroleum Institute measure of specific gravity.
2/ In percent of weight.
3/ Average export prices for U.A.E. crude oils; Cushing average spot price (fob) for WTI and Brent.

Institutional arrangements

36. **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, and the Minister represents the Federal government at OPEC meetings.[7] As a result, there is considerable diversity in the extent of government control related to the production and marketing of oil and gas in the individual Emirates. The concession agreements granted by Abu Dhabi have traditionally conformed to the guidelines set by OPEC. These guidelines include arrangements for royalty payments, sharing of net company profits, and the option of relinquishment of concession areas. In contrast to most other countries in the region (the other exceptions being Oman and Qatar), the Emirates have not fully nationalized their oil industry during the 1970s. Also, recently there have been renewed efforts to increase the participation of international oil companies (IOC) in Abu Dhabi's oil sector.

37. **Production and pricing policies have varied greatly due to the differing sizes of the Emirates' hydrocarbon endowments and their long-term development plans.** Hydrocarbon-rich Abu Dhabi has traditionally based its production policies on maximizing the long-term benefits of its oil wealth, in most years adhering to OPEC agreements and regularly adjusting short-term production according to demand conditions and technical field management considerations. The other Emirates with their modest hydrocarbon endowments have instead followed a policy of maintaining production close to capacity in order to maximize short-term revenues. While prices of Abu Dhabi's crude oil had been largely determined within the framework of OPEC agreements, Dubai marketed its oil on the spot market. This way, Dubai's Fateh emerged as the most important crude oil in the Middle Eastern spot market as well as a reference crude oil price of worldwide importance.

Oil production

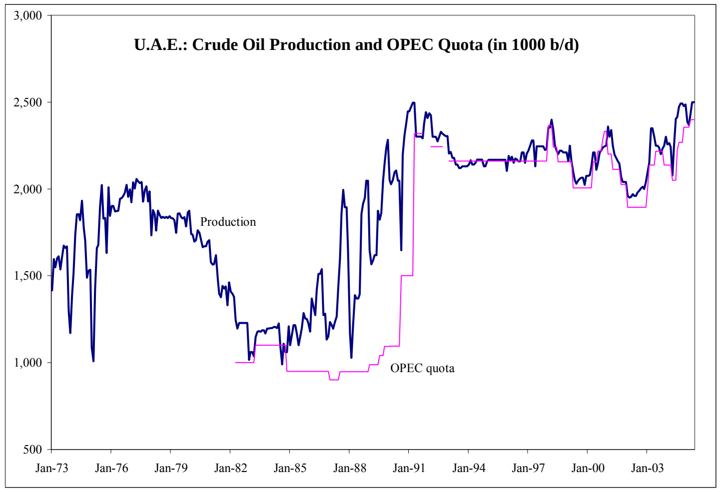


38. **The U.A.E.'s total oil production increased rapidly after 1962, reaching a peak of more than 2 mbd in 1977**. However, since 1975 ADCO and ADMA have been subject to production ceilings, which have effectively determined their annual production levels. Initially, production restrictions were introduced for conservation reasons. Abu Dhabi oil fields began to suffer from low reservoir pressure due to

[7] Abu Dhabi became a member of the Organization of the Petroleum Exporting Countries (OPEC) in 1966. While the other oil producing Emirates never formally joined the ranks of OPEC, Abu Dhabi transferred its membership to the U.A.E. when the Emirates federated in 1971.

rising ratios of associated gas to crude oil, a development that threatened to damage the productive capabilities of the fields. Since 1981 the ceilings have reflected primarily the U.A.E.'s efforts as a member of OPEC to support elevated oil price levels. As Dubai has in general followed a policy of maintaining its production close to capacity, **Abu Dhabi has thus served effectively as a swing producer within the U.A.E. absorbing the entire reduction in crude oil production in order to keep total U.A.E. production in line with the country's OPEC quota commitments.**

39. **Throughout the 1990s, the U.A.E. crude oil production remained high and stable.** However, Abu Dhabi's share in this total increased over time to offset declining production in Dubai. As a result of the intensive exploitation of Dubai's oil fields in the past, the potential remaining production span of the most important fields in Dubai is expected to be limited. Since end-2002, Abu Dhabi's production has picked up markedly to accommodate growing global oil demand and reached a new high in the first quarter of 2005.



40. **In addition to crude oil and natural gas, the U.A.E. has focused in recent years on developing the production, processing, and exports of condensates.** Condensate production is outside the OPEC quota mechanism and therefore suitable to generate a sustained stream of additional export receipts. Total output is projected to reach 0.4 mbd in 2005, up from about 0.02 mbd in 1994.

Exploration and field development

41. **Although ceilings on production levels had been imposed since 1975, the authorities in Abu Dhabi have maintained their efforts throughout the past 30 years to explore for additional oil reserves; to develop new oil fields; and to raise the capacity of existing fields through secondary recovery programs.** While actual crude oil production fell rapidly during the early 1980s, production capacity was increased significantly during the same period, resulting in excess spare capacity of almost 2 mbd in the late 1980s. Under the impact of low oil prices, Abu Dhabi froze all exploration development programs. As a result, production capacity declined significantly in the early 1990s.

42. **In 2004, industry and government sources estimated the U.A.E.'s total crude oil production capacity at about 2.5 mbd.** Between 2000 and 2004 the U.A.E. invested over $8bn in the oil sector in order to maintain existing oil production capacity and to increase it in the long run. The U.A.E. is planning to raise its crude oil production capacity by about 1 mbd to more than 3.5 mbd by 2006, at an estimated cost of $1bn for each 0.1 mbd of

additional capacity to be brought on line.[8] 0.3 mbd of this capacity increase is scheduled to come on stream in 2005, and the remaining 0.7 mbd will follow during 2006.

43. **Indications are that the major oil reservoirs in the U.A.E. have been identified.** Accordingly, priority is given to further developing existing oilfields and to maximize recovery ratios. Water injection has been increasingly replaced by gas re-injection in order to maintain optimal pressure in producing oil wells. Recent development efforts are relying more on the use of Enhanced Oil Recovery technologies, such as horizontal well drilling; three dimensional seismic analyses; and behavioral modeling of oil wells.

Refining, exports, and domestic consumption

44. **The U.A.E. has five refineries with a combined capacity of more than 0.65 mbd.** The build-up of refining capacity since the 1980s made the U.A.E. a sizable net exporter of refined products. The share of refined products in the total oil export volume, however, remains modest at about 10 percent. With the development of domestic gas production and transport infrastructure, more natural gas has been used for electricity production, thus freeing additional oil for exports. Most of the U.A.E.'s oil exports are shipped to Asia.

45. **Energy subsidies were eliminated in the early 1980s.** Since 1986, domestic retail prices of petroleum products have remained largely unchanged[9] and were well above international ex-refinery prices throughout most of the late 1980s and 1990s. Correspondingly, average demand growth slowed significantly from about 13 percent annually before 1983 to just 1.3 percent per annum until the mid-1990s. While no recent data is available, domestic demand growth is believed to have accelerated in previous years driven by rapid population growth. Oil industry publications estimate U.A.E. domestic oil consumption in 2004 at 0.15 mbd.

Government oil receipts

46. **The individual Emirate's external oil receipts are made up of royalties and income taxes paid by the oil producing companies and of net receipts from participation oil**, which is proportional to the government's interest in the oil companies. Royalty and income tax rates, as well as the extent of government ownership have differed between the Emirates in the past, however, no such information has been available for Dubai, Sharjah, and Ras al-Khaimah in recent years.

47. **In Abu Dhabi, the royalty payments are calculated at 20 percent of posted oil price and paid on the volume of exports.** ADCO, ADMA, and ZADCO pay income taxes at the rate of 85 percent of taxable income. The smaller, fully foreign owned companies, as well as ADNOC are subject to an income tax rate of only 55 percent. Royalty and income tax rates have been unchanged since 1974. ADNOC receives the proceeds from the sale of oil

---

[8] Comment by U.A.E. Oil Minister Al-Nasseri on an energy conference in Abu Dhabi (Platts, Oct. 11, 2004).

[9] With the exception of diesel fuel prices, which were raised in 1996.

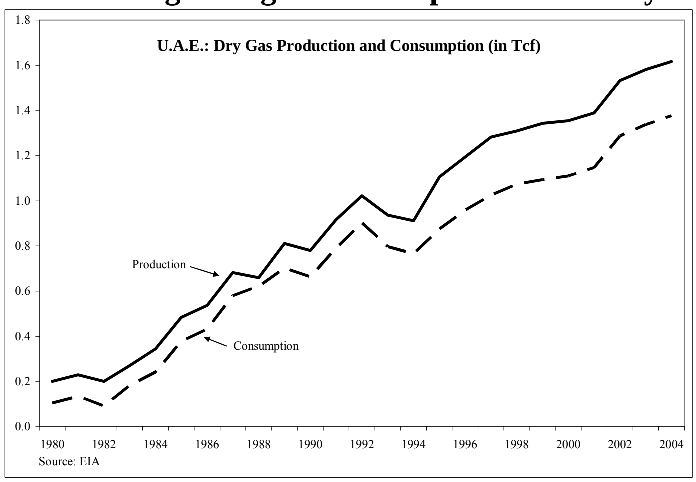
based on its participation in ADCO; ADMA; and ZADCO, and pays royalties and income taxes on these sales to the Abu Dhabi government. The international shareholders of Abu Dhabi's main producing companies receive a fixed one-dollar-per-barrel profit share. Therefore, they do not participate in the gains from recent high oil prices.

C. Natural Gas

Background

48. **The U.A.E.'s proven natural gas reserves are estimated at 212 trillion cubic feet** (Tcf), ranking fifth in the world (after Russia, Iran, Qatar, and Saudi Arabia) and amounting to almost 4 percent of the world total. Most of these reserves (196.1 Tcf) are located in Abu Dhabi, while Sharjah, Dubai, and Ras al-Khaimah contain smaller reserves of 10.7 Tcf, 4.1 Tcf, and 1.2 Tcf, respectively. A large share of the natural gas found in the U.A.E. is associated with crude oil. Most of the gas is sour, which makes it comparatively costly to process. Therefore, the optimal use for associated gas has long been to reinject it into oil fields to enhance oil recovery.

49. **The development of gas reserves has become a priority in the U.A.E. due to the fast rising domestic gas demand, which has been growing at about 7 percent annually during the past decade.** Up to the late 1970s, between 85 and 95 percent of the large amounts of gas that were produced in association with crude oil were flared, while the remainder was used as fuel in electricity generation and water desalination. However, during the 1970s and early 1980s, large investments were made in order to reduce the proportion of associated gas that had to be flared. Unassociated gas, which had long remained unutilized, began to be developed to secure a steady domestic gas supply independent of volatile crude oil production volumes; and to build up additional potentials for exports.

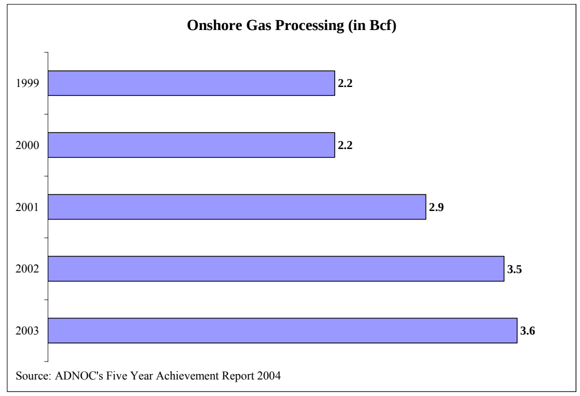


Main natural gas ventures

50. **In 1973, the Abu Dhabi Liquefied Gas Company (ADGAS) was set up by ADNOC and a consortium of four foreign companies to utilize the country's large offshore gas resources, thereby greatly reducing the need to flare gas from ADMA's**

offshore oilfields.[10] The ADGAS LNG plant came on stream in1977, with most of the output exported to Japan's TEPCO under long-term sales agreements. Productions of LNG and LPG increased significantly over time and have reached 8 million tons, resulting in annual sales exceeding $2bn since 2003. No further expansions of LNG operations are currently planned. With the current facilities aging, all future capital expenditures will be used to maintain production capacity.

51. **In 1978, the Abu Dhabi Gas Industries Limited (GASCO) was established to utilize associated gas from Abu Dhabi's onshore oil fields**.[11] The new company began production in 1981. Most output of NGL is exported, while the remaining processed gas and residual dry gas are used domestically as fuel and petrochemical feedstock. In 2001, Abu Dhabi Gas Processing Company (ATHEER) was integrated into GASCO, which made GASCO one of the largest gas processing companies in the world. During the past years, several large-scale natural gas projects substantially increased the scope of GASCO's operations. These projects are mainly designed to produce gas for power generation, condensates, and NGL.



52. **The Dubai Natural Gas Company (DUGAS) started production of LPG in 1980.** While a small part of output has been locally bottled and consumed, most is exported to Japan under long-term contracts. With oil production in Dubai declining, the domestic supply of gas regularly fell short of the company's processing capacity. Currently, the LPG plant is running at only about 22 percent capacity utilization. However, in 1995 DUGAS diversified into the production of MTBE, a gasoline additive.

53. **The Sharjah Liquefaction Company (SHALCO) was set up in March 1984** as a 60 percent government-owned undertaking[12] to produce LPG based on associated gas. Dry gas from SHALCO is supplied to the Northern Emirates for power generation. Until recently, Sharjah has also supplied Dubai's entire gas requirements. Since the completion of the Maqta pipeline between Abu Dhabi and Dubai in May 2001, the Emirate also receives gas from GASCO.

54. **The Dolphin project is one of the largest trans-border energy developments in the Middle East**. It aims at supplying dry gas from Qatar's giant North field via pipeline to Abu Dhabi, from where it will be further distributed to Dubai, Fujairah, Ras al-Kaimah, and

[10] ADNOC initially owned 51 percent of equity. After a restructuring of ADGAS' ownership in April 1998, ADNOC's capital share increased to 70 percent, the remainder held by Mitsui (15 percent), BP (10 percent), and TotalFinaElf (5 percent).

[11] GASCO's shareholders are ADNOC (68 percent), Shell and CFP (15 percent each), and Partex (2 percent).

[12] Other shareholders are Amoco (25 percent); C. Itoh and Tokyo Boeki (7.5 percent each).

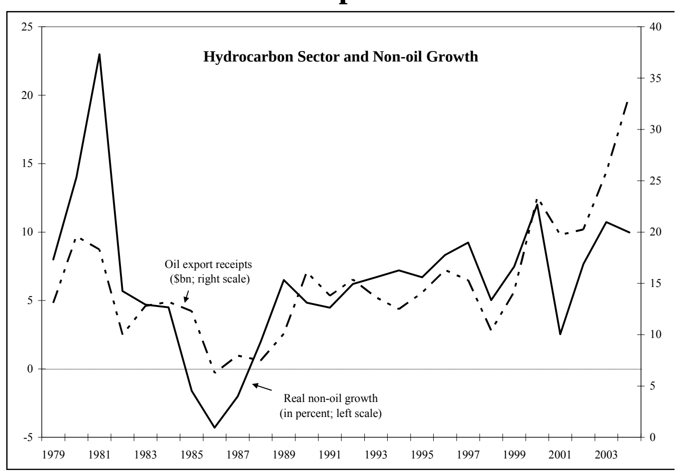
Oman. The project was launched in early 1999, and a natural gas sales agreement between Dolphin Energy Limited (DEL)[13] and Qatar Petroleum signed in 2001. First gas deliveries to the U.A.E. are expected by end-2006. DEL also operates a pipeline supplying a Fujairah gas and desalination plant with natural gas from Oman since January 2004. Eventually, Qatari gas will be supplied both to Fujairah and Oman. In May 2005, DEL and the Dubai government signed a 25-year supply contract, which had been long-delayed due to protracted price negotiations.

D. Policy Issues

The hydrocarbon sector and the non-oil economy

55. **The correlation between oil export receipts and non-oil growth in the U.A.E. continues to be relatively high.** The main channels for transmission of shocks from the oil sector to the non-oil sectors are through government expenditures and the availability of gas supplies for energy-intensive or gas-processing manufacturing industries in the non-oil economy.

56. **The most immediate impact of adverse oil market developments on the non-oil economy is through government expenditures.** U.A.E. government finances still rely heavily on hydrocarbon revenues, which have a share of about 80 percent of consolidated revenues. Investment incomes from hydrocarbon-related savings also make a significant contribution to government revenues. Furthermore, although not all hydrocarbon revenues are channeled through the Emirate or Federal budgets, these revenues are used to finance a diverse range of local projects.



57. **As most gas is produced in association with oil, reductions of oil production due to OPEC quota ceilings, technical restrictions, or depletion of reserves (in the case of Dubai) have repeatedly constrained U.A.E. gas production and processing in the past.** Shortages of gas supplies in turn have had repercussions on the manufacturing sector, in particular the petrochemical and aluminum industries. Natural gas demand is projected to keep growing rapidly in the future. Therefore, the further development of domestic gas production and the guaranteed supply of non-associated gas through the Dolphin project will

---

[13] DEL is 51 percent owned by the Abu Dhabi Offsets Group (shares were transferred in 2004 to the Abu Dhabi government-owned investment group Mubadala). The original foreign partners were TotalElfFina and Enron with 24.5 percent of the shares each. Enron gave its share back to UOG in 2001, which sold them to Occidental Petroleum in June 2002.

be important to insulate to some extent the non-oil economy from developments in the oil sector.

Global oil market stability

58. **The oil-rich Emirate of Abu Dhabi has an important role towards maintaining price and supply stability in the international oil market,** as the Emirate is one of only very few oil producers worldwide which has traditionally maintained spare production capacity in order to react flexibly to changing market conditions. The Emirate has followed a policy of fostering a stable international oil market, and has repeatedly contributed to ensuring oil market stability by compensating for production shortfalls in other countries and by accommodating growing global demand for oil.

59. **Currently, an ambitious plan to expand oil production capacity is underway, enabling production levels to increase in line with expected world oil demand.** The government's intention in expanding production capacity is for the U.A.E. to regain its capability to react flexibly to market developments by maintaining a sizeable spare capacity to increase the country's role in the world oil market.[14]

60. **In order to further promote oil market stability, the U.A.E. is encouraged to enhance transparency in information related to petroleum production, capacity, and reserves.** Such data is crucial for investment planning and market forecasting, and the high volatility of oil prices in the recent past was at least partially attributable to a lack of oil market data transparency in an environment of tight production, refining, and transport capacity as well as an unusually high number of individual supply shocks.

[14] In principle, Abu Dhabi could to some degree increase crude oil production further in the short-term, however, it is also constrained by strict environmental laws and its efforts at implementing its zero gas flaring rules. As the capacity of gas transport, storage, and processing facilities are limited, raising oil production would necessitate the lifting of restrictions on flaring of natural gas extracted in association with crude oil.

REFERENCES

Abu Dhabi National Oil Company, 2004, "ADNOC's Five-Year Achievement Report".

APS Review Oil Market Trends, 2005, "Abu Dhabi–Oil Series: The Abu Dhabi National Oil Co.; The ADNOC Structure; Gas Pipeline & Dolphin Project; The Decision Makers", Vol. 68, Issues 1–4.

Economist Intelligence Unit, 2004, "U.A.E.—Country Profile, 2004".

Energy Information Administration, 2005, "U.A.E.—Country Analysis Brief".

Gilles, Valentin, and Ayse Hazir, 2004, "Alladin's Cave*?" Oil & Gas Investor*, August 1, 2004.

Husari, Ruba, 2004, "U.A.E. Draft Plans for Extra Capacity", *The Oil Daily*, October 1, 2004.

International Energy Agency, "Monthly Oil Market Report".

Kiwan, Raja, 2005, "Abu Dhabi Poised for Capacity Additions", *International Oil Daily*, January 27, 2005.

Middle East Economic Digest, 2005, "Switching to Aggressive Mode", January 21, 2005.

Petroleum Economist, 2004, "U.A.E. Analysis", September 1, 2004.

Petroleum Intelligence Weekly, 2004, "Terms Hang Over Abu Dhabi Investment", November 1 2004; "Despite Terms, Firms Hold on in Abu Dhabi", May 10, 2004.

Petroleum Review, 2004, "U.A.E. Moves Ahead With Oil and Gas Sector Expansion", April 1, 2004.

Platts Oilgram Price Report, 2004, "U.A.E. Can Raise Output by 500,000 b/d, but is Hampered by Environmental Legislation", Vol. 82, No. 107, June 7, 2004.

IV. LABOR MARKET ISSUES[15]

A. Background

61. **Like all GCC countries, the U.A.E.'s labor market is segmented along the lines of nationals and expatriates, with nationals continuing to have a strong preference for public sector jobs.** During 1999–2004, reflecting the high increase of national population and the large influx of expatriate workers, the U.A.E.'s population grew at an average rate of 7.3 percent a year, reaching 4.3 million by mid-2004. Nationals accounted for about 21 percent of the total population (Table IV.1).

62. **During 1999–2004, the economy created annually an average of 177,000 jobs compared to an 18,000 annual increase in the national labor force** (Table IV.2). While job creation was more than sufficient to absorb the new entrants to the labor force, unemployment among nationals increased gradually from 7.6 percent in 1999 to 11.4 percent in 2004. The total number of unemployed nationals reached 29,000 in 2004.[16]

B. Sectoral Composition of Employment and Education Trends

63. **Although somewhat outdated, the 1995 census data indicate that some 90 percent of nationals are employed in the public sector, even though public sector employment accounts for only 28 percent of total employment in U.A.E. (Table IV.3)**.[17] The preference for public sector employment among nationals reflects a number of factors, such as, greater job security, shorter working hours, and safer prospects for promotion.

64. **There are two important economic factors that significantly skew the nationals' preferences toward public sector employment.** The first factor is the generous wages and benefits accorded to nationals in public sector jobs[18] and the presence of various subsidies and transfers effected through the Emirates and Federal budgets (Tables IV.4 and IV.5). Currently, salary and benefits package for new national college graduate entrants to the

---

[15] Prepared by S. Nuri Erbaş.

[16] The figures cited here are Ministry of Planning estimates. On the other hand, Labor Ministry authorities noted that unemployment rate may be lower (as low as 3 percent), in view of the fact that many nationals seeking work are not doing so intensively (especially, female workers) because of the availability of family support. However, according to the National Human Resource Development and Employment Authority (TANMIA), including females seeking jobs, unemployment rate among nationals could be as high as 16–17 percent. TANMIA is an independent Federal agency.

[17] The 2005 census is currently under preparation.

[18] Mainly, civilian, military, and security government service; and, independently managed government-owned enterprises in the oil and gas, telecommunications and other sectors (e.g., Dubai Aluminum Company—DUBAL).

Federal government service is 46 percent greater than that of expatriates, presumably regardless of the skill level. Also, state-owned enterprises offer packages that top Federal government packages; for example, Dubai Aluminum Company (DUBAL) offers a new national college graduate a package that exceeds the Federal government package by nearly 60 percent.

65. **National companies that offer attractive positions to the U.A.E. nationals are under no obligation to hire them just on the basis of their nationality.** Such companies cast a wide and meticulous web of recruitment (including nationals who have or about to earn degrees in foreign universities), and recruit the best and most skilled nationals, and further provide them with intensive internal training on the job.

66. **Nevertheless, the skill levels of most of national college graduates do not meet the high standards of national companies that offer wages and salaries that far exceed those offered by the government.** Also, such workers cannot fetch wages in the private sector that exceed the wages offered by the government. Thus, government wages set a standard (often called the *reservation wage*) for such workers. The reservation wage of the less skilled national workers skew their preferences in favor of government sector employment, and make them less competitive with expatriate workers in the private sector.[19]

67. **The second important factor that compels national workers to seek employment in the government sector is the level of nationals' qualifications and marketable skills relative to expatriate workers.** Two-thirds of nationals who graduated from university during the period 2000/01–2002/03 (school years) sought to obtain degrees in arts, education, and religion, while one-third obtained degrees in engineering, medicine, and science (Table IV.6). Clearly, the former group of majors is less marketable in the private sector than the latter group of majors.

68. **Among non-nationals, the ratio of those who majored in arts, religion, and education as opposed to those who majored in sciences is nearly reversed.** About two-thirds of non-nationals majored in sciences, engineering, and medicine. Compared to non-nationals (educated in or immigrated to the U.A.E.), the U.A.E. nationals' skills do not appear to be a competitive match in terms of marketability for private sector jobs. On average, the U.A.E. national, even if he or she is a college graduate, appears to be a better match for government sector employment than private sector employment.[20]

---

[19] According to a survey among national students, 80 percent of the U.A.E. university students targeted employment in the Federal and local government and public sector enterprises. See "*U.A.E. Labor Market and Problems of Employment of Nationals, An Overview and Policy Agenda*" by Abbas Abdelkarim, Research Report No.1, Dubai, June 2001 (p. 37), published by TANMIA.

[20] These arguments are corroborated by some employer survey results cited in Abdelkarim (2001, pp.34–35); nationals' high wage demands (reflecting their high reservation wages), lower skills relative to non-nationals,

(continued…)

69. **Among nationals, female students accounted for 84 percent of total university graduates**. Although two-thirds of the U.A.E. female university graduates majored in arts, religion, and education, the fact remains that an increasing number of females are preparing to enter the labor force, a trend that is likely to continue with increasing intensity in the long run. Female labor force growth rate is nearly three times that of the male labor force growth rate, (Table IV.2) and, on average, during 1999–2004, unemployment among female nationals has been twice that of males.

C. Labor Market Strains into the Future

70. **In the period ahead, increasing unemployment among nationals is likely to pose a serious problem**. During 1999–2004, the overall rate of growth of the national labor force averaged close to 10 percent, with the female labor force growth averaged about 20 percent (Table IV.2). Based on the United Nations projections (Table IV.7), population growth rate is projected to decline over the next 30 years. As a result, under conservative assumptions, the yearly addition to the national labor force is projected at an average of 11,000 workers per year through 2035, which corresponds to an average yearly growth rate of about 3 percent per year during 2006–35. The vast resources of the U.A.E. may be sufficient to pay a reasonable annuity to every entrant to the labor force, either in the form of direct subsidies and transfers through the budget or in the form of increased (excess) government sector employment at the cost of increasing inefficiency in that sector. Even in the long run, under plausible conditions and prudent policies, fiscal sustainability does not appear to be a serious problem in the U.A.E. Therefore, in view of the long-term projections for labor force growth, the broader problem for the U.A.E. is the sustainability of the living standards enjoyed at present by nationals, which might not be sustainable for future generations, unless productive employment opportunities are created for the growing national labor force.

Corrective policies

71. **It is critical that any future changes to labor policies do not adversely impact the competitiveness of the economy**. The liberal labor policies adopted thus far in the U.A.E. have allowed the private sector to recruit expatriate workers at internationally competitive wages. These policies have contributed to the economic growth and improved competitiveness of the non-oil economy. Measures to increase the cost of expatriate labor (e.g., more restrictive and expensive visa requirements) are likely to reduce the economy's competitiveness. At the same time, applying wide-ranging quotas to increase employment of nationals is likely to have similar economic effects.

---

and work attitudes were the main reasons that employers cited as hindrances to employing nationals in the private sector.

Government initiatives

72. **The authorities are pursuing a number of important policies to increase employment of nationals in the private sector**. These measures are:

- To reduce disparity between public and private sector wages and benefits, a pension scheme for both public and private sectors was adopted for nationals (except for the Emirate of Abu Dhabi) in 1999. The pension benefits are transferable between the private and public sectors without loss of benefits.

- In addition to labor market research, TANMIA has been providing job matching services and career counseling for nationals. Those activities include accepting job applications from nationals with the purpose of directing them to available job openings listed in the Ministry of Labor's data bank. Job counseling and public awareness campaigns are conducted at the educational institutions, including screening of skills, advice on labor market conditions in various economic sectors, and projections for job opportunities. TANMIA also provides training for nationals seeking placement in targeted sectors (at present, banking, and subsequently, insurance and trade) to meet the skill requirements of potential employers.[21]

- The authorities have undertaken some initiatives at the Emirate level to promote entrepreneurship. In Dubai, the Sheikh Rashid initiative provides loans up to one million dirhams for serious business proposals by young nationals to start their own businesses (loans are interest free for three years and the principle payable in eight years). In addition, this initiative provides free trade licenses (up to three years), office space and support, as well as counseling and training. The Emirates Bank also has a similar initiative. Under Dubai's Department of Economic Development, a program exists (*intilaq*) to promote entrepreneurship and small businesses and provide them with various services such as networking and counseling.[22] Creation of a U.A.E. Small Business Council is under consideration.

- As a further effort to encourage Emiratization, the authorities increased visa fees for expatriate workers from Dh 100 to 1,200 and imposed bank guarantees of Dh 3,000 on employers for each expatriate employee. In 1999, a Cabinet Decree introduced some quotas in the banking sector, aiming at increasing employment of nationals by 4 percent per year, however, noncompliance continues to be difficult to monitor. As a

---

[21] Such training is paid for by TANMIA and contracted out to reputable private sector companies at an international level. Potential employers in the targeted sectors that are deemed serious seekers of national employees provide input on their preferred areas of training.

[22] For more details, see "*Business Networking for Small and Medium Enterprise Development in the U.A.E.*" by Hans Christiaan Haan published by Center for Labor Market Research and Information, TANMIA, No. 12, Dubai 2004.

result, in 2003 the share of nationals working in the banking sector reached 26 percent of total employees in that sector, albeit somewhat below the targeted 32 percent.[23] At present, there are ongoing efforts for Emiratization in the insurance and trade sectors.

Staff recommendations and evaluation

73. **In general, the steps taken and under consideration by the authorities are in the right direction.** This strategy should continue to rely on raising the skills of nationals through better education and training programs geared toward private sector labor demands, while avoiding mandatory measures, such as quotas. Below are some complementary recommendations and evaluations of present policies.

74. **In order to encourage private sector employment among nationals the most effective, but perhaps the most difficult, measure is to lower their reservation wage in the government sector**. Since for political reasons, this measure could not be implemented, staff recommends that public sector wages and benefits scales be adjusted only slightly over time. The objective is to narrow the gap between wages and benefits paid in the public sector and those in the private sector. Also, there is a need for a public statement that government employment is not guaranteed for every national who cannot find work in the private sector. In this regard, communicating a credible U.A.E.-wide stance at the Federal and Emirate levels can help reduce the government job dependency among nationals. Equally important is to allow greater discretion to employers in the private sector in hiring and firing nationals.

75. **In order to lower risks of private sector employment, unemployment benefits can be provided for nationals who work in the private sector but become unemployed.**[24] Similarly, adopting compulsory national health insurance plan that automatically covers private sector employees will help mitigate the risks of private sector employment. Also, measures need to be taken to equalize the number of work days and work hours in the private and public sectors. Currently, employees in the private sector work on average 48 hours a week compared to 35 hours in the government sector.[25]

---

[23] See "*Emiratization in the Banking Sector: Factors Influencing Success and Failure*", published by the Center for Labor Market Research and Information, TANMIA, No. 13, Dubai 2004 (no author cited).

[24] Presently, there are no unemployment benefits. Instead, there are social safety nets for those who earn less than the minimum wage in the public sector. Such subsidies are known to reduce incentive for more work. Subsidies scaled according to hour's worker (emulating a negative income tax scheme) might be considered as a more efficient incentive.

[25] In the various surveys by TANMIA, long work hours figure prominently as a disincentive for nationals who consider employment in the private sector.

76. **The educational preferences of nationals continue to direct more of them to public sector employment rather than private sector employment.** Therefore, encouraging nationals to acquire marketable skills needs to be a priority. The education system should be oriented to emphasize more marketable skills, at both the secondary and higher education levels.

77. **An important factor that stands in the way of improved efficiency in the labor market is low mobility of expatriate workers resulting from restrictions on their ability to change jobs**. Although this practice might keep expatriate wages low, it comes at the cost of lower efficiency in the labor market by restricting competition for workers among employers. At the same time, by lowering expatriate workers' wages, such restrictions on mobility make national workers even less competitive with expatriate workers. Thus, relaxing or minimizing restrictions on expatriate job mobility would enhance labor market efficiency and improve to some extent the competitiveness of nationals.

D. Summary and Conclusions

78. **The U.A.E.'s general policy has been to avoid straining private sector resources by forcing employment quotas for nationals**. This is a welcome policy that should be continued, in view of the significance of expatriate labors' contribution to growth and development in the U.A.E. However, emerging labor market strains in the U.A.E. indicate that unemployment among nationals is likely to pose a major problem in the medium to long term. Therefore, the broader and more important sustainability issue for the U.A.E. is how to create enough jobs in the private sector for nationals in order not to strain public finances in the future.

79. **Some bold measures need to be taken to increase employment of nationals and their employability in the private sector**. Those measures include restricting government sector employment and controlling increases in government wages and benefits, better targeting subsidies and transfers, promoting changes in the work attitudes and educational preferences of nationals for them to acquire more marketable skills, and greater efforts to improve job matching and counseling.

References

Abdelkarim, A., 2001, "U.A.E. Labor Market and Problems of Employment of Nationals, an Overview and Policy Agenda." *Research Report 1.* TANMIA, Center for Labor Market Research and Information, pp. 34-37.

Haan, H.C., 2004, "Business Networking for Small and Medium Enterprise Development in the U.A.E." *Research Report 12.* TANMIA, Center for Labor Market Research and Information.

TANMIA, 2004, "Emiratization in the Banking Sector: Factors Influencing Success and Failure." *Research Report 13.* Center for Labor Market Research and Information.

Table IV.1. United Arab Emirates: Midyear Population Estimates

	1999	2000	2001	2002	2003	2004	1999–04 Average
				(In thousands)			
Total	3,033	3,247	3,488	3,754	4,041	4,320	3,647
Male	2,039	2,190	2,359	2,543	2,745	2,929	2,468
Female	994	1,057	1,129	1,211	1,296	1,391	1,180
Nationals	693	728	768	810	853	906	793
Male	350	369	390	411	434	464	403
Female	343	359	378	399	419	442	390
Non-nationals	2,340	2,519	2,720	2,944	3,188	3,414	2,854
Male	1,689	1,821	1,969	2,132	2,311	2,465	2,065
Female	651	698	751	812	877	949	790
				(Percent growth)			
Total	...	7.1	7.4	7.6	7.6	6.9	7.3
Nationals	...	5.1	5.5	5.5	5.3	6.2	5.5
Male	...	5.4	5.7	5.4	5.6	6.9	5.8
Female	...	4.7	5.3	5.6	5.0	5.5	5.2
Non-nationals	...	7.6	8.0	8.2	8.3	7.1	7.8
Memorandum items							
Real growth	...						
Total GDP	...	12.4	1.7	3.6	11.0	7.5	7.2
Non-oil GDP	...	8.1	3.6	10.4	8.0	8.2	7.7

Source: Ministry of Planning.

Table IV.2. United Arab Emirates: Employment, Unemployment, and Labor Force 1/

	1998	1999	2000	2001	2002	2003	2004	1998-04 Average
				Employment (Thousands)				
Total	1,585	1,720	1,865	2,029	2,211	2,417	2,649	2,068
Male	1,388	1,500	1,621	1,754	1,901	2,065	2,247	1,782
Female	197	220	244	275	310	352	402	286
Nationals	133	146	157	171	185	204	225	174
Male	112	121	129	138	147	157	168	139
Female	21	25	28	33	38	47	57	36
Non-nationals	1,452	1,574	1,708	1,858	2,026	2,213	2,424	1,894
Male	1,276	1,379	1,492	1,616	1,754	1,908	2,079	1,643
Female	176	195	216	242	272	305	345	250
				Unemployment (Thousands)				
Total	36	40	44	50	58	68	82	54
Male	30	34	36	41	47	55	63	44
Female	6	6	8	9	11	13	19	10
Nationals	12	12	14	16	20	23	29	18
Male	9	9	9	10	12	15	15	11
Female	3	3	5	6	8	8	14	7
Non-nationals	24	28	30	34	38	45	53	36
Male	21	25	27	31	35	40	48	32
Female	3	3	3	3	3	5	5	4
				Labor force (Thousands)				
Total	1,621	1,760	1,909	2,079	2,269	2,485	2,731	2,122
Male	1,418	1,534	1,657	1,795	1,948	2,120	2,310	1,826
Female	203	226	252	284	321	365	421	296
Nationals	145	158	171	187	205	227	254	192
Male	121	130	138	148	159	172	183	150
Female	24	28	33	39	46	55	71	42
Non-nationals	1,476	1,602	1,738	1,892	2,064	2,258	2,477	1,930
Male	1,297	1,404	1,519	1,647	1,789	1,948	2,127	1,676
Female	179	198	219	245	275	310	350	254
					Employment growth rate (Percent)			
Total	...	8.5	8.4	8.8	9.0	9.3	9.6	8.9
Nationals	...	9.8	7.5	8.9	8.2	10.3	10.3	9.2
Male	...	8.0	6.6	7.0	6.5	6.8	7.0	7.0
Female	...	19.0	12.0	17.9	15.2	23.7	21.3	18.2
Non-nationals	...	8.4	8.5	8.8	9.0	9.2	9.5	8.9
					Labor force growth rate (Percent)			
Total	...	8.6	8.5	8.9	9.1	9.5	9.9	9.1
Nationals	...	9.0	8.2	9.4	9.6	10.7	11.9	9.8
Male	...	7.4	6.2	7.2	7.4	8.2	6.4	7.1
Female	...	16.7	17.9	18.2	17.9	19.6	29.1	19.9
Non-nationals	...	8.5	8.5	8.9	9.1	9.4	9.7	9.0

Table IV.2. United Arab Emirates: Employment, Unemployment, and Labor Force 1/

	1998	1999	2000	2001	2002	2003	2004	1998-04 Average
	Unemployment growth rate (Percent)							
Total	...	11.1	10.0	13.6	16.0	17.2	20.6	14.8
Nationals	...	0.0	16.7	14.3	25.0	15.0	26.1	16.2
Male	...	0.0	0.0	11.1	20.0	25.0	0.0	9.4
Female	...	0.0	66.7	20.0	33.3	0.0	75.0	32.5
Non-nationals	...	16.7	7.1	13.3	11.8	18.4	17.8	14.2
	Distribution of employment (Percent of total)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Nationals	8.4	8.5	8.4	8.4	8.4	8.4	8.5	8.4
Male	7.1	7.0	6.9	6.8	6.6	6.5	6.3	6.7
Female	1.3	1.5	1.5	1.6	1.7	1.9	2.2	1.7
Non-nationals	91.6	91.5	91.6	91.6	91.6	91.6	91.5	91.6
	Distribution of unemployment (Percent of total)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Nationals	33.3	30.0	31.8	32.0	34.5	33.8	35.4	32.9
Male	25.0	22.5	20.5	20.0	20.7	22.1	18.3	20.7
Female	8.3	7.5	11.4	12.0	13.8	11.8	17.1	12.2
Non-nationals	66.7	70.0	68.2	68.0	65.5	66.2	64.6	67.1
	Distribution of labor force (Percent of total)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Nationals	8.9	9.0	9.0	9.0	9.0	9.1	9.3	9.1
Male	7.5	7.4	7.2	7.1	7.0	6.9	6.7	7.1
Female	1.5	1.6	1.7	1.9	2.0	2.2	2.6	2.0
Non-nationals	91.1	91.0	91.0	91.0	91.0	90.9	90.7	90.9
	Unemployment rate (Percent of labor force)							
Total	2.2	2.3	2.3	2.4	2.6	2.7	3.0	2.5
Nationals	8.3	7.6	8.2	8.6	9.8	10.1	11.4	9.3
Male	7.4	6.9	6.5	6.8	7.5	8.7	8.2	7.4
Female	12.5	10.7	15.2	15.4	17.4	14.5	19.7	15.5
Non-nationals	1.6	1.7	1.7	1.8	1.8	2.0	2.1	1.9

Source: Ministry of Planning.

1/ Mid-year estimates.

Table IV.3. United Arab Emirates: Employment by Sector (1995 census)

	Nationals			Expatriates			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
	(In thousand)								
Total	99	14	114	1,060	138	1,198	1,160	152	1,312
Public sector	89	14	102	246	24	270	335	38	373
Federal government	60	11	71	64	14	77	124	24	148
Local government	23	2	25	140	7	147	163	9	172
Public sector	6	1	7	43	4	46	48	4	53
Private sector	8	1	9	637	47	684	645	48	693
Other	2	0	3	177	66	243	180	66	246
	(In percent of total employment)								
Total	7.6	1.1	8.7	80.8	10.5	91.3	88.4	11.6	100.0
Public sector	23.8	3.6	27.4	66.1	6.5	72.6	89.9	10.1	100.0
Federal government	40.5	7.2	47.7	43.1	9.3	52.3	83.6	16.4	100.0
Local government	13.3	1.3	14.6	81.5	4.0	85.4	94.7	5.3	100.0
Public sector	11.1	1.3	12.5	80.8	6.7	87.5	91.9	8.1	100.0
Private sector	1.2	0.1	1.3	91.9	6.9	98.7	93.1	6.9	100.0
Other	1.0	0.1	1.1	72.0	26.9	98.9	73.0	27.0	100.0
	(In percent of employment by category)								
Total	87.3	12.7	100.0	88.5	11.5	100.0	88.4	11.6	100.0
Public sector	78.0	11.9	90.0	20.6	2.0	22.6	25.5	2.9	28.4
Federal government	52.8	9.3	62.1	5.3	1.1	6.5	9.4	1.9	11.3
Local government	20.1	2.0	22.1	11.7	0.6	12.3	12.4	0.7	13.1
Public sector	5.2	0.6	5.8	3.5	0.3	3.8	3.7	0.3	4.0
Private sector	7.2	0.5	7.7	53.2	4.0	57.1	49.2	3.7	52.8
Other	2.1	0.2	2.3	14.8	5.5	20.3	13.7	5.1	18.8

Source: Ministry of Planning.

Table IV.4. United Arab Emirates: Government Salary and Benefits for Entry Level College Graduates (2005)

	U.A.E. Nationals	Foreign Workers
	(In dirhams per month)	
Total salary and benefits	8,200	5,600
Base salary	4,200	2,800
Allowances	4,000	2,800
Electricty and water	500	500
Transportation	400	300
Citizenship allowance	800	0
Child benefits 1/	300	0
Housing 2/	2,000	2,000
Memorandum items:		
Starting salary at DUBAL 3/	13,000	...
Base salary	6,200	...
Allowances	6,800	...

Source: Ministry of Planning, DUBAL.

1/ If married with children, for each child.
2/ Either free government housing, or, the indicated amount.
3/ Dubai Aluminum Company. DUBAL's wages and benefits paid to nationals are among the highest in the country, comparable to those in the telecommunincations and oil and gas sectors. Those sectors, as well as DUBAL are government-owned but independently managed.

Table IV.5. United Arab Emirates: Wages and Salaries and Subsidies

	2001	2002	2003	2004
	(In dirhams million)			
Total	76,084	72,029	72,853	78,943
Civilian wages and salaries	14,383	15,131	15,764	15,892
Goods and services 1/	22,491	23,745	26,519	27,172
Federal services 2/	19,082	17,045	19,198	23,533
Subsidies and transfers	20,128	16,108	11,372	12,346
GDP	255,408	277,986	325,549	381,325
	(In percent of GDP)			
Total	29.8	25.9	22.4	20.7
Civilian wages and salaries	5.6	5.4	4.8	4.2
Goods and services 1/	8.8	8.5	8.1	7.1
Federal services 2/	7.5	6.1	5.9	6.2
Subsidies and transfers	7.9	5.8	3.5	3.2

Sources: Federal government; Emirate finance departments; and IMF staff estimates.

1/ Includes military and secuirty wages and salaries. Water and electricity expenditure is allocated 25 percent to wages and salaries and 75 percent to goods and services.

2/ Largely military and internal security expenditures paid by Abu Dhabi but not in the federal accounts.

Table IV.6. United Arab Emirates: Distribution of University Graduates

(In percent)

	2000/01–2002/03 Averages					
	U.A.E. Nationals			Non-U.A.E. Nationals		
	Total	Male	Female	Total	Male	Female
Total	100.0	16.4	83.6	100.0	42.2	57.8
Arts, religion, education, tutorial	63.2	7.3	55.8	36.6	9.8	26.7
Humanities and social sciences	36.8	4.6	32.1	21.9	7.5	14.4
Education	21.0	0.8	20.2	12.0	0.7	11.2
Shari'a & Law	3.0	1.9	1.1	2.7	1.6	1.1
Tutorial external studies	2.3	0.0	2.3	0.0	0.0	0.0
Sciences and professions	35.3	8.3	27.1	62.9	32.0	30.9
Sciences	14.7	1.3	13.4	26.0	8.7	17.3
Business and economics	12.1	3.5	8.6	25.6	15.7	9.9
Food systems	1.4	0.1	1.2	1.6	1.3	0.3
Engineering	5.8	2.9	2.9	9.8	6.4	3.3
Medicine & health sciences	1.4	0.4	0.9	0.0	0.0	0.0
Postgraduate studies	1.5	0.8	0.7	0.6	0.3	0.2
Memorandum items						
As a percentage of male and female total	...	100.0	100.0	...	100.0	100.0
Arts, religion, education, tutorial	...	44.9	66.8	...	23.3	46.2
Sciences and professions	...	50.4	32.4	...	75.9	53.4
Postgraduate studies	...	4.7	0.8	...	0.8	0.4

Source: Ministry of Planning.

Table IV.7. United Arab Emirates: Long-Term Population and Labor Force Projections

	Staff Projections							
	2004 1/	2005	2010	2015	2020	2025	2030	2035
	(In thousands)							
Total population 2/	4,320	4,496	5,035	5,588	6,144	6,693	7,225	7,734
Nationals 3/	906	943	1,054	1,169	1,285	1,398	1,509	1,614
National labor force 3/	254	287	342	397	452	506	561	616
	(Growth rates in percent) 4/							
Total population 2/	6.9	4.1	2.4	2.2	2.0	1.8	1.6	1.4
Nationals 3/	6.2	4.1	2.4	2.2	2.0	1.8	1.6	1.4
National labor force 3/ 5/	11.9	13.1	3.8	3.2	2.8	2.4	2.2	2.0
Memorandum items								
Nationals' labor force participation rate	28.0	30.5	32.5	34.0	35.2	36.2	37.2	38.2
Increment in national labor force (in thousand) 6/	27	33	11	11	11	11	11	11

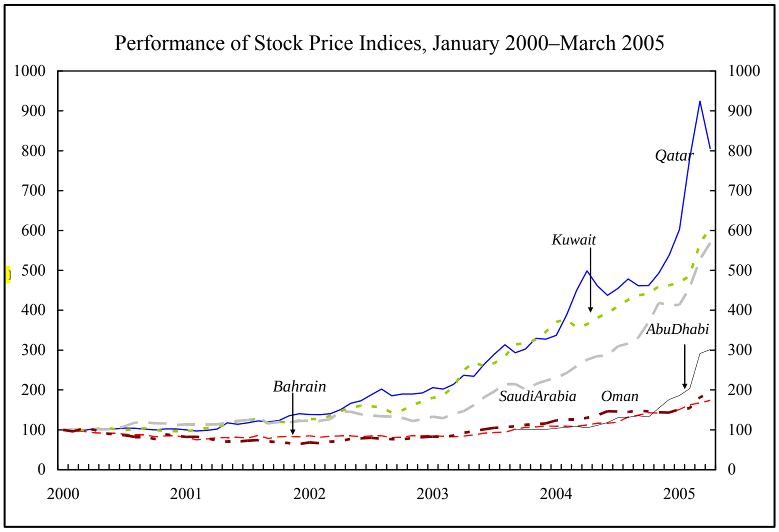
Sources: United Nations; United Arab Emirates; Ministry of Planning; and Fund staff estimates.

1/ United Arab Emirates, Ministry of Planning estimates.
2/ Projections by the Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2004 Revision (http://esa.un.org/unpp).
3/ Staff projections based on United Nations projections for total population and the United Arab Emirates, Ministry of Planning estimates for 2000–04.
4/ Growth rates per year, reflecting the average growth rates for each five-year period, as projected by the United Nations.
5/ The higher growth rate in the national labor force than the national population reflects the increasing labor force participation rate by nationals; this is a staff assumption reflecting the trend during 2000–04, estimated by the United Arab Emirates, Ministry of Planning.
6/ Increment per year, reflecting the average increment for each five year period.

V. Recent Developments in the Equity Markets in the GCC[26]

A. Introduction

80. **The Gulf Cooperation Council (GCC) stock markets witnessed an impressive growth over the last few years.**[27] Total GCC market capitalization in the region increased from about $120 billion in 2000 to $526 billion in 2004, while the cumulative value of the shares traded increased by 24 fold from about $23 billion to $552 billion (Table V.1). Since January 2000 to end-March 2005, stock price indices in the larger markets of Saudi Arabia and Kuwait have increased by about 420 percent and 500 percent respectively, while the Qatar stock exchange index has seen gains of 700 percent despite a large decline recently. Almost all indices registered double digit growth in 2004, with the United Arab Emirates (U.A.E.) market leading the region by growing at over 88 percent in 2004.



81. **The growth in the securities market in the GCC can be traced to a number of factors,** including: (a) a shift of funds from abroad to the region in the aftermath of September 11; (b) an increase in the number of listed companies; (c) strong profitability of listed companies (banks' profits grew by about 40 percent in the U.A.E. in 2004); (d) low performance of the international equity markets; (e) the opening up and privatization of a number of sectors, such as infrastructure and real estate; (f) low interest rates in the country; and (g) changes in the regulatory and supervisory framework to improve transparency and oversight in these markets.

26 Prepared by Mitra Farahbaksh.

27 Equity markets in the GCC countries are fairly recent in comparison with their well-established counterparts in the Western world. The stock market in Kuwait, the oldest in the region, dates back to the early 1950s, while the other GCC markets were established during the late 1970s and 1980s. The two markets in the U.A.E., the Abu Dhabi Securities Market (ADSM) and Dubai Financial Market (DFM), were established in 2000 and 2001, respectively.

Table V.1. Key Characteristics of GCC Stock Markets

Year	Transactions (Thousands)	Volume (Mn Shares)	Value (US$ Bn)	Market Cap (US$ Bn)	Market Cap (Percent of GDP)	No. of Companies	Turnover Ratio 1/ (Percent)	Index (Gains in Percent)
Bahrain								
2000	...	420.3	0.2	6.6	82.8	39	3.6	-18.4
2001	13.1	335.3	0.2	6.6	83.3	43	2.9	-2.5
2002	13.0	353.1	0.2	7.6	90.3	41	2.8	3.4
2003	14.6	405.6	0.3	9.7	106.2	44	2.8	28.8
2004	15.8	335.8	0.5	13.5	125.5	46	3.4	30.2
Kuwait								
2000	171.0	6,758.0	4.4	21.6	58.6	80	20.4	2.8
2001	355.1	16,299.0	12.1	28.2	82.8	88	42.9	28.8
2002	521.3	27,834.0	22.7	35.8	101.8	95	63.4	24.1
2003	1,081.7	49,563.0	55.1	61.5	147.3	108	89.6	63.9
2004	1,056.9	33,543.7	51.8	75.2	145.2	125	68.9	11.9
Oman								
2000	...	146.1	0.6	5.1	25.7	113	11.8	-19.6
2001	...	138.3	0.4	4.5	22.6	119	8.9	-24.4
2002	92.9	191.8	0.6	5.2	25.6	127	11.5	26.2
2003	179.1	315.2	1.5	6.6	30.6	139	22.7	42.1
2004	255.0	333.2	2.0	7.6	30.9	166	26.3	23.8
Qatar								
2000	12.2	31.6	0.2	8.2	46.2	22	2.4	8.2
2001	15.8	51.0	0.4	9.0	50.7	23	4.4	37.2
2002	29.8	79.6	0.9	10.6	53.8	25	8.5	37.3
2003	134.7	190.0	3.2	26.7	113.1	28	12.0	69.8
2004	290.3	316.6	6.4	40.4	142.0	30	15.8	64.5
Saudi Arabia								
2000	498.1	554.9	17.4	67.9	36.1	75	25.6	11.3
2001	605.0	691.8	22.3	73.4	40.1	72	30.4	7.6
2002	1,033.7	1,735.8	35.7	74.9	39.7	73	47.6	3.6
2003	3,763.4	5,566.9	159.1	157.5	73.3	70	101.0	76.2
2004	13,319.5	10,298.0	473.0	306.8	122.3	73	154.4	84.9
U.A.E.								
2000	6.6	24.0	0.1	11.0	15.7	27	0.9	...
2001	19.3	77.3	0.4	13.7	19.7	27	2.9	23.6
2002	36.3	209.2	1.1	29.9	41.7	37	3.7	14.5
2003	50.7	561.4	2.0	39.6	49.2	44	5.1	32.1
2004	299.3	6,069.3	18.2	82.3	86.0	53	22.1	88.4
2005 2/	214.2	4,064.3	14.7	131.5	137.3	57.0	11.2	53.7

Sources: Respective Stock Exchanges; and Fund staff estimates.

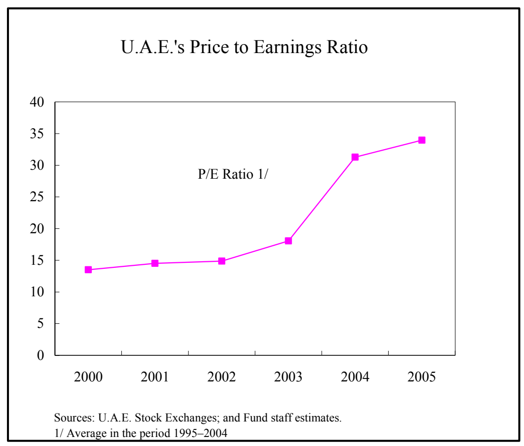
1/ Ratio of value of trade to market capitalization.
2/ Until end-March 2005.

82. **The purpose of this paper is two-fold:** Section I describes the key characteristics of the GCC markets, including the current regulatory frameworks and institutions governing these markets. Section II explores empirically the reasons behind the recent significant developments in the GCC markets by studying the dynamic relations between stock prices and some of the main variables thought to affect these markets, including the price of oil, performance of international equity markets, and interest rates.[28] Section III includes the conclusion.

B. Key Characteristics of the GCC Markets

83. **Taken as a whole, the GCC stock markets ($526 billion) accounted for 1.5 percent of total world stock market capitalization at end-2004.** The largest market in the region in terms of capitalization is that of Saudi Arabia ($307 billion, or 122 percent of GDP as of end-2004), which accounted for about 58 percent of the six GCC markets. It also ranks eleventh among the emerging markets. Among the GCC countries, Oman has the largest market in terms of the overall number of stocks listed (166 companies), with the lowest market capitalization in the region ($8 billion). As of end-2004, the U.A.E. had the second largest volume of traded shares after Saudi Arabia.

84. **Estimates of the price to earnings (P/E) ratio are not readily available. Nevertheless, share prices seem to have increasingly become liquidity and momentum-driven.** While corporate earnings have grown strongly in the past couple of years, markets may have pushed up share price valuations in excess of fundamentals (based on share prices to trailing earnings basis). It is estimated that the markets in Saudi Arabia, the U.A.E., and Qatar each had a P/E of about 35 at end-2004.[29] The market in Oman had a P/E of 11.7 at end-2004.



85. **GCC equity markets are relatively thin, concentrated and retail-based.[30]** For example, only five companies made up over 60 percent of total value of trade at end-2004 in

[28] The real estate sector in the GCC is often considered an alternative investment opportunity to the stock market. This variable is not included in this study, however, because of lack of real estate price indices.

[29] For the U.A.E., the authorities estimate that based on the projected 2005 earnings, the P/E is about 17 percent.

[30] For comparison purposes, key characteristics of selected world stock exchanges for 2004 are shown in Table V.2.

the U.A.E., with two companies accounting for about half of the increase in the market index. Changes in the price of one real estate company, Emaar, was responsible for half of the market index increase in DSM, while changes in the price of a communication company, Etisalat, resulted in about half of the increase in ADSM index. In almost all the GCC markets, individual investors account for over 95 percent of value of trades carried out.[31] The role of institutional investors remains limited, in part because of prohibition on purchase of own shares by listed companies, lack of corporate retirement schemes, and a lack of market makers and underwriters. Short selling is not permitted in any of the GCC exchanges.

86. **Liquidity, measured as the ratio of market turnover to market capitalization, has increased significantly, although it remains low by international standards in some GCC markets.** This ratio reveals how often the total value of stocks is turned over on average during a year. Western exchanges typically have a turnover ratio of 90 percent to 170 percent. In contrast, only Kuwait and Saudi Arabia exhibit characteristics of liquid markets with turnover ratios of 69 and 154 percent respectively, at end-2004. In the U.A.E., turnover ratio is on the rise, tripling in 2004 from a year earlier, reaching 22 percent. Low institutional investor participation rate and government ownership of a significant portion of shares are the main cause of lower market liquidity. Since governments tend to hold on to their shares for longer period of time, liquidity and total turnover are adversely affected (in the U.A.E. about 25 percent of the total value of listed companies are owned by the government). Low liquidity, in turn, is conducive to higher bid-ask spreads and greater price volatility.[32] Market liquidity is particularly important for institutional investors that usually have large order sizes.

[31] Traditionally, in some countries, such as Saudi Arabia, only commercial banks have been permitted to engage in stock capital market activities, including stock brokerage and mutual funds through their investment departments. More recently, brokerage licenses are also being given to nonbank joint stock companies as well.

[32] No data is available on the bid-ask spreads for any of the GCC countries.

Table V.2. Key Characteristics of Selected World Stock Exchanges, 2004

	GDP (US$ bn)	Transactions (Thousands)	Volume (Mn shares)	Traded Value (US$ bn)	Market Cap (US$ bn)	Market Cap (Percent of GDP)	No. of Companies	P/E Ratio (In percent)	Turnover Ratio (In percent)	Index (Gains in Percei
Hungary	99.3	780	876	7.8	28.6	28.8	47	15.0	27.3	57
Iran	169.0	2,253	13,124	16.7	42.6	25.2	402	8.8	39.2	28
Malaysia	117.8	20,035	122,680	...	181.6	154.2	959	20.0	...	34
Poland	241.8	3,946	4,235	39.6	71.5	29.6	230	17.1	32.3	36
Russia	582.7	...	11,226	...	258.2	44.3	200	10.6	...	8
Turkey	300.1	43,182	69,615	147.8	98.3	32.8	297	13.3	150.3	36

Source: International Federation of Stock Exchanges; respective stock exchanges.

87. **Market access varies across the region.** GCC citizens are permitted to trade in the domestic markets of all GCC countries. In all countries, except in Saudi Arabia, non-GCC investors are also permitted to trade in the local stock markets, but subject to restrictions. For example, in Qatar, non-nationals were permitted to participate in the stock market as of April 2005. However, non-Qataris are not allowed to hold more than 25 percent of a listed company. They are also not permitted to participate in the primary market. In the U.A.E., foreign nationals are permitted by law to hold up to 49 percent of the outstanding shares of public joint stock companies.[33] However, the articles of association of the vast majority of companies restrict ownership exclusively to the U.A.E. nationals. In fact, only 30 out of the 55 companies that made up the U.A.E. markets permit foreign holding of their shares. Foreign ownership is allowed up to 50 percent of shares in Oman. Non-Saudi resident investors are permitted to invest in the Saudi shares through open-ended mutual funds originated by a Saudi bank. These funds are subject to a "negative list" provision that prohibits foreign investment in insurance, telecommunication, wholesale trade, and retail distribution services. However, non-resident non-Saudi investors are only allowed to invest through a special mutual fund established in London. Foreign ownership is allowed up to 100 percent of shares in Bahrain.

88. **Cross-listing agreements with other GCC stock exchanges are in effect in almost all GCC countries.** Cross-listing with exchanges outside the GCC region, however is not permitted. While, the ADSM and the DSM in the U.A.E. are linked electronically, there are no cross-listings between the two exchanges.

89. **Some of the GCC countries have separated the regulatory and management functions of their capital markets.** In line with international standards, the regulatory and supervisory functions in Saudi Arabia, Oman, and the U.A.E. are placed under the jurisdiction of a capital market supervisory authority, while the operational responsibilities remain with the securities markets. In the U.A.E., the Emirate Securities and Commodities Authorities (ESCA) is responsible for supervising ADSM and DSM. It also oversees the operations of the clearance and settlement facilities, regulates disclosure and transparency issues, and registers public share holding companies and individual brokers. Saudi Arabia has also separated the regulatory and operational aspects of the stock markets through a comprehensive capital markets law put in place in 2004.

[33] Insurance companies are not permitted to have foreign participation in the U.A.E.

90. **Regulations concerning transparency, disclosure rules, and insider trading differ across the GCC.** In some GCC countries, such as Qatar, there are no comprehensive laws regarding insider trading and market manipulation, and listed companies except for banks do not have to report quarterly results. One key aspect of efficient capital markets, objective investment information, is also not widely available. Comprehensive regulations regarding nonfinancial banking institutions, including investment companies, could be strengthened in almost all the GCC countries.

91. **Direct exposure of the financial system to the equity market in the GCC appears to be limited.** In the U.A.E. and Kuwait, banking sector's direct exposure to the market was at about 1.8 and 8.5 percent of total banking system's loan portfolio, respectively. Nonetheless, in most of the GCC countries, a significant increase in credit to the private sector took place in 2004. While a large portion of this increase was channeled to trade and manufacturing, some of the credit expansion may have been channeled to the equity markets. As such, in case of a correction in the equity markets, there could be an impact on households' balance sheets, impacting consumer confidence and spending.

92. **Some of the GCC authorities have taken steps to reduce the risks to the financial system in case of a sharp drop in equity prices.** In Kuwait, the authorities imposed a ceiling of 80 percent on the ratio of bank loans to deposits in July 2004 to limit the expansion in private sector credit. Prudential regulations relating to lending for real estate and stock market investments have been tightened in Qatar. In Saudi Arabia, although the authorities believe that the existing regulations prevent overexposure of banks to stock markets, the monetary agency has recommended that banks reduce the amount of margin trading loans as a precautionary measure. In the U.A.E., regulations limit total bank lending to 100 percent of total stable resources[34], and lending is limited to 40 times the clients' salaries. Nonetheless, banks' exposure to the securities market through the financing of IPOs grew significantly in 2004, prompting the Central Bank of U.A.E. to issue circulars requiring banks to strictly observe the regulations, and also not to lend more than five times the margin provided by customer for subscribing to new IPOs. Banks are not permitted to own or deal in shares for their own accounts.

C. Empirical Investigation of Stock Market Dynamics in the GCC

93. **This section empirically investigates the dynamic long-run effect of key macroeconomic variables on stock returns in the three largest members of the GCC, Kuwait, Saudi Arabia, and the U.A.E.** We examine the extent to which the variations in a set of exogenous global and local macroeconomic variables have explanatory power over the GCC stock markets. We analyze the long-run dynamics of the stock market prices using a

[34] Defined as the sum of own funds, interbank deposits greater than 6 months, and total customer deposits.

model whose specification reflects the unique features of the GCC economies.[35] The model specifies the stock prices as a function of:

- *Oil price* (denoted as Brent): The price of oil affects profitability not only of business activities directly linked to oil, but also other businesses through government expenditures and its secondary round impact on economic conditions.

- *U.S. T-bill rates* (3-month) as a proxy for interest rates. The GCC countries have pegged exchange rate regimes to the U.S. dollar. As a result, domestic interest rates closely track the U.S. interest rates. We postulate a negative relationship between interest rates and stock prices. A rise in this opportunity cost will motivate them to substitute equity shares for other assets in their portfolios.

- *A composite index of the stock prices* for the advanced economies (MSCI).[36] The low performance of international equity markets has been cited as a possible factor in investor's decision in shifting the weight of their portfolios toward the region's stock markets.

- *A time dummy* variable to account for the shift of funds from abroad to the GCC countries in the aftermath of September 11.

94. In addition to the above, we tested for the existence of cointegrating vectors using domestic macroeconomic variables, including GDP, credit to the private sector, and money supply. The results were, however, inconclusive and the estimated parameters were not statistically significant.[37]

95. **The period covered for each country depends on the availability of the stock market data**.[38] All variables except interest rates are expressed in logarithmic forms. The

---

[35] The relation between stock market returns and fundamental economic activities in the industrial countries are well documented (Fama, 1991, Chen, 1991), Wei & Wong (1992), but few studies have focused on the relationship between these variables in the developing countries (Kwan & Shin, 1999).

[36] Obtained from the website of Morgan Stanley Capital International (MSCI).

[37] This indicates a contrast between the dynamics of stock markets in the GCC and those in the Western countries. For example, money supply and credit to the private sector depict a possible liquidity effect on the stock markets in the more developed markets through their influence on corporate earnings. The insignificance of monetary variables in the GCC may be due to the fact that oil price is a better proxy for real economic activity in these countries. Because of lack of industrial production indices as well as the lack of monthly GDP, it is difficult to estimate the long-run relationship between real economic activities and the stock market returns.

[38] Real estate is another form of investment which has attracted much of the liquidity in the recent years. Unfortunately, given the lack of real estate indices in the region, it is not possible to include this variable in the model, which could result in a misspecification of the model.

descriptive statistical profile of selected GCC stock markets is presented in Table V.3. The stock market returns for all countries cannot be described as having a normal distribution, as evidenced by the significance of the Jarque-bera statistics and confirmed by the results based on skewness or on kurtosis.

Table V.3. Tests of Normality for Monthly Stock Returns in the GCC

Country	Skewness	Jarque-Bera	(Probability)	Kurtosis
Kuwait	0.99	18.81	0.00	2.83
Saudi Arabia	1.22	38.00	0.00	3.87
U.A.E.	1.13	12.00	0.00	3.71

Source: GCC stock markets; and Fund staff estimates.

96. **This study uses the co-integration test to investigate the long-run relation between stock market prices (SE) and the underlying macroeconomic variables.** If these variables are significantly and consistently priced in the stock market returns, they should be co-integrated. The co-integration analysis requires two steps: we first examine the stationarity of each series by using the augmented Dickey-Fuller (ADF). A subsequent test is carried out to determine whether macroeconomic variables and stock prices are co-integrated, reflecting the existence of a long-run equilibrium relationship between stock prices and macroeconomic variables in a multivariate framework. To test for co-integration, we employ the most commonly used test—the maximum likelihood approach of Johnsen (1988) and Johansen and Juselius (JJ) (1990).[39]

97. **The results of the unit root tests are reported in Table V.4**. The null hypothesis of the existence of a unit root in log levels cannot be rejected for any of the series, but we reject the same null hypothesis in the log first difference of all the series. Thus, all the time series used in this study are stationary in first differences.

[39] The JJ approach to cointegration is a Vector Auto Regression based test.

Table V.4. Unit Root Tests

Kuwait, 1995:11–2005:03

Variable	ADF t-statistics Log Levels	First Differences	
Brent	-1.74	-12.04	*
MSCI	-1.68	-10.06	*
SE	-0.10	-6.71	*
T-bills	-2.07	-6.62	*

Saudi Arabia, 1994:01–2005:03

Variable	ADF t-statistics Log Levels	First Differences	
Brent	-1.76	-11.11	*
MSCI	-1.31	-1.29	*
SE	0.30	-9.38	*
T-bills	-2.41	-6.91	*

United Arab Emirates, 2001:01–2005:03

Variable	ADF t-statistics Log Levels	First Differences	
Brent	-1.74	-12.04	*
MSCI	-1.88	-6.47	*
SE	2.75	-4.00	*
T-bills	-1.54	-4.39	*

Null hypothesis: series has a unit root.
* denotes rejection of null hypothesis at 5 percent significance level.
Lag length is chosen using the Schwart Information Criterion.
The regression includes an intercept and a time trend.

98. **The long-run relationship between the variables given by the co-integration equation is provided in Table V.5.**[40] The strong positive long-run relationship between the

[40] JJ (1990) noted that the first cointegrating vector corresponding to the largest eigenvalue is the most correlated with the stationary part of the model, and hence is most useful. Since the JJ test results may be

(continued…)

price of oil and stock market returns is confirmed by the estimated results. Also, the coefficients of the composite index of world stocks (MSCI) are statistically significant for Kuwait and the U.A.E. The performance of international equity markets seem to have a long-run effect on investor's decision in shifting the weight of their portfolios toward the region's stock markets. The coefficients on U.S. T-bill rates have the right signs, but appear to be statistically significant only in Saudi Arabia. Finally, the time dummy variable, to capture the impact of the events of September 2001, seems to indicate that there indeed was a shift of funds from abroad to the GCC countries.

Table V.5. Tests for the Number of Cointegrating Vectors

	Kuwait	Saudi Arabia	U.A.E.
Brent	28.43	12.75	0.79
	(4.83)	(2.87)	(15.35)
MSCI	-38.2	-2.34	-0.59
	(4.27)	(0.68)	(5.97)
T-Bill	-5.11	-6.46	0.00
	(1.86)	(3.69)	(0.12)
Time dummy	23.80	25.76	0.28
	(2.13)	(3.58)	(4.74)

Source: Fund staff estimates.

Note: T-statistics are in paranthesis.

D. Conclusion

99. **The equity markets in the GCC have undergone significant transformation in recent years.** The impressive growth of these markets was due to a number of factors, which reflect, in part, characteristics and features that are unique to oil-dependent economies. We tested for long-run effects of some external and domestic variables on stock prices, and found that oil prices have the most significant long-run effect on stock returns. Another important factor that contributed to recent increase in stock prices in the GCC countries has been the shift of funds from abroad to the region in the aftermath of September 11. Also, the recent

sensitive to the order of autoregressions, we conduct the tests using alternative lag lengths, 2, 4, 6. For cases that the results are uniform across lag length, we report only those with lag equal to 2 for all countries.

revitalization of the GCC stock markets was in part due to the privatization of state-owned enterprises, which took place through public stock offerings.

100. **The transformation of the region's markets will continue, given that the GCC governments have embarked on integrating their economic and financial markets and creating a monetary union by 2010.** Such integration also entails further liberalization and harmonization of the region's capital markets, including their regulatory and supervisory laws. A gradual harmonization of regulations appears already to be taking place across the region, including provision of access to markets for GCC and non-GCC residents.

101. **The GCC governments are exploring steps to establish joint stock and bond markets for the GCC, which would require full unification of procedures and regulations.** The establishment of a single exchange could have important benefits for regional financial markets, including standardization of trading platforms across exchanges, a reduction in market fragmentation, and minimization of costs associated with cross-border trading. It could also lead to further strengthening of regulations across the GCC to ensure that International Organization of Securities Commission's (IOSCO) Objectives and Principles of Securities Regulations are fully met. These objectives include protection of investors, ensuring that markets are fair, efficient, and transparent, and reduction in systemic risks.

102. **While direct exposure of the financial system to the equity and real estate markets remains limited, the significant increase in credit to the private sector warrants closer monitoring**. In case of a correction in equity markets, there could be an impact on households' balance sheets, which, in turn, would impact consumer confidence and spending. To this end, the authorities are urged to consider higher provisioning rates for specific types of credits, which carry higher-than-average risks, require higher equity participation for margin trading loans, and enforce stricter collateral requirements. There is also a need to strengthen capital market oversight, accounting, investor/borrower understanding of underlying risks, and data transparency.

REFERENCES

Chen, N.F., 1991, "Financial Investment Opportunities and the Macro Economy" *Journal of Finance 46*, pp. 529–554.

Fama, E.F. 1991, "Efficient Capital Markets: II". *Journal of Finance 46*, pp. 1575–1617.

Johansen, J., 1988, "Statistical Analysis of Cointegrating Vectors" *Journal of Economic Dynamics and Control*, 12, pp. 231–54.

Johansen, J. and K. Juselius, 1990, "Maximum Likelihood Estimation and Inferences on Cointegration—with Application to the Demand for Money", *Oxford Bulletin of Economics and Statistics*, 52, pp. 169–210.

Kwon, C. S. and T. S. Shin, 1999, "Cointegration and Causality between Macroeconomic Variables and Stock Market Returns", *Global Finance Journal*, 10:1, pp. 71–81.

Wei, K. C. J., and Wong, K. M. (1992), "Tests of Inflation and Industry Portfolio Stock Return", *Journal of Economic Business*, 44, pp. 77–94.

United Arab Emirates: Basic Data

I. Social and Demographic Indicators (2002, except as indicated)

Population characteristics			
Total population, mid-2004 (in millions) 1/	4.3	Age distribution (in thousands)	
Population growth (in percent) 1/	6.9	14 and under	752
Density (per sq km)	38.5	15–64	2,112
Life expectancy at birth (years)	75.4	Over 64	85
Crude birth rate (per thousand)	17.3	Percentage	
Crude death rate (per thousand)	3.6	Urban	88
Infant mortality (per thousand)	8	Rural	12
Average UAE crude price (US$ per barrel)		Nutrition (2001)	
Percentage of population	100	Per capita calories per day	3,381
Health		Education , percent	
Physicians per thousand people (1995)	1.8	Primary school enrollment percentage	
Access to health care		Male	94
(percentage of population)	99	Female	90
		Adult literacy rate	77

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

1/ Including expatriates.

II. Selected Economic Indicators, 2000–05

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
	(In billions of U.A.E. dirhams)					
GDP at market prices	259.2	255.4	275.3	325.1	382.7	469.3
	(In millions of barrels per day)					
Oil production and exports						
Crude oil production 1/	2.41	2.44	2.26	2.59	2.66	2.80
Of which: Condensates	0.22	0.32	0.33	0.33	0.33	0.40
Average UAE crude price (US$ per barrel)	27.51	23.91	24.75	28.11	36.30	48.75
WEO oil price (US$ per barrel)	28.24	24.33	24.95	28.89	37.76	49.50
	(In billions of cubic meters per year)					
Natural gas production and exports						
Natural gas production	35.9	45.0	43.4	44.4	45.4	46.8
LNG exports	7.1	7.5	7.1	7.4	7.4	7.5
NGL exports	12.3	11.5	11.9	13.1	13.0	13.4
	(Annual percentage changes)					
National income and prices						
Real GDP (at factor cost)	12.4	1.7	2.6	11.6	7.8	7.3
Crude oil, condensates and natural gas	13.1	0.0	-7.6	13.6	2.9	7.0
Nonhydrocarbon sectors 2/	12.0	2.5	7.7	10.8	9.9	7.3
GDP deflator	13.8	-3.1	4.6	5.7	9.2	14.5
Consumer prices	1.4	2.8	2.9	3.1	4.6	6.0
Volume of imports	16.2	12.1	9.6	8.7	10.1	15.0
Volume of non-oil exports	-7.2	30.0	9.2	26.2	18.4	7.2
	(In percent of GDP)					
Investment and saving						
Gross domestic investment	23.2	24.7	24.0	23.4	22.1	20.4
Government	4.3	5.2	4.5	4.9	4.1	3.4
Nongovernment	18.8	19.4	19.5	18.5	18.1	17.0
National saving	40.9	35.3	28.6	31.9	34.4	39.6
Government	17.5	7.0	15.5	18.3	21.9	26.3
Nongovernment	23.4	28.3	13.1	13.6	12.5	13.3
Saving less investment	17.7	10.7	4.6	8.5	12.3	19.2
Consolidated government finances						
Revenue	44.3	37.1	41.8	41.1	42.7	43.6
Hydrocarbon	32.8	26.6	32.6	32.8	33.0	33.8
Nonhydrocarbon	11.5	10.5	9.1	8.4	9.7	9.8
Of which: Investment income	5.8	4.5	3.2	3.0	3.6	4.7

II. Selected Economic Indicators, 2000–05

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
	(In percent of GDP)					
Expenditure	31.8	37.4	31.5	28.2	24.4	21.0
Of which						
Current	26.8	30.0	26.3	22.8	20.8	17.3
Development 3/	4.6	7.0	4.8	4.9	3.5	3.5
Current balance	17.5	7.0	15.5	18.3	21.9	26.3
Overall balance	12.4	-0.4	10.3	13.0	18.3	22.6
Overall balance (excluding investment income	6.6	-4.9	7.1	9.9	14.7	17.9
(Excluding hydrocarbon revenue)	-26.2	-31.5	-25.5	-22.8	-18.3	-15.9
Financing	-12.4	0.4	-10.3	-13.0	-18.3	-22.6
Domestic banks	-4.1	-0.2	-3.1	-0.7	-0.5	0.1
Other	-8.4	0.6	-7.2	-12.3	-17.8	-22.7
Government debt 4/	4.6	4.0	5.3	6.6	8.4	6.9
	(Changes in percent of initial stock of M2)					
Money and credit						
Broad money (M2)	15.3	15.3	15.6	16.1	23.2	15.0
Foreign assets (net)	20.2	8.7	20.1	1.9	13.6	11.1
Domestic assets	-4.9	6.5	-4.5	14.2	9.6	3.9
Of which						
Claims on government (net)	-9.6	-0.4	-5.8	-1.3	-0.9	0.1
Claims on public sector enterprises	0.2	-0.4	1.3	3.5	0.5	0.1
Claims on private sector	9.0	8.5	10.4	11.9	21.3	15.2
	(In percent per annum)					
Average interest rates						
Dirham (3-month interbank)	6.53	3.46	1.86	1.29	1.94	...
Lending rate	9.60	7.82	6.82	5.81	5.87	...
	(In billions of U.S. dollars)					
External sector						
Exports	49.6	47.5	52.5	67.3	82.3	103.4
Crude oil	21.7	17.6	16.6	22.1	29.6	41.5
Petroleum products	1.7	2.1	3.6	3.8	3.7	5.0
Gas	3.7	3.3	3.3	3.9	4.7	6.9
Nonhydrocarbon exports	7.5	8.5	10.6	14.1	16.6	18.3
Re-exports	15.0	16.0	18.3	23.4	27.7	31.7
Imports, f.o.b.	-30.8	-33.5	-37.5	-45.8	-54.2	-63.0
Trade balance	18.8	14.0	14.9	21.5	28.1	40.4
Services (net)	-6.4	-6.2	-7.7	-9.1	-10.8	-13.0
Income (net)	3.8	2.9	0.8	-0.1	0.1	3.6
Transfers (net)	-4.0	-4.2	-4.4	-4.7	-5.1	-6.5
Private	-3.7	-3.9	-4.1	-4.4	-4.6	-6.1
Official	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4

II. Selected Economic Indicators, 2000–05

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
	(In billions of U.S. dollars)					
Current account balance	12.2	6.5	3.8	7.7	12.3	24.5
(In percent of GDP)	17.2	9.4	5.0	8.7	11.8	19.2
Overall balance	2.8	0.5	1.1	-0.2	3.5	2.9
Central bank reserves	13.8	14.3	15.3	15.1	18.6	21.5
In months of imports	4.9	4.6	4.0	3.3	3.5	3.9
As percent of reserve money	250.2	242.8	223.5	181.8	176.7	182.3
As percent of short-term debt 5/	168.6	162.4	164.6	164.2	212.0	241.8
Banking system NFA/M2 (percent)	69.4	67.7	76.0	67.1	65.5	66.6
Total external debt 6/	18.2	19.4	16.7	16.5	15.8	16.0
(In percent of GDP)	25.8	27.9	22.3	18.7	15.1	12.5
Official foreign assets (in percent of GDP)	196.7	181.6	161.8	141.0	138.2	140.0
Memorandum items						
Dirhams/U.S. dollar (end of period)	3.6725	3.6725	3.6725	3.6725	3.6725	3.6725
REER (average, 1990=100)	132.20	140.76	140.08	129.22	122.65	...
(Percentage change)	5.29	6.48	-0.48	-7.76	-5.08	...

Sources: U.A.E. authorities; Bank for International Settlements (BIS); Organization for Economic Cooperation and Development (OECD); and IMF staff estimates.

1/ Crude oil output includes condensates, which are not subject to OPEC quotas.
2/ Includes refined products and liquid gas.
3/ Includes net loans and equity.
4/ Due to domestic banks; no official external debt is reported.
5/ Debt due within one year, from BIS/OECD statistics.
6/ Central Bank and commercial bank foreign liabilities, plus private nonbanks (BIS source).

Table 1. United Arab Emirates: Sectoral Origin of GDP at Constant 2000 Prices, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Gross domestic product	257,979	262,353	269,304	300,537	323,964
Crude oil production	86,690	86,700	80,138	91,025	93,625
Other sectors	171,289	175,653	189,166	209,512	230,339
Agriculture	9,047	8,844	8,915	8,942	9,806
Industry	56,916	57,794	62,268	69,494	77,963
Mining and quarrying	682	702	718	738	790
Manufacturing 1/	34,762	35,062	36,305	39,170	45,047
Electricity and water	4,615	4,842	4,890	5,777	6,412
Construction	16,857	17,188	20,355	23,809	25,714
Services	105,326	109,015	117,983	131,076	142,570
Trade	27,294	27,610	32,395	37,993	40,342
Wholesale and retail trade	22,268	22,390	26,918	32,293	33,947
Restaurants and hotels	5,026	5,220	5,477	5,700	6,395
Transportation, storage, and communication	17,247	18,296	19,586	21,121	23,260
Finance and insurance	14,862	16,666	16,810	18,180	21,075
Real estate	19,068	19,375	21,537	23,272	26,554
Government services	25,561	26,344	26,011	28,222	29,315
Other services	5,465	5,849	7,174	7,886	8,267
Less:					
Imputed bank service charges	4,171	5,125	5,530	5,598	6,243

Source: Ministry of Planning.

1/ Includes natural gas and petroleum processing industries.

Table 2. United Arab Emirates: Real Growth by Economic Sector, 2000–04

(Change in percent)

	2000	2001	2002	2003	Prel. 2004
Gross domestic product	12.4	1.7	2.6	11.6	7.8
Crude oil production	13.1	0.0	-7.6	13.6	2.9
Other sectors	12.0	2.5	7.7	10.8	9.9
Agriculture	18.9	-2.2	0.8	0.3	9.7
Industry	17.7	1.5	7.7	11.6	12.2
Mining and quarrying	3.9	2.9	2.3	2.8	7.0
Manufacturing 1/	30.4	0.9	3.5	7.9	15.0
Electricity and water	5.7	4.9	1.0	18.1	11.0
Construction	0.9	2.0	18.4	17.0	8.0
Services	8.7	3.5	8.2	11.1	8.8
Trade	3.4	1.2	17.3	17.3	6.2
Wholesale and retail trade	3.2	0.5	20.2	20.0	5.1
Restaurants and hotels	4.3	3.9	4.9	4.1	12.2
Transportation, storage, and communication	14.3	6.1	7.1	7.8	10.1
Finance and insurance	7.6	12.1	0.9	8.1	15.9
Real estate	0.9	1.6	11.2	8.1	14.1
Government services	13.4	3.1	-1.3	8.5	3.9
Other services	7.2	7.0	22.7	9.9	4.8
Less:					
Imputed bank service charges	-14.9	22.9	7.9	1.2	11.5

Source: Ministry of Planning.

1/ Includes natural gas and petroleum processing industries.

Table 3. United Arab Emirates: Sectoral Origin of GDP at Current Prices, 2000–04

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

	1998	1999	2000	2001	2002	2003	Prel. 2004
Gross domestic product	177,360	201,797	257,979	254,236	272,856	321,752	378,761
Crude oil production	37,402	49,794	86,690	74,990	72,552	92,136	123,261
Other sectors	139,958	152,003	171,289	179,246	200,304	229,616	255,500
Agriculture	6,325	7,551	9,047	8,862	9,105	9,152	10,100
Industry	45,125	48,232	56,916	58,165	64,843	75,061	85,562
Mining and quarrying	619	656	682	697	725	765	828
Manufacturing 1/	23,987	26,539	34,762	35,132	37,710	42,215	49,546
Electricity and water	4,127	4,416	4,615	4,890	4,930	6,009	6,720
Construction	16,392	16,621	16,857	17,446	21,478	26,072	28,468
Services	88,508	96,220	105,326	112,219	126,356	145,403	159,838
Trade	25,005	26,255	27,294	28,273	34,919	41,985	46,025
Wholesale and retail trade	20,955	21,535	22,268	22,838	28,894	35,460	38,682
Restaurants and hotels	4,050	4,720	5,026	5,435	6,025	6,525	7,343
Transportation, storage, and communication	13,347	15,247	17,247	19,595	21,742	24,692	27,263
Finance and insurance	13,023	13,663	14,862	16,845	17,314	19,902	22,318
Real estate	17,664	18,384	19,068	19,662	22,524	25,355	29,540
Government services	20,010	22,458	25,561	27,029	27,864	30,737	32,201
Other services	4,758	5,071	5,465	6,007	7,693	8,557	9,077
Less: Imputed bank service charges	5,299	4,858	4,171	5,192	5,700	5,825	6,586

Source: Ministry of Planning.

1/ Includes natural gas and petroleum processing industries.

Table 4. United Arab Emirates: Sectoral Distribution of Nominal GDP, 2000–04

(In millions of dirhams)

	2000	2001	2002	2003	Prel. 2004
Oil sector 1/	102,636	90,330	87,269	110,955	144,955
Government sector	66,720	68,388	75,166	81,856	90,497
Private sector	88,623	95,518	110,420	128,941	143,309
GDP	257,979	254,236	272,856	321,752	378,761

Source: Ministry of Planning.

1/ Includes crude oil, condensates, liquid gas, and refined products.

Table 5. United Arab Emirates: Use of Resources at Current Prices, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Consumption	152,559	160,363	183,847	204,104	232,895
Public	39,885	41,700	41,818	46,057	48,221
Private	112,674	118,663	142,029	158,047	184,674
Fixed investment	57,398	60,178	63,204	73,105	81,255
Public	32,643	35,433	36,819	40,649	45,895
Private	24,755	24,745	26,385	32,456	35,360
Change in inventories	2,680	2,792	2,870	2,950	3,392
Domestic expenditure	212,637	223,333	249,921	280,159	317,542
Net exports of goods and services	46,610	32,075	25,365	44,989	65,147
Exports	190,070	186,516	201,076	256,775	314,991
Imports	143,460	154,441	175,711	211,786	249,844
GDP at market prices	259,247	255,408	275,286	325,148	382,689
Plus: subsidies, less indirect taxes	-1,268	-1,172	-2,430	-3,396	-3,928
Subsidies	1,794	1,813	880	742	675
Indirect taxes	3,062	2,985	3,310	4,138	4,603
Equals: GDP at factor cost	257,979	254,236	272,856	321,752	378,761

Source: Ministry of Planning.

Table 6. United Arab Emirates: Per Capita GDP and Distribution of GDP at Factor Cost by Emirate, 2000–04

Emirate	2000	2001	2002	2003	Prel. 2004
	(In millions of U.A.E. dirhams)				
Gross domestic product (GDP)	257,979	254,236	272,856	321,752	378,761
Abu Dhabi	159,624	148,439	151,016	190,949	221,590
Dubai	62,335	66,028	69,244	82,182	98,485
Sharjah	21,380	24,054	24,593	29,127	35,254
Ajman	4,006	4,230	4,425	5,265	6,304
Umm al-Qaiwan	1,405	1,439	1,504	1,808	2,151
Ras al-Khaimah	5,940	6,318	6,636	7,858	9,427
Fujairah	3,289	3,728	3,952	4,562	5,550
	(In U.A.E. dirhams)				
Per capita GDP	79,451	72,889	69,624	79,622	87,118
Abu Dhabi	126,085	108,986	102,732	120,018	129,062
Dubai	65,478	64,167	62,269	68,258	75,639
Sharjah	40,416	42,801	41,058	45,798	52,130
Ajman	22,380	21,582	20,580	22,406	24,499
Umm al-Qaiwan	28,673	27,673	25,496	29,168	32,055
Ras al-Khaimah	34,535	34,906	35,489	40,297	46,360
Fujairah	32,890	35,170	35,282	38,657	44,509

Source: Ministry of Planning.

Table 7. United Arab Emirates: Gross Fixed Capital Formation by Sector at Current Prices, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Total fixed investment	57,398	60,178	62,404	72,655	81,255
Oil sector	7,280	7,530	7,925	8,445	9,350
Other sectors	50,118	52,648	54,479	64,210	71,905
Agriculture	1,534	1,997	2,097	2,071	2,241
Industry	17,374	18,149	20,269	22,237	25,775
Mining and quarrying	154	164	186	206	214
Manufacturing 1/	9,570	9,583	11,275	12,360	14,303
Electricity and water	4,600	5,359	5,740	5,867	7,120
Construction	3,050	3,043	3,068	3,804	4,138
Services	31,210	32,502	32,113	39,902	43,889
Trade	5,492	5,744	7,151	9,649	11,305
Wholesale and retail trade	2,505	2,517	3,267	3,932	4,815
Restaurants and hotels	2,987	3,227	3,884	5,717	6,490
Transportation, storage, and communications	9,722	10,760	10,465	13,986	14,689
Finance and insurance	289	603	606	710	500
Real estate	11,096	9,849	8,722	9,787	10,324
Other services 2/	4,611	5,546	5,169	5,770	7,071

Source: Ministry of Planning.

1/ Includes investment in natural gas and petroleum-processing industries.
2/ Includes repair services.

Table 8. United Arab Emirates: Oil and Gas Production, Exports, and Prices, 2000–04

	2000	2001	2002	2003	Prel. 2004
	(In millions of barrels per day)				
Crude oil and condensates	2.41	2.44	2.26	2.59	2.66
Crude oil	2.19	2.12	1.93	2.26	2.33
Abu Dhabi	1.99	1.94	1.77	2.10	2.17
Dubai and others 1/	0.20	0.18	0.16	0.16	0.16
Condensates	0.22	0.32	0.33	0.33	0.33
Refinery output	0.30	0.52	0.56	0.56	0.56
Oil and product exports	2.33	2.28	2.18	2.48	2.53
Crude oil	2.05	1.94	1.77	2.08	2.17
Abu Dhabi	1.85	1.80	1.61	1.92	2.01
Dubai and others 1/	0.20	0.14	0.16	0.16	0.16
Condensates	0.13	0.10	0.08	0.08	0.08
Refined products	0.15	0.24	0.33	0.32	0.28
	(In billions of cubic meters)				
Natural gas production 2/	35.90	45.00	43.40	44.40	45.40
LNG exports	7.11	7.46	7.11	7.40	7.41
NGL exports	12.30	11.52	11.92	13.10	12.98
Natural gas domestic consumption	33.40	38.10	36.40	37.50	38.60
	(In millions of U.S. dollars)				
Oil and product exports	23,400	19,733	20,261	25,846	33,344
Crude oil	20,400	17,612	15,860	21,260	28,477
Abu Dhabi	18,500	15,642	14,470	19,695	26,513
Dubai and others	1,900	1,166	1,390	1,565	1,964
Condensates	1,300	804	767	794	1,147
Refined products	1,700	2,121	3,634	3,792	3,720
LNG, NGL, LPG exports	3,668	3,305	3,250	3,861	4,664
Of which					
LNG	1,156	1,280	1,221	1,182	1,367
NGL	2,512	2,025	2,029	2,679	3,297
Total oil and gas exports	27,068	23,038	23,511	29,707	38,008
Memorandum item					
Average oil export price					
(In U.S. dollars per barrel)	27.51	23.91	24.75	28.11	36.30
Average Abu Dhabi oil export price					
(In U.S. dollars per barrel)	27.36	23.81	24.64	27.96	36.11

Source: Abu Dhabi National Oil Company.

1/ Sharjah and Ras Al-Khaimah.

2/ Net after re-injection into wells.

Table 9. United Arab Emirates: NGLs, LNG, and Refined Product Exports, 2000–04

(In thousands of metric tons)

	2000	2001	2002	2003	Prel. 2004
Total NGL exports	8,916	8,349	8,518	9,345	9,271
LPG	6,451	6,000	6,201	6,871	6,795
Abu Dhabi	5,701	5,200	5,501	6,171	6,095
Dubai	300	300	275	275	275
Sharjah	450	500	425	425	425
Pentane plus	2,465	2,349	2,317	2,475	2,473
Abu Dhabi	1,915	1,799	1,817	1,975	1,973
Of which					
ADNOC	946	920	913	1,114	1,103
ADGAS	530	479	514	490	494
Other emirates	550	550	500	500	500
LNG exports (ADGAS)	5,149	5,406	5,155	5,366	5,860
Refined products exports	6,789	10,095	11,948	11,626	11,177

Source: Abu Dhabi National Oil Company.

Table 10. United Arab Emirates: Average Crude Oil Prices, 2000–04

(In U.S. dollars per barrel)

	2000	2001	2002	2003	2004
Murban	27.73	24.15	24.88	28.21	36.80
Lower Zakum	27.78	24.19	24.90	28.24	36.87
Umm-Shaif	27.53	23.91	24.68	27.99	36.57
Upper Zakum	26.40	22.98	24.12	27.41	34.20
Dubai platts	26.15	22.81	23.81	26.79	33.63

Source: Abu Dhabi National Oil Company.

Table 11. United Arab Emirates: Agricultural Production, 2000–04

(In thousands of metric tons)

	2000	2001	2002	2003	Prel. 2004
Plant products					
Dates and fruits	798	795	800	822	855
Vegetables	2,622	579	467	289	272
Other crops	1,495	3,176	4,308	4,436	4,579
Animal products					
Meat	25	26	28	29	31
Poultry	27	28	29	30	32
Eggs (in millions)	266	310	322	340	362
Milk and dairy products	163	179	202	215	234
Fish products	117	124	141	144	147

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

Table 12. United Arab Emirates: Population by Emirate, 2000–04

(In thousands)

Emirate	2000	2001	2002	2003	Prel. 2004
Abu Dhabi	1,266	1,362	1,470	1,591	1,678
Dubai	952	1,029	1,112	1,204	1,306
Sharjah	529	562	599	636	678
Ajman	179	196	215	235	258
Umm al-Qaiwan	49	52	59	62	68
Ras al-Khaimah	172	181	187	195	205
Fujairah	100	106	112	118	127
Total	3,247	3,488	3,754	4,041	4,320

Source: Ministry of Planning.

Table 13. United Arab Emirates: Sectoral Distribution of Civilian Employment, 2000–04 1/

(In thousands)

	2000	2001	2002	2003	Prel. 2004
Civilian employment	1,738	1,929	2,176	2,334	2,459
Oil sector	23	26	27	28	30
Other sectors	1,714	1,903	2,149	2,306	2,429
Agriculture	120	154	163	166	169
Industry	547	588	728	806	852
Mining and quarrying	4	4	5	5	6
Manufacturing 2/	226	247	276	299	319
Electricity, gas, and water	30	31	27	28	29
Construction	287	305	420	474	498
Services	1,047	1,161	1,258	1,334	1,408
Trade	409	455	511	549	589
Wholesale and retail trade	337	371	416	450	479
Restaurants and hotels	72	84	95	99	110
Transport and communications	108	127	131	142	148
Finance and insurance	23	25	26	27	27
Real estate	42	56	64	67	74
Government services	204	214	237	250	264
Social and personal services	81	91	91	99	106
Domestic household services	180	193	198	200	200

Source: Ministry of Planning.

1/ Excludes defense personnel.
2/ Includes natural gas and petroleum-processing industries.

Table 14. United Arab Emirates: Labor Market Indicators, 1995

	Abu Dhabi	Dubai	Sharjah	Ajman	Umm al-Qaiwan	Ras al-Khaimah	Fujairah	Total
Population (in 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 (in thousands) 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, 1995 census.

1/ Economically active population aged 15 years and older.

Table 15. United Arab Emirates: Average Annual Compensation by Economic Sector, 1999–2003 1/ 2/

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

	1999	2000	2001	2002	2003
Crude oil	84.7	86.6	85.6	85.2	85.7
Agriculture	15.7	15.8	16.4	15.6	15.5
Mining and quarrying	26.1	26.8	27.0	28.6	27.7
Manufacturing 3/	20.9	23.0	22.7	22.0	22.0
Electricity, gas, and water	41.3	42.2	42.5	42.8	43.0
Construction	37.7	32.5	31.6	29.8	29.7
Wholesale and retail trade 4/	20.8	26.1	24.9	25.4	25.9
Restaurants and hotels	17.5	22.2	22.7	22.2	22.2
Transport, storage, and communications	40.1	56.0	52.9	59.2	59.9
Finance and insurance	95.0	102.5	116.1	117.2	119.9
Real estate	27.3	27.2	23.1	22.3	22.3
Government services	70.2	84.5	86.1	83.9	82.7
Social and personal services	27.5	27.1	25.9	25.9	25.6
Household services	9.0	9.1	10.1	10.3	10.4
Weighted average	34.3	37.7	36.8	36.5	36.4

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.
3/ Includes natural gas and petroleum processing industries.
4/ Includes repair services.

Table 16. United Arab Emirates: Selected Price Indices, 2000–04

(Annual averages, 2000 = 100)

	2000	2001	2002	2003	Prel. 2004
GDP deflator	100.0	96.9	101.4	106.8	116.6
Crude oil deflator	100.0	86.5	90.5	101.2	129.6
Non-oil deflator	100.0	102.0	105.9	109.2	111.1
Consumer price index	100.0	102.8	105.8	109.1	114.2

Table 17. United Arab Emirates: Consumer Price Index by Major Components, 2000–04

(Annual averages, 2000 = 100)

	Weights 1/	2001	2002	2003	Prel. 2004
Consumer price index	100.0	102.8	105.8	109.1	114.2
Foodstuffs, beverages, and tobacco	14.4	101.0	102.4	104.7	110.2
Ready-made clothes and footwear	6.7	104.0	104.9	106.6	108.5
House rent and related housing items	36.1	102.7	107.1	112.7	120.2
Furniture and furnishings	7.4	101.0	102.8	104.4	106.8
Medical care and health services	1.9	104.8	112.5	115.3	118.8
Transportation and communication	14.9	102.0	103.8	106.6	112.9
Recreational, educational, and cultural services	10.3	108.3	113.2	114.7	116.2
Other goods and services	8.2	101.0	102.3	103.9	105.1

Source: Ministry of Planning.

1/ Weights are derived from 1996 Abu Dhabi household expenditure survey.

Table 18. United Arab Emirates: Consolidated Government Finances, 2000–04

(In millions of U.A.E. dirhams; unless otherwise stated)

	2000	2001	2002	2003	Prel. 2004
Total revenue	89,691	78,440	66,086	84,079	110,574
Hydrocarbons 1/	59,978	51,648	40,926	56,898	73,322
Nonhydrocarbon	29,713	26,792	25,160	27,181	37,252
Customs	1,779	1,846	1,663	2,458	3,040
Profit transfers	3,938	3,384	3,357	2,935	3,313
Income tax 2/	166	206	235	301	320
Fees and charges	4,173	5,120	6,429	6,479	6,327
Investment income 3/	15,065	11,576	8,869	9,881	13,912
Other	4,592	4,660	4,607	5,127	10,341
Total expenditure and grants	82,542	95,558	86,616	91,563	93,384
Current expenditure	69,441	76,732	72,426	74,255	79,536
Wages and salaries 4/ 5/	13,965	14,383	15,131	15,764	15,892
Goods and services 5/	21,287	22,491	23,745	26,519	27,172
Abu Dhabi federal services 6/	19,440	19,082	17,045	19,198	23,533
Subsidies and transfers	14,237	20,128	16,108	11,372	12,346
Other	513	648	397	1,402	593
Development expenditure	11,230	13,358	12,470	16,028	15,515
Loans and equity (net)	652	4,507	760	16	-2,308
Domestic	714	903	592	-810	1,654
Foreign	-62	3,604	168	826	-3,962
Foreign grants 7/	1,219	961	960	1,264	641
Abu Dhabi	1,071	664	784	1,136	541
Federal	148	297	176	128	100
Overall balance (consolidated)	7,149	-17,118	-20,530	-7,484	17,190
(In percent of GDP)	2.8	-6.7	-7.5	-2.3	4.5
Overall balance	32,205	-905	28,368	42,198	70,052
(Including revenues from other government entities) 8/					
(In percent of GDP)	12.4	-0.4	10.3	13.0	18.3
Financing	-32,205	904	-28,368	-42,198	-70,052
Resident banks, net 9/	-10,530	-538	-8,482	-2,269	-1,776
Loans to government	-2,854	-1,595	4,292	5,613	10,509
Deposits from government	7,676	-1,057	12,774	7,882	12,285
Privatization receipts 10/	...	2,000	...	3,004	...
Change in official foreign assets (- = increase)	-21,675	-558	-19,886	-42,933	-68,278

Table 18. United Arab Emirates: Consolidated Government Finances, 2000–04

(In millions of U.A.E. dirhams; unless otherwise stated)

	2000	2001	2002	2003	Prel. 2004
Memorandum items					
Nonhydrocarbon balance 11/	-52,829	-68,766	-61,456	-64,382	-56,132
(In percent of GDP)	-20.4	-26.9	-22.3	-19.8	-14.7
Nonhydrocarbon revenue excluding investment income	-67,894	-80,342	-70,325	-74,263	-70,043

Sources: Federal government; Emirate finance departments; and Fund staff estimates.

1/ Includes royalties and taxes on oil and gas companies.
2/ Taxes on profit of foreign banks.
3/ Fund staff estimates, based on fiscal accounts and other sources.
4/ Excludes military wages and salaries, which are in goods and services.
5/ Water and electricity expenditure is allocated 25 percent to wages and salaries, 75 percent to goods and services.
6/ Mainly military and internal security outlays paid by Abu Dhabi, but not in federal accounts.
7/ Intergovernmental grants are netted out in the consolidated accounts.
8/ Fund staff estimates of Abu Dhabi National Oil Company (ADNOC) profits, other government entities and government domestic investments.
9/ From monetary statistics
10/ Abu Dhabi receipts from the sale of water and electricity (ADWEA) assets.
11/ Non-hydrocarbon revenues less spending.

Table 19. United Arab Emirates: Government Current Expenditures by Economic Category and Emirate, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Wages and salaries 1/	13,965	14,383	15,131	15,764	15,892
Federal	7,278	7,468	7,829	7,841	7,998
Abu Dhabi 2/	3,626	3,528	3,893	4,381	3,897
Dubai 3/	2,571	2,885	2,939	3,044	3,473
Sharjah	439	451	470	498	524
Ras al Khaimah 4/	51	51	...	...	...
Goods and services	21,287	22,491	23,745	26,519	27,172
Federal	8,668	8,826	9,216	9,279	9,199
Abu Dhabi 2/	10,440	11,231	12,088	14,988	15,255
Dubai	1,740	1,983	1,971	1,755	2,194
Sharjah	439	451	470	498	524
Subsidies and transfers	14,237	20,128	16,108	11,372	12,346
Federal	3,734	3,830	3,698	3,727	3,745
Abu Dhabi	9,583	14,981	10,778	6,590	7,331
Dubai	850	1,238	1,590	1,008	1,207
Sharjah	30	39	42	47	63
Ras al Khaimah 4/	40	40	...	...	...
Other	19,953	19,730	17,442	20,090	24,026
Abu Dhabi 5/	19,440	19,082	17,045	19,198	23,533
Dubai	362	511	365	857	448
Sharjah	35	21	32	35	45
Ras al Khaimah 4/	116	116	...	...	...
Total current expenditure	69,441	76,732	72,426	74,255	79,536
Federal	19,680	20,124	20,743	21,357	21,042
Abu Dhabi	43,107	48,852	43,864	45,234	50,078
Dubai	5,523	6,617	6,865	6,664	7,322
Sharjah	924	932	954	1,000	1,094
Ras al Khaimah 4/	207	207	...	...	...

Sources: Federal and Emirate governments.

1/ Excludes military wages and salaries.
2/ Includes pro-rated water and electricity outlays for ADWEA expenditures.
3/ Includes military wages and salaries through 1997.
4/ Data for 2000–01 estimated.
5/ Mainly federal services consisting of military and internal security outlays.

Table 20. United Arab Emirates: Federal Government Financial Operations, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Total revenue and grants	20,276	21,008	21,687	21,310	21,618
Revenues	6,965	7,421	8,508	8,253	8,292
Enterprise profits 1/	2,827	2,349	2,120	1,817	2,002
Other fees and charges	4,138	5,072	6,388	6,436	6,290
Grants from Emirates	13,311	13,587	13,179	13,057	13,326
Abu Dhabi	12,111	12,387	11,979	11,857	12,126
Cash contributions	5,600	5,600	5,600	5,610	5,619
Federal services 2/	6,364	6,343	6,242	6,172	6,407
Foreign grants on federal account 2/	147	444	137	75	100
Dubai	1,200	1,200	1,200	1,200	1,200
Total expenditure and grants	20,702	21,044	21,579	22,147	21,845
Current expenditures	19,680	20,124	20,743	21,357	21,042
Wages and salaries 3/	7,278	7,468	7,829	7,841	7,998
Goods and services (by ministries)	8,668	8,826	9,216	9,279	9,199
(Interior and defense) 4/	8,688	8,796	9,139	9,244	8,943
(Education and health)	5,079	5,243	5,557	5,781	5,710
(Other ministries)	2,179	2,254	2,349	2,477	2,544
Subsidies and transfers 3/	3,734	3,830	3,698	3,727	3,745
Development expenditures	518	418	507	614	678
Equity positions	356	205	153	176	125
Domestic	356	205	153	176	125
Foreign grants	148	297	176	128	100
Overall balance	-426	-36	108	-837	-227
Memorandum items					
Abu Dhabi federal services 5/	19,440	19,082	17,045	19,198	23,533
Balance on pension fund operations 6/	1,970	1,274	1,653	3,593	3,511

Sources: Ministry of Finance and Industry; Abu Dhabi Finance Department; and Fund staff estimates.

1/ Dividends and payouts by Etisalat and other enterprises, including the Central Bank.
2/ Amount budgeted by federal government, but outlays are made by Abu Dhabi.
3/ Beginning 2002, military pension payments of Interior Ministry are classified as wages and salaries.
4/ Partly financed by grants from Abu Dhabi.
5/ Mainly military and internal security expenditures not included in the federal accounts.
6/ Pension fund established in 1999; not included in federal accounts.

Table 21. United Arab Emirates: Pension Fund Operations, 2000–04 1/

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

	2000	2001	2002	2003	2004
Revenue	2,131	1,467	1,926	3,986	4,031
Employer contributions	742	552	554	628	852
Employee contributions	246	184	185	413	275
Investment income	110	95	115	234	632
Other government receipts 2/	500	0	0	0	0
Other receipts 3/	533	636	1,072	2,711	2,272
Expenditures	161	193	273	393	520
Pensions paid	89	139	209	302	395
Other employee benefits	59	35	48	73	106
Operating expenses	13	19	16	18	19
Balance on operations	1,970	1,274	1,653	3,593	3,511
Memorandum item					
Assets at year-end	1,970	3,244	4,897	8,490	12,001

Source: General Pension and Social Security Authority (GPSSA).

1/ The GPSSA was established in January 1999.
2/ Initial endowment/capital from federal authorities.
3/ Transfers from Ministry of Finance and Industry, Etisalat, and others to fund pensions.

Table 22. United Arab Emirates: Federal Subsidies and Transfers, 2000–04

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

	2000	2001	2002	2003	2004
Subsidies	2,083	1,780	1,871	2,003	2,104
Zayed University	420	190	210	209	179
U.A.E. University	686	658	685	747	689
Higher College of Technology	405	520	545	551	443
Electricity and water 1/	4	0	0	0	0
Emirates Media, Inc.	188	180	180	180	150
Accumulated settlements 2/	0	19	0	15	0
Other	380	213	251	301	643
Transfers	1,651	2,050	1,827	1,739	1,641
Pension Fund 3/	774	809	462	600	600
Marriage Fund	227	216	216	216	180
Zayed Housing Program 4/	354	562	548	500	450
General Pension and Social Security Authority 5/	296	463	601	423	411
Total	3,734	3,830	3,698	3,742	3,745
(In percent of GDP)	1.4	1.5	1.3	1.2	1.0

Source: Ministry of Finance and Industry.

1/ For federal water and power fund in northern emirates.
2/ To clear prior year budget shortfalls in universities.
3/ Beginning 2002, military pension payments are classified as wages and salaries.
4/ Law requires budget projection of Dh 640 million.
5/ Transfers to fund pension payments for federal workers retiring in current year.

Table 23. United Arab Emirates: Federal Development Expenditures, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Agriculture	3	2	2	1	1
Electricity and water	0	0	0	0	0
Transport and communications	47	113	175	199	311
Public works and housing	169	101	65	81	79
Education	143	70	129	183	121
Health	10	24	30	60	35
Interior and justice	32	74	44	41	101
Foreign affairs	97	21	36	25	16
Other	17	13	26	9	7
Total	518	418	507	598	672

Source: Ministry of Finance and Industry.

Table 24. United Arab Emirates: Abu Dhabi Fiscal Operations, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Total revenue	69,538	58,923	46,701	63,790	88,237
Hydrocarbon revenue	52,591	45,488	36,045	51,830	67,978
Crude oil royalties and taxes	48,633	42,366	33,692	48,618	64,345
Income taxes 1/	3,958	3,122	2,353	3,212	3,633
Nonhydrocarbon	16,947	13,435	10,656	11,960	20,259
Customs	262	276	294	552	710
Water and electricity	0	0	1	0	0
Investment income 2/	15,065	11,576	8,869	9,881	16,863
Other	1,620	1,583	1,492	1,527	2,686
Total expenditure and grants	63,784	76,279	66,327	69,865	71,812
Current expenditures	43,107	48,852	43,864	45,234	50,078
Wages and salaries	3,135	3,215	3,374	3,454	2,988
Goods and services	8,987	10,323	10,590	12,286	12,590
Federal services 3/	19,440	19,082	17,045	19,198	23,533
Water and electricity	1,962	1,251	2,077	3,706	3,636
Subsidies and transfers	9,583	14,981	10,778	6,590	7,331
Development expenditures	7,452	10,424	9,203	11,816	11,898
Water and electricity	1,336	3,259	1,748	2,766	2,147
Other	6,116	7,165	7,455	9,050	9,751
Loans and equity (net) 4/	43	3,952	497	-178	-2,731
Domestic	105	348	329	-1,004	1,231
Building and housing loans	-118	-1,094	-1,191	-663	-267
Equity	223	1,442	1,520	341	1,498
Foreign loans	-62	3,604	168	826	-3,962
Grants	13,182	13,051	12,763	12,993	12,567
Cash contributions to federal government	5,600	5,600	5,600	5,610	5,619
Federal services 5/	6,364	6,343	6,242	6,172	6,407
Foreign grants on federal account 5/	147	444	137	75	0
Foreign grants 6/	1,071	664	784	1,136	541
Overall balance	5,754	-17,356	-19,626	-6,075	16,425
Memorandum items					
Overall balance excluding loans and equity	5,735	-9,800	-18,961	-5,427	9,732
Overall balance excluding investment income	-9,311	-28,932	-28,495	-15,956	-438
Privatization receipts from ADWEA 7/	...	2,000	...	3,004	...

Source: Department of Finance of Abu Dhabi.

1/ Income taxes are entirely from ADGAS and GASCO.
2/ Fund staff estimates; not included in Finance Department accounts.
3/ Mainly defense and security outlays; not included in the federal accounts.
4/ Financing items under international standards, but treated as expenditure in AD accounts.
5/ Outlays made by Abu Dhabi, but included in the federal accounts.
6/ Foreign grants on Abu Dhabi account.
7/ Sale of electricity and water assets of ADWEA; shown as receipts in Abu Dhabi fiscal accounts.

Table 25. United Arab Emirates: Abu Dhabi Development Expenditures, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Agriculture	907	845	681	736	1,095
Electricity and water	1,336	3,259	1,748	2,766	2,147
Industry and commerce	93	192	525	1,287	1,579
Transport and communications	2,272	2,664	2,570	1,993	2,340
Housing	807	693	690	1,933	2,066
Urban development	840	1,102	1,082	865	320
Sewerage	590	729	832	869	656
Sports and recreation	464	694	868	1,227	1,470
General administration	143	246	207	140	214
Health	0	0	0	0	11
Total	7,452	10,424	9,203	11,816	11,898

Source: Department of Finance of Abu Dhabi.

Table 26. United Arab Emirates: Abu Dhabi Government Transfers and Subsidies, 2000–04 1/

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

	2000	2001	2002	2003	Prel. 2004
Compensation for land	29	9	2	120	6
Compensation for crop damage 1/	5,077	3,933	4,277	2,450	2,411
Grants to sports clubs	130	146	141	158	143
Grants to low cost house owners	36	13	24	45	22
Other subsidies	389	350	493	548	643
Domestic aid 2/	3,082	10,803	5,824	2,865	2,844
Extra-ordinary expenses 3/	840	-273	17	404	0
Subsidies to ADWEA	0	0	0	0	1,261
Total	9,583	14,981	10,778	6,590	7,330

Sources: Department of Finance of Abu Dhabi; and Fund staff projections.

1/ Reflecting the cost of disposition.
2/ Transfers to other emirates besides Dubai and Sharjah.
3/ The 2001 figures reflects adjustment due to overpayment in the previous year.

Table 27. United Arab Emirates: Dubai Government Operations, 2000–04 1/

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

	2000	2001	2002	2003	Prel. 2004
Total revenue	11,079	10,211	9,103	10,047	11,978
Nontax revenue	9,548	8,590	7,690	8,050	9,563
Oil and gas	5,875	4,949	3,735	3,766	4,213
Enterprise profits 1/	1,111	1,035	1,237	1,118	1,311
Other 2/	2,562	2,606	2,718	3,166	4,039
Tax revenue	1,531	1,621	1,413	1,997	2,415
Customs 3/	1,365	1,415	1,178	1,696	2,095
Income tax 4/	166	206	235	301	320
Total expenditure	9,341	10,008	10,215	10,778	10,815
Current	5,523	6,617	6,865	6,664	7,322
Wages and salaries	2,571	2,885	2,939	3,044	3,473
Goods and services 2/ 5/	1,740	1,983	1,971	1,755	2,194
Subsidies and transfers 6/	850	1,238	1,590	1,008	1,207
Other	362	511	365	857	448
Development	2,365	1,841	2,040	2,896	1,995
Loans and equity (net)	253.0	350.0	110.0	18.0	298.0
Grants					
Contribution to federal government	1,200	1,200	1,200	1,200	1,200
Overall balance	1,738	203	-1,112	-731	1,163

Source: Department of Finance of Dubai.

1/ Includes DUBAL, DUGAS, Emirates Airlines, Jebel Ali, and other public enterprises.
2/ Some years affected by timing irregularities.
3/ All revenues associated with trade and port operations; more than customs duties.
4/ Taxes on foreign banks.
5/ Includes interest and amortization on some bank loans.
6/ Excludes Water and Electricity, which is settled in an off-budget account.

Table 28. United Arab Emirates: Sharjah Government Fiscal Operations, 2000–04 1/

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

	2000	2001	2002	2003	Prel. 2004
Total revenue	1,877	1,653	1,774	1,989	2,067
Oil and gas	1,512	1,211	1,146	1,302	1,131
Non-oil	365	442	628	687	936
Departmental receipts	340	397	406	468	510
Port authority	60	75	70	75	90
Customs	152	155	191	210	235
Fees and charges	28	41	40	43	37
Other, O*f which:*	100	126	105	140	148
Airport	90	99	95	115	118
Land sales and profit transfers	25	45	222	219	426
Total expenditure	1,744	1,532	1,674	1,702	2,038
Current	924	932	954	1,000	1,094
Wages and salaries	439	451	470	498	524
Goods and services	420	421	410	420	462
Subsidies and transfers 2/	30	39	42	47	63
Other	35	21	32	35	45
Development	820	600	720	702	944
Overall balance	133	121	100	287	29

Source: Sharjah Department of Finance.

1/ Excludes operations of Sharjah Municipality.
2/ Mainly universities, does not include support for water and electricity operations.

Table 29. United Arab Emirates: Monetary Survey, 2000–04 1/

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

End of Period Stock	2000	2001	2002	2003	2004
Net foreign assets	88,111	99,179	128,654	131,848	158,664
Foreign assets	141,112	149,991	166,960	167,255	194,927
Central bank	50,759	52,471	56,229	55,518	68,546
Commercial banks 2/	90,353	97,520	110,731	111,737	126,381
Foreign liabilities	53,001	50,812	38,306	35,407	36,263
Central bank	587	516	284	349	548
Commercial banks 2/	52,414	50,296	38,022	35,058	35,715
Domestic assets	38,657	47,186	40,590	64,703	83,578
Claims on government (net)	-18,228	-18,765	-27,248	-29,517	-31,293
Claims	11,800	10,205	14,497	20,110	30,619
Deposits	30,028	28,970	41,745	49,627	61,912
Claims on public sector enterprises	5,780	5,258	7,122	12,990	13,884
Claims on private nonbanks	123,313	134,132	149,352	169,469	211,407
Capital and reserves	-35,833	-38,377	-42,583	-46,063	-54,023
Other items (net)	-36,375	-35,062	-46,053	-42,176	-56,397
Central bank	-26,292	-27,994	-31,245	-28,416	-38,951
Commercial banks	-10,083	-7,068	-14,808	-13,760	-17,446
Domestic liquidity	126,768	146,369	169,244	196,551	242,242
Money	34,067	39,464	47,054	58,262	80,818
Currency outside banks	10,017	10,537	11,938	13,785	15,778
Dirham demand deposits	24,050	28,927	35,116	44,477	65,040
Quasi-money	92,701	106,905	122,190	138,289	161,424
Foreign currency deposits	28,196	33,078	39,605	46,295	62,496
Dirham time and savings deposits	64,505	73,827	82,585	91,994	98,928
Memorandum items					
Dirham-denominated liquidity	88,555	102,754	117,701	136,471	163,968
Change in percent	15.8	7.3	14.5	15.9	20.1
Foreign currency deposits of residents	38,213	43,615	51,543	58,919	64,913
Change in percent	13.6	-4.7	18.2	14.3	10.2
Ratio of foreign currency deposits to Total deposits (in percent)	32.7	32.1	32.8	32.2	28.7

Source: Central Bank of the United Arab Emirates.

1/ Compiled in accordance with the residence principle.
2/ Including the restricted license bank.

Table 30. United Arab Emirates: Factors Affecting Domestic Liquidity, 2000–04

(Annual changes in millions of U.A.E. dirhams)

End of Period	2000	2001	2002	2003	2004
Net foreign assets	22,231	11,068	29,475	3,194	26,816
Foreign assets	19,141	8,879	16,969	295	27,672
Central bank	10,596	1,712	3,758	-711	13,028
Commercial banks	8,545	7,167	13,211	1,006	14,644
Foreign liabilities	-3,090	-2,189	-12,506	-2,899	856
Central bank	184	-71	-232	65	199
Commercial banks 1/	-3,274	-2,118	-12,274	-2,964	657
Domestic assets	-5,591	8,529	-6,596	24,113	18,875
Claims on government (net)	-10,530	-537	-8,483	-2,269	-1,776
Claims	-2,854	-1,595	4,292	5,613	10,509
Deposits	7,676	-1,058	12,775	7,882	12,285
Claims on public sector enterprises	199	-522	1,864	5,868	894
Claims on private nonbanks	9,883	10,819	15,220	20,117	41,938
Capital and reserves	-2,316	-2,544	-4,206	-3,480	-7,960
Other items (net)	-2,827	1,313	-10,991	3,877	-14,221
Central bank	-10,031	-1,702	-3,251	2,829	-10,535
Commercial banks	7,204	3,015	-7,740	1,048	-3,686
Domestic liquidity	16,640	19,601	22,875	27,307	45,691
Money	3,817	5,397	7,590	11,208	22,556
Currency outside banks	-253	520	1,401	1,847	1,993
Dirham demand deposits	4,070	4,877	6,189	9,361	20,563
Quasi-money	12,823	14,204	15,285	16,099	23,135
Foreign currency deposits	4,842	4,882	6,527	6,690	16,201
Dirham time and savings deposits	7,981	9,322	8,758	9,409	6,934

Source: Central Bank of the United Arab Emirates.

1/ Including the restricted license bank.

Table 31. United Arab Emirates: Summary Accounts of the Central Bank, 2000–04

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

End of Period	2000	2001	2002	2003	2004
Foreign assets	50,759	52,471	56,229	55,518	68,546
Claims on banks	28,662	31,108	49,195	42,746	37,309
Loans and investments	20,190	20,000	5,509	11,348	29,564
Other 1/	1,126	533	372	127	516
IMF reserve position	781	830	1,153	1,297	1,157
Net claims on government	-781	-830	-1,153	-1,297	-1,157
Less: IMF reserve position	781	830	1,153	1,297	1,157
Claims on private nonbanks 2/	24	29	62	75	68
Claims on commercial banks	50	50	50	50	0
Unclassified assets	84	118	85	156	182
Total assets/liabilities	50,136	51,838	55,273	54,502	67,639
Foreign liabilities	587	516	284	349	548
Reserve money	20,288	21,608	25,160	30,539	38,789
Currency outside banks	10,017	10,537	11,938	13,785	15,778
Cash held by banks	2,228	1,783	1,861	2,184	2,714
Banks' deposits	8,043	9,288	11,361	14,570	20,297
Certificates of deposit	15,624	16,779	12,489	11,762	15,977
Government deposits 3/	11,546	11,063	10,111	10,186	10,620
Capital and reserves	1,560	1,560	1,560	1,560	1,560
Unclassified liabilities 4/	531	312	5,669	106	145

Source: Central Bank of the United Arab Emirates.

1/ Mainly gold, valued at cost.
2/ Staff loans.
3/ Mainly foreign currency deposits.
4/ Includes undistributed profits.

Table 32. United Arab Emirates: Balance Sheets of Commercial Banks, 2000–04 1/

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

End of Period	2000	2001	2002	2003	2004
Reserves	10,271	11,071	13,222	16,753	23,011
Cash	2,228	1,783	1,861	2,184	2,714
Deposits with central bank	8,043	9,288	11,361	14,569	20,297
Foreign assets	89,810	96,618	110,675	111,727	126,381
Claims on government	12,581	11,035	15,650	21,407	31,776
Claims on public sector enterprises 2/	5,780	5,258	7,122	12,990	13,884
Claims on private nonbanks	119,828	130,549	145,592	165,143	204,727
Claims on nonbank financial institutions	3,317	3,415	3,692	4,251	6,612
Central bank certificates of deposit	15,624	16,779	12,489	11,762	15,977
Unclassified assets 3/	7,111	7,230	6,938	7,390	10,451
Total assets/liabilities	264,322	281,955	315,380	351,423	432,819
Monetary deposits	24,050	28,927	35,116	44,477	65,040
Quasi monetary deposits	92,670	106,870	122,183	138,289	161,424
Foreign liabilities 4/	51,905	49,501	37,972	35,058	35,715
Government deposits	18,441	17,870	31,606	39,418	51,274
Government lending funds	41	37	28	23	18
Credit from central bank	52	55	61	101	25
Capital and reserves	34,226	36,769	40,975	44,455	52,463
Provision	29,360	30,054	32,246	31,983	29,768
Unclassified liabilities	13,577	11,872	15,193	17,619	37,092

Source: Central Bank of the United Arab Emirates.

1/ Excluding accounts of the restricted license bank.
2/ Commercial enterprises with significant government ownership, including Dubai Aluminum Company, Dubai Gas Company, Abu Dhabi National Oil Company, other oil and gas companies owned by Abu Dhabi, and cement companies established by several Emirate governments.
3/ Includes net lending to restricted license bank.
4/ Includes commercial prepayments.

Table 33. United Arab Emirates: Balance Sheet of Restricted License Bank, 1999–2003 1/

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

End of Period	1999	2000	2001	2002	2003
Reserves	3	3	5	6	0
Cash	0	0	0	0	0
Deposits with central bank	3	3	5	6	0
Foreign assets	975	543	902	56	10
Claims on government	0	0	0	0	0
Claims on public sector enterprises	0	0	0	0	0
Claims on private nonbanks	58	144	139	6	0
Claims on banks	249	113	110	22	20
Other assets	1	1	1	18	19
Total assets/liabilities	1,286	804	1,157	108	49
Foreign liabilities	1,031	509	795	50	0
Quasi monetary deposits 2/	31	31	35	7	0
Government deposits	0	0	0	0	0
Liabilities to banks	167	207	269	0	0
Capital and reserves	47	47	48	48	48
Other liabilities	10	10	10	3	1

Source: Central Bank of the United Arab Emirates.

1/ Banca Commercial Italiana was the only restricted bank, it stopped all operations on May 31, 2003.
2/ Foreign currency deposits.

Table 34. United Arab Emirates: Licensed Commercial Banks, December 2004

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

	Head Office and Branches	Year Established	Balance Sheet (Dh millions)
Abu Dhabi Commercial Bank	38	1985	25,717
Abu Dhabi Islamic Bank	12	1997	8,548
Arbift	5	1976	3,596
Bank of Sharjah	3	1974	2,689
Commercial Bank International	7	1991	2,978
Commercial Bank of Dubai	21	1969	7,298
Dubai Bank	2	2002	835
Dubai Islamic Bank	17	1975	21,866
Emirates Bank International	26	1977	27,366
First Gulf Bank	5	1979	5,985
InvestBank	5	1975	3,000
Mashreq Bank	32	1967	20,595
Middle East Bank (sub of EBI)	13	1976	2,100
National Bank of Abu Dhabi	57	1968	30,374
National Bank of Dubai	33	1963	31,070
National Bank of Fujairah	6	1384	2,919
National Bank of Ras Al Khaimah	13	1976	3,139
National Bank of Sharjah	10	1976	2,640
National Bank of Umm Al Qaiwain	10	1982	1,778
Union National Bank	29	1982	15,270
United Arab Bank	9	1975	2,458
Total U.A.E. banks	353		222,221

Source: Central Bank of the United Arab Emirates.

Table 35. United Arab Emirates: Balance of Payments, 2000–04

(In billions of U.S. dollars)

	2000	2001	2002	2003	Prel. 2004
Trade balance	18.8	14.0	14.9	21.5	28.1
Exports	49.6	47.5	52.5	67.3	82.3
Oil and products	23.4	19.7	20.3	25.8	33.3
Crude oil and condensates	21.7	17.6	16.6	22.1	29.6
Petroleum products 1/	1.7	2.1	3.6	3.8	3.7
Gas	3.7	3.3	3.3	3.9	4.7
Nonhydrocarbon	7.5	8.5	10.6	14.1	16.6
Exports by Emirates	2.0	2.0	2.4	2.9	3.5
Free zone exports	5.5	6.4	8.3	11.3	13.1
Re-exports, *Of which* : 2/	15.0	16.0	18.3	23.4	27.7
Nonmonetary gold	1.9	1.9	1.9	2.0	2.3
Imports (f.o.b.)	-30.8	-33.5	-37.5	-45.8	-54.2
Imports by Emirates	-25.9	-26.8	-29.4	-35.4	-42.1
Free zones	-4.9	-6.7	-8.1	-10.4	-12.1
Income, net	3.8	2.9	1.0	-0.1	0.1
Banking system	1.6	1.0	0.7	0.4	0.6
Private nonbanks	0.4	0.3	0.1	0.1	0.1
Official	4.0	3.0	2.2	1.9	3.8
Foreign partners - oil 3/	-1.9	-1.1	-1.9	-2.3	-4.1
Foreign partners - gas 3/	-0.3	-0.2	-0.2	-0.2	-0.4
Services, net	-6.4	-6.2	-7.7	-9.1	-10.8
Credits	2.2	2.4	2.6	2.8	3.0
Travel	1.1	1.2	1.3	1.4	1.6
Transport	0.8	0.8	0.9	0.9	1.0
Government services	0.3	0.4	0.4	0.4	0.5
Debits	-8.6	-8.5	-10.3	-11.8	-13.8
Travel	-3.0	-3.0	-3.7	-4.0	-4.5
Transport	-1.1	-1.1	-1.2	-1.2	-1.5
Government services	-0.3	-0.3	-0.4	-0.4	-0.4
Freight 4/	-4.2	-4.0	-5.1	-6.2	-7.4
Transfers, net	-4.0	-4.2	-4.4	-4.7	-5.1
Private	-3.7	-3.9	-4.1	-4.4	-4.6
Official	-0.3	-0.3	-0.3	-0.3	-0.4
Current account	12.2	6.5	3.8	7.7	12.3
(In percent of GDP)	17.2	9.4	5.0	8.7	11.8

Table 35. United Arab Emirates: Balance of Payments, 2000–04

(In billions of U.S. dollars)

	2000	2001	2002	2003	Prel. 2004
Financial account	-9.7	-4.1	-7.3	-7.8	-10.9
Private capital	-3.8	-3.9	-1.9	3.9	7.7
Direct investment, net 5/	-1.6	0.7	3.1	3.3	9.0
Abroad	-2.1	-0.4	-0.4	-1.0	-1.0
In reporting economy	0.5	1.2	3.5	4.3	10.0
Portfolio securities	0.0	0.0	0.2	0.0	2.0
Commercial banks	-3.2	-2.5	-6.9	-1.1	-5.5
Private nonbanks (BIS source)	1.0	-2.1	1.7	1.7	2.2
Official capital 6/	-5.9	-0.2	-5.4	-11.7	-18.6
Errors and omissions	0.4	-2.0	4.7	-0.1	2.1
(In percent of GDP)	0.5	-2.9	6.2	-0.1	2.0
Overall balance	2.8	0.5	1.1	-0.2	3.5
Central bank net foreign assets	-2.8	-0.5	-1.1	0.2	-3.5
Memorandum items					
Overall balance (in percent of GDP)	4.0	0.7	1.4	-0.2	3.4
Gross reserves of the Central Bank	13.8	14.3	15.3	15.1	18.6
(In months of imports) 7/	4.9	4.6	4.0	3.3	3.5

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

1/ Includes fertilizers and lubricants.
2/ Not formally compiled; estimated at 40–50 percent of emirates imports.
3/ Fund staff estimates based on foreign partner share of oil and gas sector net profits.
4/ Estimated freight to adjust imports (c.i.f. basis in the U.A.E. BOP accounts) to f.o.b. basis.
5/ UNCTAD direct investment estimates (from *World Investment Report, 2003*).
6/ Includes changes in government external assets.
7/ Imports of goods and services in the next 12 months.

Table 36. United Arab Emirates: Balance of Payments, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Trade balance	68.9	51.5	54.9	78.8	103.3
Exports	182.0	174.6	192.7	247.1	302.3
Oil and products	85.9	72.5	74.4	94.9	122.5
Crude oil and condensates	79.7	64.7	61.1	81.0	108.8
Petroleum products 1/	6.2	7.8	13.3	13.9	13.7
Gas	13.5	12.1	11.9	14.2	17.1
Nonhydrocarbon exports	27.4	31.1	39.0	51.9	60.9
Exports by Emirates	7.2	7.5	8.6	10.6	13.0
Free zone exports	20.2	23.6	30.4	41.3	48.0
Re-exports, *Of which* : 2/	55.2	58.9	67.4	86.1	101.8
Nonmonetary gold	7.0	7.0	7.1	7.3	8.3
Imports (f.o.b.)	-113.1	-123.1	-137.8	-168.3	-199.0
Imports by Emirates	-95.1	-98.5	-108.1	-130.2	-154.6
Free zone imports	-18.0	-24.6	-29.8	-38.1	-44.4
Income, net	13.9	10.7	3.5	-0.2	0.4
Banking system	5.9	3.7	2.5	1.6	2.4
Private nonbanks	1.4	1.1	0.5	0.3	0.3
Official	14.8	10.8	8.1	7.2	13.9
Foreign partners - oil 3/	-7.2	-4.2	-7.0	-8.5	-14.9
Foreign partners - gas 3/	-1.0	-0.8	-0.6	-0.8	-1.3
Services, net	-23.6	-22.6	-28.4	-33.3	-39.7
Credits	8.0	8.7	9.5	10.2	11.1
Travel	3.9	4.4	4.9	5.3	5.9
Transport	2.9	3.0	3.2	3.4	3.6
Government services	1.2	1.3	1.5	1.6	1.7
Debits	-31.5	-31.3	-37.9	-43.5	-50.8
Travel	-11.1	-11.2	-13.4	-14.5	-16.4
Transport	-3.9	-4.0	-4.3	-4.5	-5.7
Government services	-1.1	-1.3	-1.4	-1.5	-1.6
Freight 4/	-15.5	-14.9	-18.8	-22.9	-27.1
Transfers (net)	-14.6	-15.5	-16.3	-17.1	-18.6
Private	-13.5	-14.4	-15.2	-16.1	-17.1
Public	-1.1	-1.1	-1.1	-1.0	-1.5
Current account	44.7	24.0	13.8	28.2	45.3
In percent of GDP	17.2	9.4	5.0	8.7	11.8

Table 36. United Arab Emirates: Balance of Payments, 2000–04

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

	2000	2001	2002	2003	Prel. 2004
Financial account	-35.6	-14.9	-27.0	-28.5	-40.1
Private capital	-14.0	-14.4	-7.1	14.4	28.2
Direct investment, net 5/	-5.8	2.7	11.3	12.0	33.1
Abroad	-7.7	-1.6	-1.6	-3.6	-3.6
In reporting economy	1.9	4.3	12.9	15.6	36.7
Portfolio securities	0.0	0.0	0.9	0.0	7.3
Commercial banks	-11.8	-9.3	-25.5	-4.0	-20.2
Private nonbanks (BIS source)	3.7	-7.8	6.2	6.4	8.0
Official capital 6/	-21.7	-0.6	-19.9	-42.9	-68.3
Errors and omissions	1.4	-7.3	17.2	-0.4	7.6
(In percent of GDP)	0.5	-2.9	6.2	-0.1	2.0
Overall balance	10.4	1.8	4.0	-0.8	12.8
Central Bank net foreign assets	-10.4	-1.8	-4.0	0.8	-12.8
Memorandum items					
Overall balance (in percent of GDP)	4.0	0.7	1.4	-0.2	3.4
Gross reserves of the Central Bank	50.8	52.5	56.2	55.5	68.3
(In months of imports) 7/	4.9	4.6	4.0	3.3	3.5

Source: U.A.E. authorities; and Fund staff estimates.

1/ Includes fertilizers and lubricants.
2/ Not formally compiled; estimated at 40–50 percent of emirates imports.
3/ Fund staff estimates based on foreign partner share of oil and gas sector net profits.
4/ Estimated freight to adjust imports (cif basis in UAE BOP accounts) to fob basis.
5/ UNCTAD direct investment estimates (from *World Investment Report, 2003*).
6/ Includes changes in government external assets.
7/ Imports of goods and services in the next 12 months.

Table 37. United Arab Emirates: Merchandise Imports by Harmonized System Sections, 2000–03 1/

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

	2000	2001	2002	2003
Live animals, animal products	2,900	3,314	3,006	3,187
Vegetable products	5,135	5,831	5,515	5,682
Fats, oil and waxes	451	461	345	419
Foodstuffs, beverages, spirits, and tobacco	2,540	3,387	3,336	4,842
Mineral products	1,922	2,209	1,171	1,332
Chemicals and related materials	5,998	6,914	6,970	8,568
Plastics and rubber	3,760	4,810	4,663	5,533
Raw hides, leather, and articles thereof	509	737	559	583
Wood, cork, and articles thereof	959	1,525	1,121	1,323
Wood pulp, paper, and paperboard	1,330	1,714	1,562	1,853
Textiles and textile articles	10,642	15,322	10,378	11,283
Footwear and other accessories	1,017	1,813	1,057	1,140
Stone, plaster, cement, ceramic, and glassware	2,103	2,620	2,487	3,037
Pearls, precious stones, and precious metals 2/	3,499	2,481	17,357	21,181
Base metals and related products	8,587	9,267	9,718	12,882
Machinery and electrical equipment	24,871	26,067	28,957	33,694
Vehicles and other transport equipment	15,880	15,464	14,764	21,265
Optical and medical equipment	2,867	3,070	3,270	3,519
Arms and ammunition	23	24	25	36
Miscellaneous manufactured goods	3,007	3,302	3,104	3,466
Works of art and antiques	119	122	124	71
Total imports, c.i.f.	98,119	110,454	119,489	144,896

Source: Central Bank of the United Arab Emirates.

1/ Imports of the Emirates of Abu Dhabi, Dubai, and Sharjah.
2/ As from 2002 imports of nonmonetary gold included by Dubai authorities. Exports of nonmonetary gold are classified as "re-exports."

Table 38. United Arab Emirates: Merchandise Exports by Harmonized System Sections, 2000–03 1/

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

	2000	2001	2002	2003
Live animals, animal products	102	201	126	136
Vegetable products	112	185	156	214
Fats, oil and waxes	137	168	158	191
Foodstuffs, beverages, spirits, and tobacco	343	365	459	832
Mineral products	349	335	396	454
Chemicals and related materials	293	422	398	440
Plastics and rubber	160	153	690	1,093
Raw hides, leather, and articles thereof	7	21	25	18
Wood, cork, and articles thereof	3	0	3	3
Wood pulp, paper, and paperboard	113	146	206	240
Textiles and textile articles	1,005	1,160	750	664
Footwear and other accessories	3	3	6	4
Stone, plaster, cement, ceramic, and glassware	162	217	452	486
Pearls, precious stones, and precious metals	276	224	120	32
Base metals and related products	3,052	2,997	3,279	3,185
Machinery and electrical equipment	246	95	130	167
Vehicles and other transport equipment	135	286	36	311
Optical and medical equipment	2	1	8	17
Arms and ammunition	...	...	...	1
Miscellaneous manufactured goods	41	26	89	84
Works of art and antiques	20	8	4	3
Total exports 2/	6,561	7,012	7,491	8,575

Source: Central Bank of the United Arab Emirates.

1/ Exports of the Emirates of Abu Dhabi, Dubai, and Sharjah. Pre-1999 data not available.
2/ Data exclude free zone exports and "re-exports."

Table 39. United Arab Emirates: Direction of Trade: Imports, 2000–04 1/

(In percent of total)

	2000	2001	2002	2003	Prel. 2004
Total imports, c.i.f.	100.0	100.0	100.0	100.0	100.0
Industrial countries	52.7	56.8	57.8	58.7	49.3
Of which					
Japan	10.3	7.9	8.7	7.3	6.7
United States	9.6	7.6	7.7	7.9	6.4
United Kingdom	8.8	6.8	7.4	5.8	1.2
Italy	6.1	4.7	5.1	5.0	4.1
Germany	6.5	7.6	7.1	7.5	6.6
France	4.0	6.0	6.6	7.8	6.4
Netherlands	1.7	2.1	2.5	2.8	2.4
Australia	1.7	2.1	2.1	2.6	2.3
Switzerland	1.4	5.6	3.6	2.9	5.5
Developing countries	46.3	43.2	42.2	41.3	50.7
Arab countries	5.5	8.6	7.6	7.4	6.1
Of which: Saudi Arabia	3.0	3.3	3.4	2.3	1.9
Other developing countries	41.3	34.6	34.6	33.9	44.5
Of which					
India	6.8	6.2	6.7	4.7	8.4
Korea	5.4	5.2	5.3	3.7	4.1
Hong Kong, SAR	0.6	1.4	1.2	3.8	3.1
China	8.4	7.5	8.2	11.3	9.2
Pakistan	1.0	1.0	1.1	1.2	2.1
Iran	1.3	1.2	1.2	0.8	0.7
Other unspecified	1.2	1.0	0.0	0.0	0.0

Source: IMF, *Direction of Trade Statistics* .

1/ Based on partner country information.

Table 40. United Arab Emirates: Direction of Trade: Exports, 2000–04 1/

(In percent of total)

	2000	2001	2002	2003	Prel. 2004
Total exports	100.0	100.0	100.0	100.0	100.0
Industrial countries	46.1	39.8	37.1	39.5	37.7
Of which					
Japan	36.1	29.5	27.2	28.0	26.1
United States	2.4	2.9	2.3	2.4	2.2
United Kingdom	1.8	2.1	2.7	2.7	2.9
Australia	1.8	1.1	0.5	1.1	1.3
France	0.3	1.3	1.1	1.1	1.0
Germany	0.9	0.4	0.4	0.5	0.5
Italy	0.7	0.3	0.3	0.4	0.4
Netherlands	0.2	0.3	0.3	0.5	0.5
Developing countries	42.5	45.3	46.8	45.5	47.1
Arab countries	10.4	8.1	8.4	7.8	6.9
Of which					
Oman	3.1	3.8	3.7	3.3	2.6
Saudi Arabia	1.7	1.3	1.3	1.2	1.1
Other developing countries	32.8	37.2	38.4	37.8	40.2
Of which					
Korea	7.0	10.6	9.9	9.2	10.5
Iran	3.7	3.4	4.3	3.9	4.4
Singapore	6.1	3.1	3.7	3.7	3.4
India	7.4	2.7	2.9	2.7	3.2
Thailand	2.1	3.5	3.3	3.9	3.7
Kenya	1.3	0.0	1.0	0.9	1.0
Hong Kong, SAR	1.1	1.6	2.2	2.3	2.2
Pakistan	2.4	3.1	3.1	3.2	2.6
Philippines	0.8	1.4	0.9	1.0	0.9
Other unspecified	11.4	14.8	16.2	15.0	15.2

Source: IMF, *Direction of Trade Statistics.*

1/ Based on partner country information.