INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/219

UNITED ARAB EMIRATES

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

August 2015

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with the United Arab Emirates, the following documents have been released and are included in this package:

- A **Press Release** summarizing the staff report that concluded the Article IV consultation with the United Arab Emirates.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on June 4, 2015 with the officials of the United Arab Emirates on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 13, 2015.
- An **Informational Annex** prepared by the IMF staff.

The document listed below has been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 15/370
FOR IMMEDIATE RELEASE
August 4, 2015

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with United Arab Emirates

On July 29, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation and endorsed the staff appraisal without a meeting.[1]

Lower oil prices are eroding long-standing fiscal and external surpluses, but the UAE has continued to benefit from its perceived safe haven status and large fiscal and external buffers that have helped limit negative spillovers from lower oil prices, sluggish global growth, and volatility in emerging market economies.

Nonoil growth remained robust at 4.8 percent in 2014, driven by construction, notably owing to capital spending in Abu Dhabi, and services underpinned by Dubai's transportation and hospitality sectors. Real estate market prices have edged down since mid-2014. With past increases in rents only feeding gradually into consumer prices, inflation increased to 4.3 percent year-on-year in May 2015, also reflecting upward adjustments of electricity and water tariffs in Abu Dhabi. Credit to the private sector has picked up. GREs have continued to strengthen their finances.

The economic outlook is expected to moderate amid lower oil prices. Nonoil growth is projected to slow to 3.4 percent in 2015, before increasing to 4.6 percent by 2020, supported by the implementation of megaprojects and private investment in the run-up to Expo 2020. Growth in oil production will likely to moderate given the global supply glut. Annual inflation is projected to pick up to 3.8 percent in 2015. The overall fiscal balance this year is expected to turn negative for the first time since 2009 to record a deficit of 2.9 percent of GDP, but is expected to return to surpluses from 2016. The current account surplus is also projected to decline substantially, to 5 percent of GDP and will slowly increase with the projected gradual recovery in oil prices. Credit growth is expected to remain supportive of the activity.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

In concluding the 2015 Article IV consultation with the United Arab Emirates, Executive Directors endorsed staff's appraisal, as follows:

Lower oil prices have increased macro-financial stability risks. Prudent economic policies, progress in economic diversification, and the safe-haven status of the UAE have helped build large fiscal and external buffers and strengthen the resilience of the economy. Also, the implementation of megaprojects and private investment in the run-up to Expo 2020 are expected to support activity over the medium term. However, lower oil prices are eroding fiscal and external surpluses, and going forward a hike in the US interest rate could lead to a tightening of financial conditions. These risks could be exacerbated by high volatility in stock markets, high NPLs, and low banking system liquidity if government and GREs withdraw deposits.

The macroeconomic policy mix should focus on gradual fiscal consolidation, while maintaining the peg and easing liquidity management if needed. The authorities' plan to consolidate the fiscal position is appropriate, and would reduce fiscal vulnerability and ensure intergenerational equity. Fiscal consolidation will also help bring the external position closer to the level consistent with medium-term fundamentals. However, its pace should take into account the available fiscal buffers and the impact on the broad economy. The authorities' monetary policy framework which aims to maintain the peg while strengthening liquidity management and deepening money markets, is appropriate. In an adverse scenario with a decline in deposits, liquidity management could be eased to support credit growth. Government deficit financing should avoid a tightening in liquidity in the banking system.

Fiscal consolidation requires rationalization of spending, but the quality of spending cuts is crucial to avoid damaging the country's competitiveness and long-term growth prospects. Government investments should be preserved relative to nonhydrocarbon GDP to support infrastructure, while the implementation of GRE megaprojects should be gradual, in line with the expected demand. Public sector wage bill growth should be controlled while energy subsidies and capital and other transfers should be reduced. Raising more nonhydrocarbon revenues through new tax measures should also be considered. Fiscal policy implementation requires further strengthening annual budget processes, including strong Public Finance Management Systems, and integrating and operationalizing medium-term budget frameworks. Close oversight and continued strengthening of debt management frameworks are crucial.

Plans to strengthen the banking regulatory and supervisory framework by the CBU, with no exemptions in holding banks accountable, are welcome. The banking sector is resilient and has enough capital and liquidity buffers to withstand an adverse shock. The CBU plans to phase in Basel III capital and liquidity standards over 2015–19 and to strengthen its risk-based supervision are welcome and should be timely implemented. As the corporate sector structure in the UAE is characterized by large GREs and family groups, compliance by banks with the loan concentration limits for GREs and local governments is challenging and should be monitored,

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

including the planned transition paths for banks exceeding the limits with no-exemption. Developing domestic debt markets would reduce the reliance on external funding and bank lending, helping banks comply with loan concentration limits. Over the medium term, the authorities should consider developing resolution frameworks, and establishing deposit insurance mechanisms. Efforts on strengthening the AML/CFT framework should continue.

Authorities should strengthen their macroprudential framework, building on their successful implementation of real estate-specific measures. Macroprudential policies such as maximum LTVs for mortgages and DSTI limits help reduce excessive exposures by the banking system associated with systemic risk. However, the current macroprudential policy framework needs to be strengthened in line with best practices such as formalizing a financial stability mandate in the central bank law, establishing a Financial Stability Committee at the central bank level, and institutionalizing coordination with the Ministry of Finance and other relevance agencies. Continued strengthening of GREs balance sheets and active management of their upcoming debt repayments, while raising risk-weights of bank lending to GREs if needed, will be important in reducing macro-financial vulnerabilities.

Structural reforms should aim at further diversifying the economy and accelerating private sector-led job creation for nationals. These could include: further opening up foreign direct investment, improving selected areas of business environment, transitioning toward a knowledge-based economy, easing access to finance for startups and SMEs, and creating the right incentives for entrepreneurship and job creation.

Staff encourages the authorities to build on recent progress in improving statistics. Staff welcomes efforts in implementing an inter-agency project to compile the International Investment Position, which will close an important statistical gap, including for the reporting of foreign assets and debt. It will be important to press ahead with this project and provide adequate resources for improving the quality of overall balance of payments statistics. It will also be essential to develop more comprehensive demographic and labor markets statistics, while disseminating complete data on Dubai GRE debt.

United Arab Emirates: Selected Macroeconomic Indicators, 2012–20

	2012	2013	Prel. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj 2020
	(Annual percent change, unless otherwise indicated)								
Output and prices									
Nominal GDP (billions of UAE dirhams)	1,371	1,422	1,467	1,297	1,402	1,487	1,583	1,685	1,809
Nominal GDP (billions of U.S. dollars)	373	387	399	353	382	405	431	459	493
Real GDP (at factor cost)	7.2	4.3	4.6	3.0	3.1	3.3	3.5	3.6	3.8
Real hydrocarbon GDP	7.6	2.9	4.0	2.0	2.1	1.9	2.0	2.0	2.0
Real non-hydrocarbon GDP	7.1	5.0	4.8	3.4	3.6	3.8	4.1	4.4	4.6
CPI inflation (average)	0.7	1.1	2.3	3.8	3.0	2.6	2.8	3.0	3.3
	(Percent of GDP, unless otherwise indicated)								
Public finances									
Revenue	40.1	41.0	37.8	32.6	32.1	31.8	32.2	32.0	31.0
Hydrocarbon	28.9	28.2	24.0	17.1	17.8	17.9	17.9	17.5	16.9
Non-hydrocarbon	11.2	12.7	13.8	15.4	14.2	13.9	14.3	14.4	14.1
Expenditure and net lending	29.2	30.6	32.8	35.5	31.9	30.3	28.8	27.4	26.0
Budget balance	10.9	10.4	5.0	-2.9	0.2	1.5	3.4	4.6	5.1
Adjusted non-hydrocarbon primary balance [1]	-36.2	-35.4	-36.7	-34.0	-30.2	-28.5	-26.8	-25.2	-23.4
	(Annual percent change)								
Monetary sector [2]									
Credit to private sector	1.6	3.5	11.5	7.2	8.8	9.4	10.6	11.7	12.6
Broad money	4.4	22.5	8.0	6.8	10.2	9.8	10.6	10.8	10.9
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports of goods	360	374	371	339	361	385	414	445	485
Oil and gas	126	129	112	70	78	83	88	92	95
Imports of goods	218	230	240	248	263	281	303	328	361
Current account balance	79.6	71.4	54.6	17.6	22.6	25.4	28.0	30.5	33.4
Current account balance (percent of GDP)	21.3	18.4	13.7	5.0	5.9	6.3	6.5	6.7	6.8
Gross official reserves	47.1	68.2	78.5	76.8	83.7	91.2	99.1	108.5	118.4
In months of next year imports of goods and services, net of re-exports	3.5	4.8	5.4	4.9	5.0	5.1	5.1	5.1	5.1
Real effective exchange rate (2000=100)	93.5	93.7	96.8	…	…	…	…	…	…

Sources: UAE authorities; and IMF staff estimates.

[1] In percent of nonhydrocarbon GDP. Excludes staff estimates on SWF investment income.

[2] As a result of changes in economic sector classifications in banking forms during 2013, readings for annual percent changes for private sector credit and broad money for 2013 have been effected accordingly.

INTERNATIONAL MONETARY FUND

UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

July 13, 2015

KEY ISSUES

Context. Lower oil prices are eroding long-standing fiscal and external surpluses, but the impact on economic activity in the UAE has been limited owing to large buffers. Real estate prices have declined somewhat since mid-2014, but rents are driving up inflation. Following fiscal consolidation in 2013, the fiscal stance was expansionary in 2014.

Outlook and risks. The economic outlook is expected to moderate amid lower oil prices. Nonoil growth is projected to slow in 2015, before accelerating in the medium term. Export and revenue losses from lower oil prices will be the most significant transmission channel for the UAE economy.

Macroeconomic policy mix. With persistently lower oil prices, gradual fiscal consolidation is important to strengthen long-term fiscal sustainability while cushioning negative effects on growth. It will require rationalization of spending and further mobilization of nonhydrocarbon revenues. Efforts on strengthening the medium-term budget frameworks need to continue. Liquidity management should remain supportive of credit growth.

Financial stability. The banking sector is well capitalized, liquid, profitable, and with low NPLs. Timely implementation of the CBU's plans to phase in Basel III capital and liquidity standards over 2015–19 will be important. Further developing the macroprudential framework and strengthening safety nets and the resolution framework for banks as well as the AML/CFT framework will also be important. Compliance with the loan concentration limits for GREs and local governments should be monitored and no exemption should be granted. Strengthening GRE balance sheets and proactive management of upcoming GRE debt repayments should continue.

Economic diversification. Implementation of structural reforms should be pursued to strengthen competitiveness and accelerate private sector-led job creation for nationals. These could focus on further opening up foreign direct investment, improving selected areas of the business environment, and easing access to finance for startups and SMEs.

Approved By
Aasim M. Husain and Sanjaya Panth

Discussions were held in Abu Dhabi and Dubai during May 24—June 4, 2015. The staff team comprised Messrs. Hadjian, Santos, Shukurov, Zeidane (head; all MCD) and Kazarian (MCM). Ms. Merhi (ED office) and Messrs. Beblawi (ED) and Husain (MCD) joined the mission. Ms. Knight (MCD) and Messrs. Flores (MCD) and Sastry (MCM) assisted in the preparation of this report.

CONTENTS

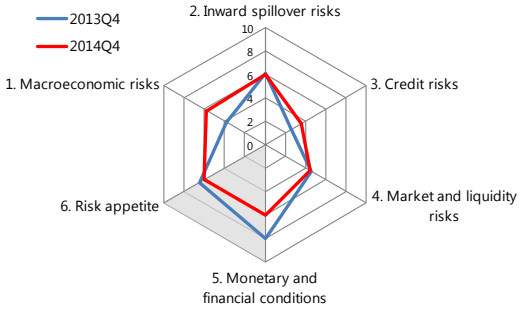
ANNEXES

BACKGROUND

1. Lower oil prices are eroding long-standing fiscal and external surpluses, but negative effects on economic activity in the UAE have been limited since mid-2014 (Figures 1-5). The UAE has continued to benefit not only from its perceived safe haven status but also from its large fiscal and external buffers that have helped limit negative spillovers from lower oil prices, sluggish global growth, and volatility in emerging market economies. Strong growth in the Dubai services sector and expansionary fiscal policies in Abu Dhabi helped cushion the effect of lower oil prices on the broader economy in 2014.

2. Macro-financial stability risks have increased since end-2013. Lower oil prices and the appreciation of the effective exchange rate are weighing on the macroeconomic outlook and credit risks and have led to a tightening of monetary and financial conditions. Large external buffers have continued to limit inward spillover risks. The buildup of liquidity buffers in the banking system has helped reduce market and liquidity risks.

UAE: Financial Stability Map, 2013–2014



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

3. Against this backdrop, reforms to strengthen macro-financial stability and continue economic diversification are critical. Consistent with IMF staff advice, the authorities have been implementing a number of reforms aimed at mitigating vulnerabilities and strengthening the macroeconomic policy framework, including bolstering the GRE and banking sectors and strengthening fiscal policy coordination and economic statistics. The new context of lower oil prices and the prospective normalization of US monetary policy calls for resuming fiscal consolidation, strengthening macroprudential, regulatory and supervisory frameworks, and pursuing economic diversification.

Status of Staff Recommendations Made during the 2014 Article IV Consultation

Recommendation	Current Status
Gradual fiscal consolidation	The fiscal stance was expansionary with the adjusted nonhydrocarbon deficit increasing to 36.7 percent of nonhydrocarbon GDP in 2014 from 35.4 percent in 2013.
Strengthening the annual budget process and adopt a medium-term fiscal framework	The federal Ministry of Finance and the Dubai Department of Finance have strengthened budget processes and developed medium-term fiscal frameworks. The Abu Dhabi Department of Finance has submitted a draft medium-term budget framework prepared under the Abu Dhabi Comprehensive Financial Plan to the government for approval.
Closely coordination and prioritizaton of GREs' planned projects	Abu Dhabi GREs have started to slow down nonessential projects. In Dubai, GRE projects continue to be implemented at a measured pace.
Managing upcoming debt repayments proactively	GREs have been proactive in managing debt repayments with Dubai World prepaying the 2015 maturity and rescheduling another large maturity due in 2018.
Continuing to improve availability of information on Dubai GRE debt	Information on Dubai GRE debt is not collected at the level of the Dubai government. Those GREs that are listed disclose their financials in the annual reports.
Further strengthening the toolkit available for enforcing bank supervision	Included in the central bank draft law.
Continuing to strengthen the regime for AML/CFT	A recent regulation enhances the requirement to identify beneficial owners, including those of deposits.
Developing the local debt market	Authorities to push ahead with developing the domestic debt market to establish a benchmark yield curve.

Source: IMF staff.

RECENT DEVELOPMENTS

4. Negative effects from the drop in oil prices, weaker global outlook, and regional instability on growth in the UAE have been limited. Nonoil growth remained robust at 4.8 percent in 2014, driven by construction, notably owing to capital spending in Abu Dhabi, and services underpinned by continued strength in Dubai's transportation and hospitality sectors. The Purchasing Manager's Index as of end-June 2015 suggests that nonoil growth has slowed down recently, but remains in positive territory. Data on passengers and cargo at the Dubai International Airport as of end-April 2015 point to continued expansion. Hydrocarbon growth has also picked up to 4 percent, and oil production in the first five months of 2015 has continued to remain on elevated levels.

5. Real estate prices have edged down since mid-2014, but rents are driving up inflation. House prices in Dubai have declined slightly (Box 1), reflecting strong supply and slowing demand stemming from lower oil prices, U.S. dollar appreciation, and structural measures such as the tightening of industry self-regulation, higher real estate fees, and tighter macroprudential regulation for mortgage lending. Following Dubai, house price growth has also started to decline in Abu Dhabi. With past increases in rents only feeding gradually into consumer prices, inflation increased to 4.3 percent year-on-year in May 2015, also reflecting upward adjustments of electricity and water tariffs in Abu Dhabi as well as higher costs of education and other services. Contributions to inflation have been negative from clothing and almost nil from food, reflecting the effects of the appreciating U.S. dollar.

6. The current account surplus in 2014 narrowed due to falling oil prices, and the real effective exchange rate (REER) appreciated. The current account surplus declined but was still sizable (13.7 percent of GDP). Gross foreign inflows to the banking sector and foreign direct investment remained steady, reflecting the UAE's perceived safe-haven status and its competitive business environment. Driven by the appreciation of the U.S. dollar, the REER appreciated by 3.3 percent in 2014, and by 9 percent in Q1 2015 compared to the average 2014 level.

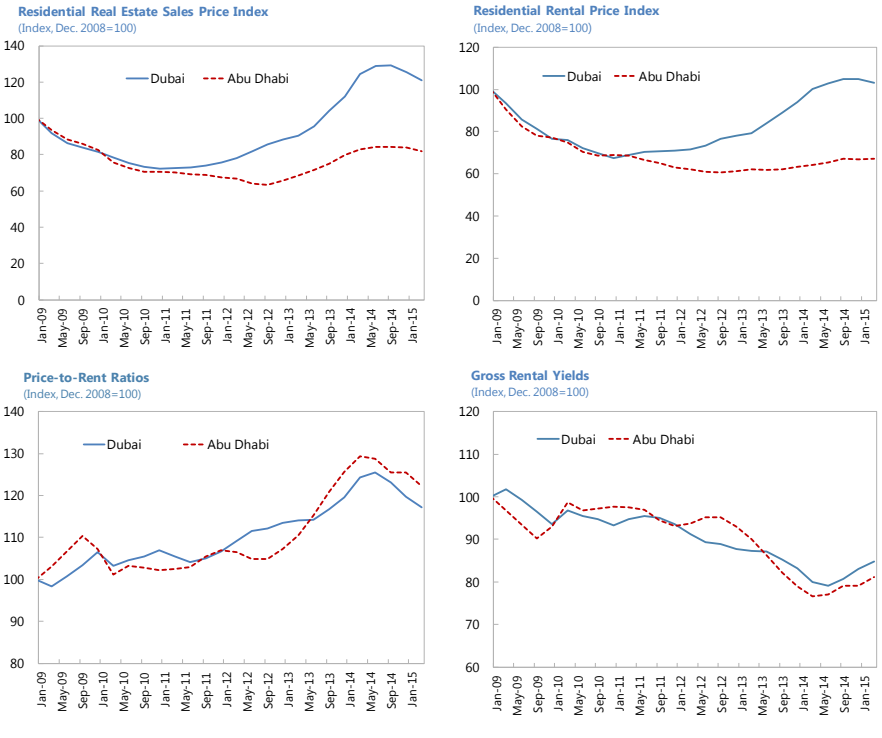
7. Following fiscal consolidation in 2013, the fiscal stance was expansionary in 2014. Based on preliminary 2014 data, the planned consolidation of 2 percent of nonhydrocarbon GDP did not materialize because of higher-than-expected Abu Dhabi government spending, in particular on capital transfers. The fiscal stance was in fact expansionary with the adjusted nonhydrocarbon deficit increasing to 36.7 percent of nonhydrocarbon GDP (from 35.4 percent in 2013), leading to an increase in the fiscal break-even oil price, to $78 from $69 in 2013. The overall fiscal surplus declined to 5 percent of GDP (from 10.4 percent in 2013).

Box 1. United Arab Emirates: Real Estate Developments

The real estate market in the UAE has cooled down after expanding strongly in 2013 and the first half of 2014. By end-2014, sales price increases moderated in Dubai and Abu Dhabi, and in March 2015, growth in residential sales prices turned slightly negative in both Emirates, in year-on-year terms (based on Reidin data). These developments are taking place amid increased supply, particularly in Dubai, and reduced demand associated with lower oil prices and appreciating US dollar, and following the introduction of mortgage regulations based on loan-to-value ratios and an increase in the property transfer fee in late 2013. With the additional new supply in the market, Dubai's sales' prices are expected to further decline over the course of the year, while constrained supply through 2017 will support prices in Abu Dhabi. The pace of rent increases, based on new contracts only, slowed in Q1 2015. The rent component in the CPI basket, based on both existing and new contracts, has been a major driver of inflation since September 2014. Price-to-rent ratios have declined since mid-2014 in both metropolitan areas, indicating a healthy correction in the UAE's likely overpriced housing market. Correspondingly, gross rental yields have risen since mid-2014 (see charts below), registering a 6 percent year-on-year increase in March 2015.

Other segments of the real estate market have also slowed down. The hotel market was buoyant in Dubai in 2014, supported by a large number of tourists, but the fall in oil prices and the appreciation of the U.S. dollar are expected to weigh on the performance of this market in 2015. Vacancy rates remain high in the office market (23 and 25 percent in Dubai and Abu Dhabi, respectively), while new additions to supply this year are expected to put downward pressure on office rents in Dubai (based on JLL reports). Retail market rents rose rapidly in Dubai until mid-2014, but growth slowed down in late-2014. Forthcoming supply is expected to slow price growth further in 2015.

UAE: House Prices, 2009–March 2015



Sources: Reidin; and IMF staff calculations.

8. Credit to the economy continued to recover with banks well capitalized and liquid, while stock markets declined following the oil price plunge. Lending to the private sector picked up to 11.5 percent year-on-year in December 2014 and to 3 percent year-to-April 2015. However, credit standards for firms were tightened in Q4 2014 and Q1 2015. Domestic deposit growth between 2013 and early 2014 was strong, boosting liquidity in the banking system, but slowed down towards end-2014 to reach 2.2 percent by April 2015 because of lower government and customer deposit inflows. Even though the capital adequacy ratio has slightly declined, banks remain amply capitalized. NPLs continued to decline from their post-crisis peak. The banking system remains profitable with a return on assets at 1.7 percent due to higher net interest margins, non-interest income, and operational efficiency. The sharp drop in oil prices last year has triggered a stock market correction and volatility—the stock market declined by 8.8 percent in April 2015 year-on-year (average for Abu Dhabi and Dubai).

Bank Financial Soundness Indicators
(Percent)

	2009	2010	2011	2012	2013	2014
Credit cycle[1]						
Change in total credit/GDP ratio (pp. annual)	27.3	-10.2	-14.3	-2.9	0.4	5.3
Growth of total credit/GDP (%, annual)	5.8	2.9	4.2	3.1	7.3	5.2
Total credit-to GDP gap	36.5	18.5	-1.7	-8.4	-6.9	-7.2
Capital adequacy ratio	19.9	20.7	20.0	21.2	19.3	18.2
Return on asset[2]	1.4	1.3	1.5	2.0	1.5	1.7
Return on equity[2]	10.9	10.4	11.4	11.5	11.6	13.6
Net Interest Margin[2]	56.6	60.8	64.8	66.9	72.4	75.7
Nonperforming loans to total loans[2]	4.3	5.6	7.2	8.4	8.2	7.0
Provisions to nonperforming loans[2,3]	85.0	89.0	90.0	85.1	94.1	102.0

Source: Country authorities.
[1] Only domestic money banks. It does not include central bank claims.
[2] National banks.
[3] Specific and general provisions.

9. GREs have continued to strengthen their finances. In Dubai, the major debt restructurings from the 2008/9 crisis have been completed, several GREs made early repayments of upcoming maturities, and Dubai World agreed with its creditors to reschedule a large maturity due in 2018. With this, stronger financial positions and lengthened maturity profiles have further reduced debt-related risks. Nonetheless, total government and GRE debt in Dubai continues to be significant at 136 percent of Dubai GDP, and tighter global financial conditions could imply markedly higher financing costs for the GREs. In Abu Dhabi, GREs have substantially reduced their debt, and upcoming maturities in the medium term are significantly lower than the levels expected last year.

OUTLOOK AND RISKS

10. The economic outlook is expected to moderate amid lower oil prices. Export and revenue losses from lower oil prices will be the most significant transmission channel for the UAE economy. With fiscal consolidation and an appreciating real effective exchange rate, nonhydrocarbon growth is projected to slow to 3½ percent in 2015, before increasing to 4½ percent in the medium term, supported by the implementation of megaprojects and private investment in the run-up to Expo 2020. Growth in hydrocarbon production will likely moderate given the global supply glut. Annual inflation is projected to pick up to 3¾ percent in 2015 due to the level effect, but is expected to decline year-on-year in the coming months supported by moderating rents and lower imported inflation. Over the medium term, inflation should stabilize

around 3 percent. Credit to the private sector is expected to slow to 7.2 percent in 2015 as a result of tighter lending standards and to increase over the medium term as private investment accelerates. Current account surpluses are projected to decline substantially in 2015 due to lower oil prices and will slowly increase with projected gradual recovery in oil prices remaining slightly weaker than the levels consistent with fundamentals. The authorities broadly agreed with staff's view on the outlook.

11. External and domestic conditions pose risks to the medium-term outlook (see Table 1). The authorities agreed with staff's assessment of risks.

- ***External risks.*** The main external risk is persistently lower oil prices than in the baseline given supply factors and weaker demand. The effects from lower oil prices could be exacerbated by falling liquidity in the banking system, increased volatility in the stock markets, and disruptive declines in the real estate sector. This could lead to asset quality deterioration in UAE banks. Higher interest rates in the US could pose rollover risks and trigger an intensification of liquidity strains on the Dubai government and its GREs with negative effects on domestic banks. By contrast, geopolitical deterioration could raise global energy prices and support the UAE's external position. A lifting of sanctions on Iran could be beneficial for nonhydrocarbon growth in the UAE (Box 2).

- ***Domestic risks.*** The Dubai megaprojects, if not implemented prudently, may create additional macro-financial risks for Dubai's GREs, banks, and ultimately the government in light of the debt overhang from the 2008/9 global financial crisis. Dubai's total government and GRE debt continues to be substantial at around US$143 billion, with about half of it falling due in 2015–20.

Table 1. United Arab Emirates: Risk Assessment Matrix[1]

Likelihood/ Nature of Risks	Expected Impact on Economy if Risk is Realized	Policy Responses to Reduce Vulnerabilities
Staff Assessment: Medium to High **Persistently low energy prices** (Medium) and increased volatility (High) triggered by supply factors reversing only gradually and weaker demand.	***Staff assessment: High*** Lower oil prices would reduce export earnings and fiscal revenues. The $10 drop would reduce fiscal and external balances by 2⅓ and 2¾ percentage points of GDP, respectively, assuming no policy response. A permanent $10 drop in oil prices could reduce UAE GDP level by 1.5 percentage points after 5 years assuming that revenue losses are fully offset with expenditure cuts.	The authorities should resume fiscal consolidation in a gradual way –considering large buffers- to reduce fiscal vulnerabilities and ensure intergenerational equity with limited negative effects on growth; mitigate Dubai's macro-financial vulnerabilities by reducing contingent liabilities through deleveraging and reforming GREs; continue to diversify the economy; and ensure adequate banking system capitalization and liquidity.
Staff Assessment: High **Side-effects from global financial conditions:** •A surge in financial volatility •Persistent dollar strength	***Staff assessment: Medium*** Higher US interest rates in the US could trigger sustained reversal of capital flows and a sustained increase in risk premiums. GREs' financial problems could spill over to the domestic banking system. With a stronger dollar the dirham would appreciate in effective terms, leading to lower inflation, but also to competitiveness loss.	The CBU should stand ready to use available liquidity management tools as needed. A transfer of maturing debt by GREs to domestic banks should be avoided. Developing the domestic debt markets would reduce GRE's reliance on the banking sector and external financing.
Staff Assessment: Medium **Insufficient domestic policy reform to mitigate the risk of excessive risk taking by GREs**	***Staff assessment: Medium*** Imprudent risk-taking and re-leveraging by Dubai GREs and private companies could prop up short-term growth at the expense of medium-term stability. Banks' balance sheets would be affected.	Policymakers need to prioritize and sequence major projects; assess the quality of planned spending; contain GRE risk-taking; improve their risk management, reporting, and corporate governance.
Staff Assessment: Medium **Protracted period of slower growth in emerging economies**.	***Staff assessment: Medium*** A slowdown in emerging economies would lead to lower oil prices, weaken an important driver of nonhydrocarbon goods export growth, and reduce tourism and foreign real-estate demand.	The authorities should continue enhancing export diversification.

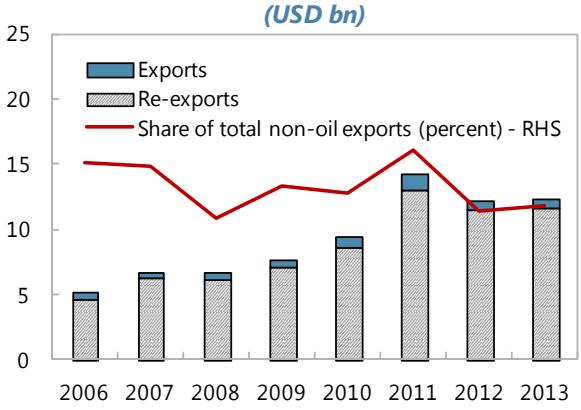
[1]The Risk Assessment Matrix (RAM) shows event that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with authorities. Non-mutually exclusive risks may interact and materialize jointly.

Box 2. The Economic Impact of the Removal of Iran Sanctions

The nonhydrocarbon economy in the UAE, particularly in Dubai, stands to benefit from an easing of sanctions on Iran through increased trade and financial flows. If sanctions are lifted, Iran is expected to gradually step up oil production from current levels and bring oil in floating storage to the market. Added supply from Iran poses a modest downside risk for oil prices, but a removal of sanctions is also likely to lead to an expansion of demand from Iran for goods and services from the UAE, a major hub for the region.

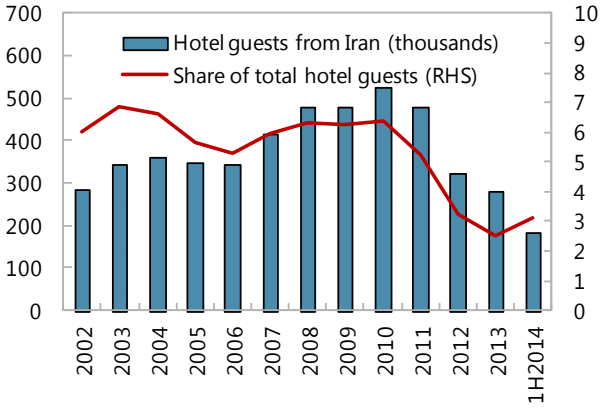
At US$12 billion, exports to Iran in 2013 accounted for 12 percent of the UAE's total nonoil exports, making Iran the UAE's most important export destination after India. Exports to Iran consist largely of re-exported goods that cycle through the UAE's sophisticated port infrastructure. After growing steadily for several years, exports leveled off and declined with the intensification of sanctions and enforcement efforts since 2010-11. The UAE is well positioned to benefit from an opening of the Iran market by serving as a transshipment point for renewed trade activity. Results from a simulation model suggest that a reversal of sanctions could add 1 percentage point to real GDP growth over 2016-18 through higher nonhydrocarbon exports alone.[1]

UAE: Trade with Iran
(USD bn)



Source: National Bureau of Statistics; and IMF staff calculations.

Dubai: Hotel Guests from Iran



Source: Haver; Dubai Department of Tourism and Commerce Marketing; and IMF staff calculations.

An agreement would boost demand from Iran for UAE services exports such as trade finance, transportation, tourism, and hospitality. As a proxy for recent business and tourism activity, Dubai hotel guests arriving from Iran have dropped by almost half since 2010. If sanctions are lifted, the additional indirect impact of spending by tourists and business travelers in the broader economy could be significant.

[1] The model assumes trade with Iran would gradually return to levels consistent with trends prior to the current sanctions regime. About one-quarter of the gap between trade under the scenario of continued sanctions and the trend is assumed to be permanently lost. Data from the National Bureau of Statistics (NBS), the official statistical agency of the UAE, are used but may not be comprehensive. Alternative sources show different estimates for UAE-Iran trade. For example, data from the Dubai Chamber show a larger decline in exports to Iran over 2011-13. The trade loss from sanctions may thus be underestimated in this context.

POLICY DISCUSSIONS

Against the backdrop of lower oil prices, discussions focused on resuming fiscal consolidation, further strengthening financial sector stability while mitigating potential risks from Government-Related Entities(GRE), and pursuing structural reforms to accelerate economic diversification and job creation.

A. Living with Cheaper Oil while Achieving Intergenerational Equity

12. Fiscal vulnerability has increased and the fiscal position, if it remains at today's level, will not be consistent with intergenerational equity. The fiscal break-even oil price is projected at $72 a barrel in 2015, above the $62 Brent oil price projection. A PIH-based calculation suggests that the current nonhydrocarbon primary deficit exceeds the level consistent with a constant real per capita annuity that would ensure that future generations benefit as much from the exhaustible oil wealth as the current generation (Annex I).

13. The desirable macroeconomic policy mix in the coming years entails fiscal consolidation, while maintaining the peg and easing liquidity management if needed.

- ***With persistently lower oil prices, gradual fiscal consolidation is important to strengthen long-term fiscal sustainability.*** The authorities plan consolidation of 2.8 percent of nonoil GDP in 2015, and under their planned consolidation path, the fiscal position will adjust by a total of 13½ percent of nonoil GDP and be broadly in line with intergenerational equity by 2020.[2] The fiscal break-even oil price would already decline to levels below the projected oil price in 2016.[3] Staff supported the plan to consolidate, but recommended a more gradual pace to cushion the impact on nonhydrocarbon GDP growth, which could be about 1 percentage point annually.[4] The authorities nonetheless preferred a faster pace of consolidation (realistically implementable in staff's view) to minimize tapping their sovereign wealth fund assets. The authorities noted that their oil price projections in the medium term are lower than staff's. Since the path of oil prices over the medium term is uncertain, staff recommended developing contingency plans (Annex II discusses the fiscal risks). In the event of an additional drop in the price of oil, the authorities should use existing fiscal space to absorb the initial shock while consolidating over the medium term.

[2] If beyond the forecast period, consolidation continues in the same pace as envisaged for 2020 under the authorities' plans, the fiscal stance would be fully consistent with intergenerational equity by 2022.

[3] The baseline scenario outlined in Tables 2–5 and the Annexes are based on the authorities' planned adjustment.

[4] Under the more gradual consolidation path that staff recommended, the fiscal stance would be in line with intergenerational equity in 10–12 years, with a milder impact on nonhydrocarbon GDP growth of 0.5 percentage point annually.

- ***Fiscal consolidation will require rationalization of spending, while mobilization of nonhydrocarbon revenues should also be considered.*** On the expenditure side, staff recommended the following measures: (i) controlling public wage bill growth (stabilizing the size per capita and limiting wage increases to correspond to productivity gains); (ii) continue reducing energy and water subsidies and other transfers, while protecting those in need;[5] (iii) lowering capital transfers to Abu Dhabi GREs; and (iv) stabilizing other expenses in real terms. The authorities noted that their consolidation package consists of similar measures but emphasized that they plan a larger slowdown in capital and other transfers. Going forward, the authorities should consider raising nonhydrocarbon revenues by introducing a VAT, in coordination with the GCC countries, and broadening corporate income and excise taxes.[6] The authorities indicated that discussions are ongoing in the GCC to introduce VAT, but the timeline is unclear. As regards to income tax reforms, the authorities noted that an impact study would be needed before any broadening of the corporate income tax.

Illustrative Menu of Options for Fiscal Adjustment

Expenditures	Estimated gains in 2015-20 1/		Comments
	IMF staff	Authorities	
Total	9.0	13.4	
Water and electricity subsidies	1.1	1.1	Removal of water and electricity subsidies
Other transfers	1.1	3.1	Slowing growth in other transfers
Capital transfers	3.5	5.8	Lowering capital transfers to Abu Dhabi GREs
Containing growth in other expense	3.3	3.3	Stabilizing other expense in real terms
Revenues	Estimated gains once fully implemented 1/ IMF staff-proposed revenue options		
Total	7.4		
CIT	4.1		Applying the CIT of 10 percent (to UAE, GCC, and foreign companies)
VAT	2.7		Introducing a 5 percent VAT
Excise tax	0.6		Introducing a 15 percent excise tax on automobiles

Source: IMF staff estimates.
1/ In percent of non-hydrocarbon GDP.

- ***Government investment should be protected, while GREs should further prioritize planned projects to avoid increasing fiscal vulnerabilities.*** Staff and the authorities agreed that government-funded investment should be preserved relative to nonhydrocarbon GDP to continue supporting infrastructure needed for maintaining the country's competitiveness. With upcoming megaprojects planned and executed mostly by GREs, staff recommended gradual implementation of these projects, in line with the expected demand and considering contingent liabilities, which will require close oversight and continued strengthening of debt management frameworks in the different Emirates. Care should also be taken to prevent GRE activities from crowding out private sector activity. Continued improvements in the availability of information on GRE debt are crucial. The authorities agreed that GRE projects should be prioritized. They noted that nonessential GRE projects in Abu Dhabi have been slowed down. In Dubai, GRE projects will continue to be implemented at a measured pace, in line with aggregate demand.

[5] Abu Dhabi increased water and electricity tariffs by 170 percent and 40 percent, respectively, in January 2015. With lower oil prices, implicit subsidies on petroleum products are estimated to have almost disappeared. Implicit subsidies on natural gas are still high.

[6] The macro-economic framework, presented in Tables 2–5, reflects only spending side measures.

The so-called Master Plan for Expo 2020, which will guide Expo-related activities (including investment spending) before and after the event, will be approved by end-2015.

- ***The longstanding exchange rate peg has served the UAE well and should be maintained.*** The peg has anchored prices of tradables and thus inflation, and provided stability to income flows and financial wealth in periods of both high and low oil prices. Therefore, given the large external buffers, maintaining the peg is appropriate. However, adjustment through fiscal consolidation is necessary to maintain the UAE's external position at the level consistent with medium-term fundamentals (Annex III).[7] The authorities agreed with staff's assessment. Going forward, the authorities should proceed with reforms aimed at strengthening liquidity management, deepening money and capital markets, and reducing foreign exchange exposure of banks and corporations, so that over the medium term policy frameworks may evolve as needed to continue to effectively manage demand and inflation pressures. The authorities are committed to the exchange rate peg and agreed to the reforms aimed at strengthening policy frameworks over the medium term.

- **Liquidity management should remain supportive of credit growth.** Staff recommended that the Central Bank should stand ready to use its liquidity management tools, as needed, to support credit growth in an adverse scenario with deposit decline. In the meantime, deficit financing should avoid full reliance on drawing down government deposits and instead tap sovereign wealth funds or capital markets. While the authorities broadly agreed, their focus will be on maintaining healthy liquidity.

14. A strong macro-fiscal framework on a consolidated basis needs to be developed, building on past progress and existing strengths. Progress has been achieved in strengthening intergovernmental fiscal coordination. The Fiscal Policy Coordination Council now prepares consolidated backward-looking fiscal data for the UAE. Building on the expertise accumulated at the federal level, the authorities should now develop a consolidated forward-looking medium-term fiscal framework to help set more clearly the direction for fiscal policy for the UAE as a whole. The federal Ministry of Finance and the Dubai Department of Finance have strengthened budget processes and have medium-term fiscal frameworks in place. The Abu Dhabi and Dubai Departments of Finance have started introducing performance budgeting in a few pilot sectors. Strengthening Abu Dhabi's annual budget processes remains a priority: strong Public Finance Management systems will need to be in place to keep spending in check (firm expenditure controls, timely fiscal reporting based on international standards; see accompanying *Selected Issues Paper*). The authorities indicated that the Abu Dhabi medium-term budget framework, prepared under the

[7] Staff estimates using two alternative models suggest that current account balances in 2015 and the medium term are lower than the levels consistent with fundamentals (Annex III). The projected current account balance is slightly below the norm implied by the external sustainability approach—pointing to the need to generate more savings to support future generations once hydrocarbon resources are exhausted, consistent with fiscal consolidation. The macro-balance approach also indicates that the projected current account balance in 2015 is lower than the equilibrium level implied by a range of structural and policy variables. External buffers in the form of international reserves and sovereign wealth fund assets are ample.

Abu Dhabi Comprehensive Financial Plan (ADCFP) has been submitted to the Executive Council of Abu Dhabi for approval. Staff welcomed this step and urged the authorities to approve and operationalize the ADCFP swiftly, while integrating it fully in the annual budget process.

B. Safeguarding Financial Stability and Fostering Deepening

15. The banking sector is well capitalized and liquid, and could withstand severe shocks. The authorities noted that lower oil prices have not had a significant impact on banks so far, although it was acknowledged that deposit and credit growth has slowed down. However, lower oil prices and a higher dollar or real interest rates could have negative effects on nonhydrocarbon growth and real estate prices, which could in turn affect the asset quality of banks. Staff estimates of a vector autoregression model with oil price changes, nonhydrocarbon GDP growth, and NPL changes indicate that the effect of lower oil prices on NPLs has been small, in line with the estimated effects of expansionary fiscal policy (Annex IV). A severe stress test, with a sharp contraction in nonhydrocarbon GDP and real estate prices, was conducted by the CBU (Box 3). It shows that the banking sector would generally remain well capitalized and only four out of 22 banks would have lower than the 12 percent minimum regulatory requirement. Measures have already been taken to increase capital for two of these banks. Similar actions need to be taken for the remaining institutions. Regarding liquidity, stress tests showed that four banks would be below the minimum 100 percent Liquidity Coverage Ratio (LCR). Therefore, the central bank should encourage these banks to change their liquidity profile in order to comply with the minimum 100 percent LCR.

16. The CBU has engaged in an ambitious reform program to strengthen its banking regulatory and supervisory framework. The CBU is reviewing banking regulation and supervision with the aim to modernize its framework in line with international best practice. In this context, the CBU is advised to timely implement its plans to phase in Basel III capital and liquidity standards over 2015-19. In this regard, the CBU has recently issued new regulation to strengthen liquidity requirements to move towards the Basel III liquidity coverage ratio (LCR). The authorities noted that most banks would comply with a simple liquid asset ratio and Basel III capital standards. Considering the high concentration in the banking sector, this framework should also include capital surcharges for domestically systemically important banks (D-SIBs). Moreover, the CBU should continue to strengthen its risk-based supervision, initially focusing on systemically important banks. In addition, compliance by banks with the loan concentration limits for GREs and local governments should be monitored, including the planned transition paths for banks exceeding the limits, and no exemption should be granted to ensure a level playing field and regulatory discipline across banks. The authorities stressed that they have a no-exemption policy, holding banks accountable for all regulations.

Box 3. Stress Testing UAE Banks

Credit Risk Stress Testing

The CBU conducted a top-down solvency stress test to assess the resilience of the banking system to deterioration in credit quality. It estimated expected losses (ELs) arising from a three-year downturn scenario. Key assumptions include exposure-at-default (loans and advances) as of end-2014, 60 percent loss-given-default (LGD), and probabilities of default (PD) proxied by nonperforming loans net of write-offs. Banks are assumed to continue lending with credit growing at 2 percent. Net income before provisions evolves in line with non-oil GDP, and ELs directly affect the capital adequacy ratio (CAR). PDs are a function of non-oil GDP and real estate prices. The downturn scenario consists of a 7 percent decline in non-oil GDP in 2015, 1.5 percent decline in 2016, and no growth in 2017 while real estate prices fall by 35 percent in 2015, 6 percent in 2016, and 5 percent in 2017, both implying a total increase in PDs by six times at end-2017.

Credit Risk Stress Testing

	Local banks	Less than AED 30 billion	Betweeen AED 30 and 120 billion	Larger than AED 120 billion
	2014			
CAR (in percent)	18.1	20.7	17.5	18.2
Number of banks	21	9	7	5
Aggregate capital (In AED billion)	277.0	33.0	72.0	172.0
	2017 1/			
CAR (in percent)	14.8	16.0	13.8	15.1
Number of banks below minimum 12 percent CAR	4	2	2	0
Aggregate capital shortfall to reach 12% CAR (in AED billion)	5.3	1.9	3.4	0.0

Source: CBUAE
1/ Three-year adverse scenario.

Only a few medium and small banks would be adversely affected as a result of the initial high CARs and low NPL ratios in the banking system. The stress test reveals that the average CAR would decline from 18.1 percent to 14.8 percent under the downturn scenario. However, the capital of four banks would be below the 12 percent minimum CAR, with a capital shortfall of AED 5.3 billion. This limited impact resulted from low NPL ratios and high CARs in the banking system at end-2014. One medium bank has already obtained approval to raise its capital by AED 4.9 billion, and a request is under consideration to increase the capital of a second bank by AED 3 billion. The CARs could still be adversely affected by risks arising from single-name concentrations and second-round effects between bank asset quality and macroeconomic conditions. Also, a higher LGD than observed during major debt GRE and corporate restructurings following the 2008–09 crisis could also lead to larger capital shortfalls.

Liquidity Risk Stress Testing

The CBU also conducted liquidity stress test based on the Liquidity Coverage Ratio (LCR) methodology. The LCR aims to ensure that banks hold enough high-quality liquid assets that can be converted into cash to meet obligations for a 30 day-period under a stress scenario. Overall, haircuts on assets reflect their liquidity while the run-off rates on deposits and other liabilities are assumptions on their likely withdrawal. The LCR stress test included a baseline and an adverse scenario with additional 5-10 percent haircut on high-quality liquid assets on average and an additional 5 percent run-off rate on stable deposits on top of the LCR assumptions.

Liquidity Risk Stress Testing

	Local banks	Less than AED 30 billion	Betweeen AED 30 and 120 billion	Larger than AED 120 billion
Number of banks	22	9	8	5
	LCR			
LCR (in percent)	169.9	262.4	182.7	158.0
Number of banks with LCR<1	4	2	2	0
Liquidity shortfall (In AED billion)	2.2	0.8	1.5	0.0
Liquidity shortfall (In percentage of total assets)	0.1	0.4	0.3	0.0
	Stressed LCR			
LCR (in percent)	157.1	245.4	166.5	146.6
Number of banks with LCR<1	4	2	2	0
Liquidity shortfall (In AED billion)	3.2	0.8	2.4	0.0
Liquidity shortfall (In percentage of total assets)	0.2	0.5	0.5	0.0

Source: CBUAE

Most banks pass the minimum 100 percent LCR even under the adverse scenario. The overall LCR would decline from 170 percent under the LCR baseline to 157 percent under the adverse LCR scenario. However, four banks (2 small and 2 mid-size banks) would be below the minimum 100 percent LCR under both the baseline and adverse LCR scenarios. The liquidity gap would be about AED 3.2 billion. The four banks would need to change their liquidity profile to comply with the minimum 100 percent LCR. The phase-in introduction of the LCR with a 60 percent requirement in 2015 provides banks with a schedule to adjust to the 100 percent requirement by 2019.

17. In the medium term under an improved supervisory framework, safety nets and resolution frameworks should be strengthened. The bank resolution framework should be developed, in line with the Key Attributes of Effective Resolution Regimes for Financial Institutions, such as strengthening the resolution powers of the central bank by designating it as the lead resolution authority for banks and their subsidiaries, and equipping it with robust tools. As part of the resolution framework, a deposit insurance scheme should be put in place. The authorities informed staff that they are studying other countries' experience.

18. Increased importance of Islamic finance calls for addressing specific financial stability aspects. Rapid growth of Islamic banking over the past decade has led to an increase of its share in total assets to 17 percent and in deposits to 19 percent (Annex V). Therefore, it is important to tailor the regulatory and supervisory frameworks to adequately address Islamic banks' specific risks, including profit-sharing investment accounts and Shari'ah governance, as well as to continue developing Shari'ah-compliant liquidity management instruments that would enable Islamic banks to conduct robust liquidity management. Authorities stressed that the regulatory and supervisory frameworks do not differentiate between Islamic and conventional banks, but work is ongoing to review these frameworks and address Islamic banks' specificities.

19. The introduction of macroprudential measures helped address real estate market risks, but the establishment of a full-fledged policy framework is warranted. The maximum loan-to-value ratios (LTV) for mortgages and debt-service-to-income limits (DSTI) have helped limit the systemic risk arising from real estate price speculation, and should remain in place as the market is stabilizing and does not threaten financial stability. The central bank plans to introduce capital and liquidity macroprudential tools and to publish a financial stability report on a regular basis. However, currently there is no formalized macroprudential policy framework. Authorities and staff agreed that a macroprudential framework should be developed in line with best practices In particular, an improved system would involve a review of the central bank law to formalize a financial stability mandate and cement the use of a broad range of macroprudential instruments (including the Basel III counter-cyclical buffer); the establishment of a Financial Stability Committee at the central bank level; and the institutionalization of the coordination with the Ministry of Finance and other relevant agencies.

20. GREs should continue to be strengthened to reduce macro-financial vulnerabilities. As some GREs are highly indebted, it will be important to continue managing upcoming debt repayments proactively, including using timely communication to guide market expectations. The authorities noted that the GREs have been proactive in managing debt repayments. Improvements in GRE risk management, reporting, and governance will be important to facilitate their further strengthening. A transfer of maturing debt by GREs to domestic banks should be avoided to preserve banking sector stability, while raising risk-weights to GRE lending could make such transfer costly to banks. The authorities indicated that those GREs that are listed disclose their financials in the annual reports. Staff recommended that the Dubai government collect and publish information on Dubai GRE debt.

21. Developing domestic debt markets would reduce the reliance of the government, GREs, and private companies on external funding and bank lending. It would also provide adequate instruments for banks' liquidity management under the recently issued Basel III liquidity rules. Authorities are encouraged to pass the draft Public Debt Law, which would allow the central government to issue debt and provide a yield curve that could be used as a benchmark by the private sector. Stepping up securities issuance by Emirates' governments would also help deepen the domestic market. Moving ahead with the adoption of a trust law would facilitate Sukuk issuance. The authorities indicated that they plan to push ahead with developing the domestic debt market and to establish a benchmark yield curve.

22. Progress in strengthening the effectiveness of the anti money laundering and combating the financing of terrorism (AML/CFT) regime should be pursued. The recent revision of the AML/CFT Law and the approval of the executive by-laws are welcome. The authorities should bring forward their plan to conduct a national risk assessment, and continue strengthening the risk based supervision of financial and nonfinancial businesses and professions to ensure that they adequately apply preventive measures commensurate with their risks including identification of beneficial owners and reporting of suspicious transactions. To complement these measures, the authorities should also seek a better understanding of the origins and intended use of financial flows. These efforts combined with an enhanced dialogue with foreign regulators and other stakeholders should contribute to preventing de-risking by correspondent banks that could potentially divert remittances to informal channels and impact adversely financial inclusion.

C. Further Diversifying Sources of Inclusive Growth

23. UAE ranks favorably on competitiveness indicators, but there is scope for improvement, particularly in labor market efficiency. The authorities noted that a new law on FDI, currently under drafting, would allow 100 percent foreign ownership for specific sectors outside free zones to be defined by the government. Staff recommended that efforts to further strengthen the business environment, particularly in the area of enforcing contracts and resolving insolvency, should continue. Also, transitioning toward a knowledge-driven economy as envisaged by the authorities, through better quality of education, and promotion of innovation and use of new technologies would contribute to raising productivity and diversifying the economy. Implementing labor market reforms to incentivize private sector employment of nationals is also important. In that regard, reduced attractiveness of public-sector employment, better skills-jobs match and promotion of entrepreneurship will be critical to private sector-led job creation for nationals. Significant improvements in labor market statistics are required for accurate assessment and policy recommendations.

24. Enhancing SME access to credit is critical to spur inclusive growth. Progress has been achieved in reducing impediments for SME finance by issuing a new law on SMEs and establishing financial infrastructure such as a credit bureau and credit registry. Other initiatives were undertaken such as setting aside public funds to facilitate SMEs access to finance, fostering financial literacy and helping incubate businesses. Authorities should strengthen the financial infrastructure such as credit

assessment tools and creditors' rights; the latter could be improved by the adoption of the insolvency law. At the same time, the efficiency of public spending in this area could be increased by separating development and financing functions, and focusing on providing seed money for startups or guarantees for SMEs to ease access to finance (see accompanying *Selected Issues Paper*).

STAFF APPRAISAL

25. Lower oil prices have increased macro-financial stability risks. Prudent economic policies, progress in economic diversification, and the safe-haven status of the UAE have helped build large fiscal and external buffers and strengthen the resilience of the economy. Also, the implementation of megaprojects and private investment in the run-up to Expo 2020 are expected to support activity over the medium term. However, lower oil prices are eroding fiscal and external surpluses, and going forward a hike in the US interest rate could lead to a tightening of financial conditions. These risks could be exacerbated by high volatility in stock markets, high NPLs, and low banking system liquidity if government and GREs withdraw deposits.

26. The macroeconomic policy mix should focus on gradual fiscal consolidation, while maintaining the peg and easing liquidity management if needed. The authorities' plan to consolidate the fiscal position is appropriate, and would reduce fiscal vulnerability and ensure intergenerational equity. Fiscal consolidation will also help bring the external position closer to the level consistent with medium-term fundamentals. However, its pace should take into account the available fiscal buffers and the impact on the broad economy. The authorities' monetary policy framework which aims to maintain the peg while strengthening liquidity management and deepening money markets, is appropriate. In an adverse scenario with a decline in deposits, liquidity management could be eased to support credit growth. Government deficit financing should avoid a tightening in liquidity in the banking system.

27. Fiscal consolidation requires rationalization of spending, but the quality of spending cuts is crucial to avoid damaging the country's competitiveness and long-term growth prospects. Government investments should be preserved relative to nonhydrocarbon GDP to support infrastructure, while the implementation of GRE megaprojects should be gradual, in line with the expected demand. Public sector wage bill growth should be controlled while energy subsidies and capital and other transfers should be reduced. Raising more nonhydrocarbon revenues through new tax measures should also be considered. Fiscal policy implementation requires further strengthening annual budget processes, including strong Public Finance Management Systems, and integrating and operationalizing medium-term budget frameworks. Close oversight and continued strengthening of debt management frameworks are crucial.

28. Plans to strengthen the banking regulatory and supervisory framework by the CBU, with no exemptions in holding banks accountable, are welcome. The banking sector is resilient and has enough capital and liquidity buffers to withstand an adverse shock. The CBU plans to phase in Basel III capital and liquidity standards over 2015-19 and to strengthen its risk-based supervision

are welcome and should be timely implemented. As the corporate sector structure in the UAE is characterized by large GREs and family groups, compliance by banks with the loan concentration limits for GREs and local governments is challenging and should be monitored, including the planned transition paths for banks exceeding the limits with no-exemption. Developing domestic debt markets would reduce the reliance on external funding and bank lending, helping banks comply with loan concentration limits. Over the medium term, the authorities should consider developing resolution frameworks, and establishing deposit insurance mechanisms. Efforts on strengthening the AML/CFT framework should continue.

29. Authorities should strengthen their macroprudential framework, building on their successful implementation of real estate-specific measures. Macroprudential policies such as maximum LTVs for mortgages and DSTI limits help reduce excessive exposures by the banking system associated with systemic risk. However, the current macroprudential policy framework needs to be strengthened in line with best practices such as formalizing a financial stability mandate in the central bank law, establishing a Financial Stability Committee at the central bank level, and institutionalizing coordination with the Ministry of Finance and other relevance agencies. Continued strengthening of GREs balance sheets and active management of their upcoming debt repayments, while raising risk-weights of bank lending to GREs if needed, will be important in reducing macro-financial vulnerabilities.

30. Structural reforms should aim at further diversifying the economy and accelerating private sector-led job creation for nationals. These could include: further opening up foreign direct investment, improving selected areas of business environment, transitioning toward a knowledge-based economy, easing access to finance for startups and SMEs, and creating the right incentives for entrepreneurship and job creation.

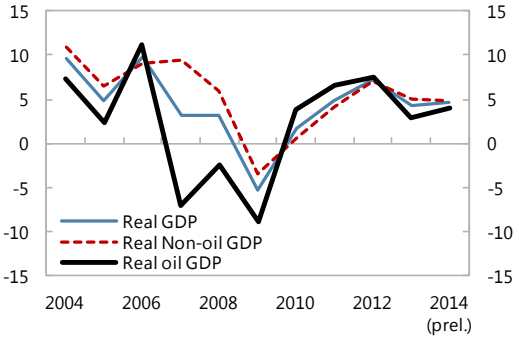
31. Staff encourages the authorities to build on recent progress in improving statistics. Staff welcomes efforts in implementing an inter-agency project to compile the International Investment Position, which will close an important statistical gap, including for the reporting of foreign assets and debt. It will be important to press ahead with this project and provide adequate resources for improving the quality of overall balance of payments statistics. It will also be essential to develop more comprehensive demographic and labor markets statistics, while disseminating complete data on Dubai GRE debt.

32. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Real Sector Developments

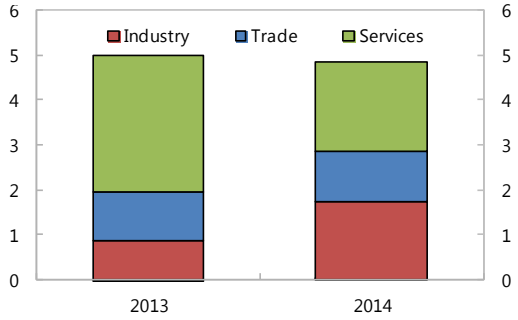
Hydrocarbon growth picked up and nonoil growth remained strong in 2014...

Real GDP Growth, 2004–14
(Annual percent change)



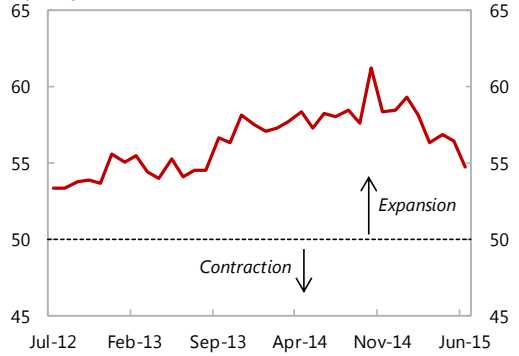
...driven mostly by industry and services.

Contributions to Non-oil Real Growth, 2013–14
(Percent)



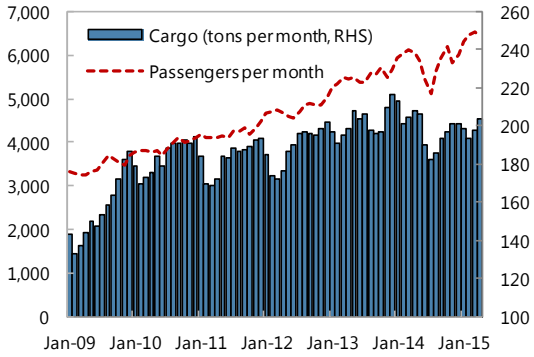
Growth in the manufacturing sector has moderated in recent month...

Purchasing Managers' Index, July 2012–June 2015
(Index)



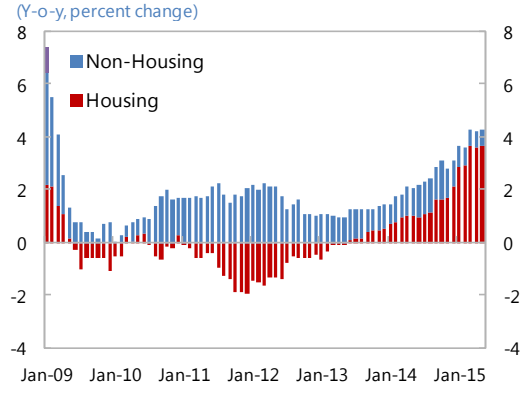
...while the transportation sector continued to expand following the temporary slowdown last year 1/.

Traffic at Dubai International Airport, 2009–April 2015
(Thousands, 3-month moving average)



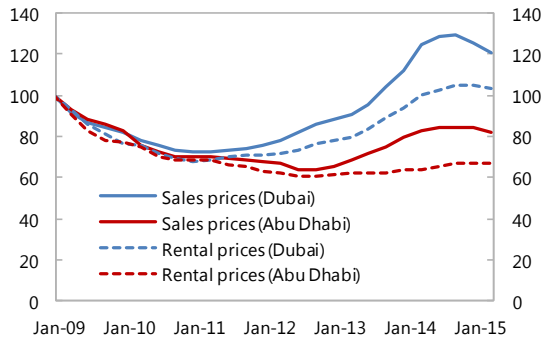
Inflation is picking up moderately, driven by a lagged response from rising rents...

Contributions to CPI Inflation, 2009–May 2015
(Y-o-y, percent change)



...which have recently declined slightly along with sales prices.

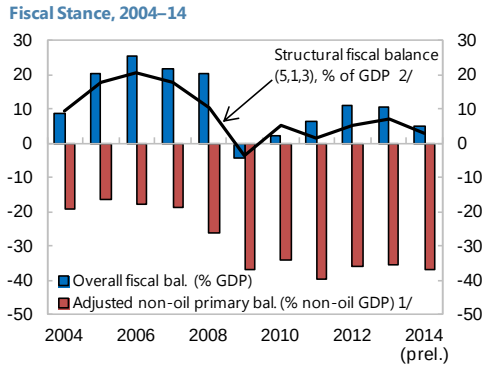
Residential Real Estate Sales and Rental Price Index, 2009–March 2015
(Index, Dec. 2008=100)



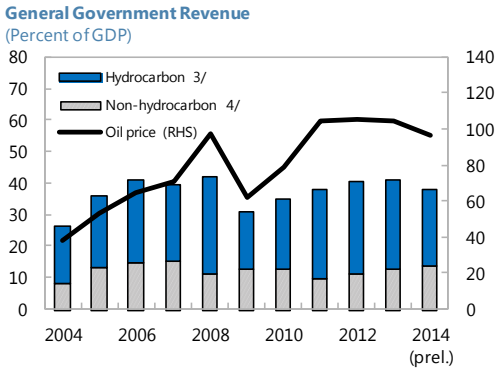
Sources: Country authorities; Haver; Markit; HSBC; Reidin; and IMF staff estimates.
1/ Because of reconstruction activities at the airport, passengers and cargo turnover declined in May-July 2014.

Figure 2. Fiscal Developments

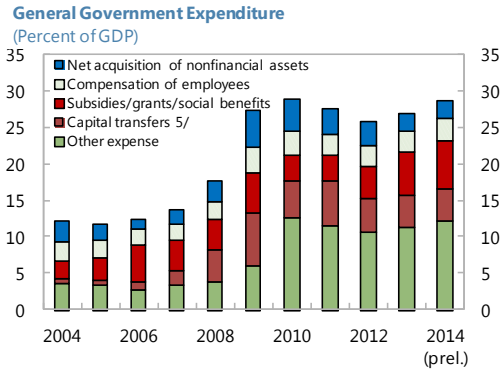
The fiscal position deteriorated in 2014...



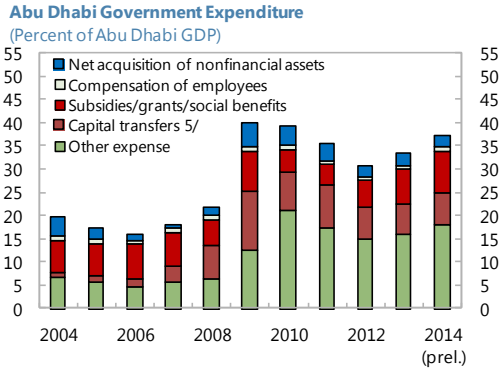
...Because hydrocarbon-related revenues declined due to lower oil prices...



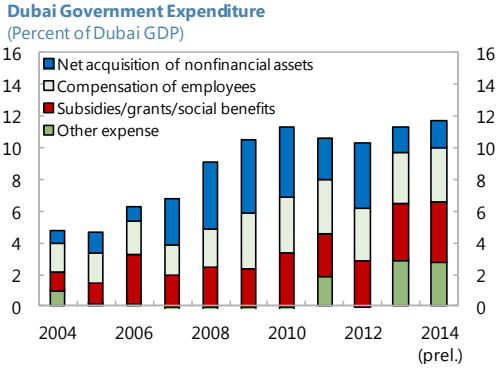
...And government spending remained elevated...



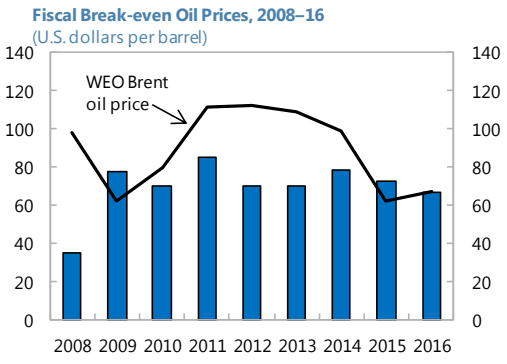
...Due to high government expense in Abu Dhabi...



...And eleveated government expense in Dubai...



...Raising the 2014 fiscal break-even oil price, which is expected to decline with the planned fiscal consolidation.

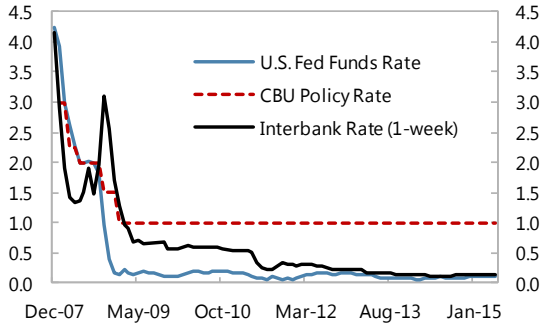


Sources: Country authorities; and IMF staff calculations.
1/ Excludes staff estimates on SWF returns (investment income).
2/ A 9-year moving average of hydrocarbon prices (prices of the past five years and projected prices for the current and the next three years).
3/ Includes staff estimates on profit transfers from the national oil company to SWF.
4/ Includes staff estimates on SWF returns (investment income).
5/ Abu Dhabi loans and equity to finance development projects.

Figure 3. Monetary and Financial Developments

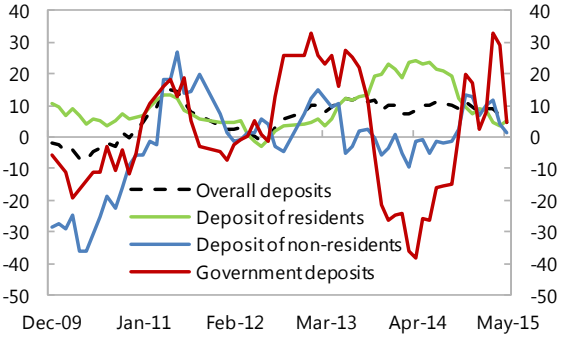
Monetary conditions remain accommodative, with a stable spread to the U.S. policy rate.

Policy Rates, 2007–May 2015
(Percent)



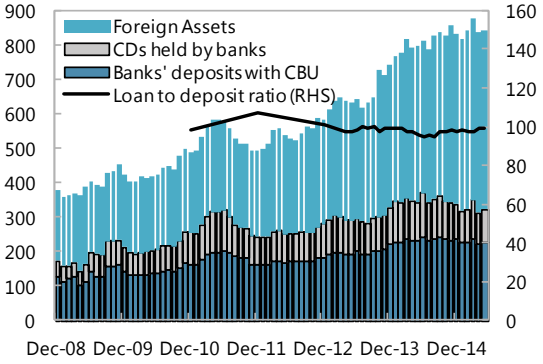
Resident deposits drove deposit growth in 2014.

Bank Deposits, 2009–May2015
(Y-on-y, percent change)



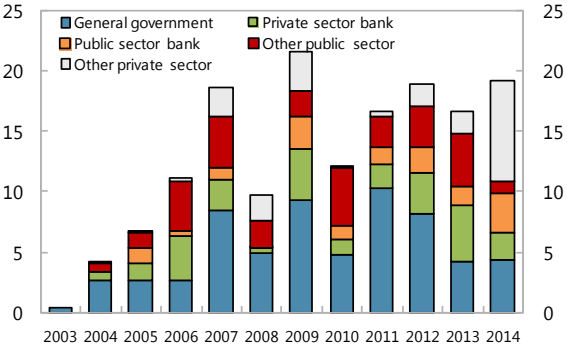
Banking sector liquidity continues to be comfortable.

Bank Liquidity, 2008–May 2015
(Billions of Dirham)



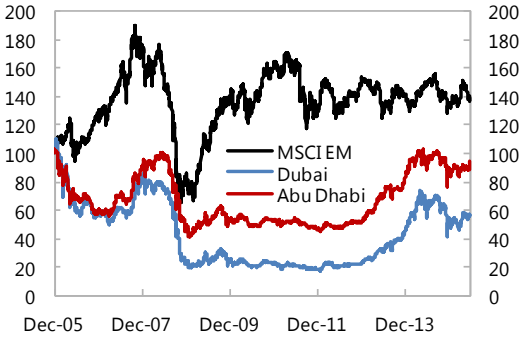
Debt issuance has remained stable since 2011, with the private sector increasingly issuing debt.

Debt Issuance by Borrower Type, 2003–14
(US$ billions)



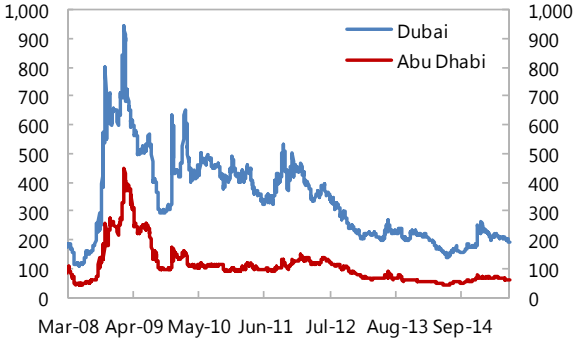
As other regional markets, UAE equity markets declined along with oil prices.

Stock Market Indices, 2006–June 2015
(Index, Dec. 31, 2005=100)



CDS spreads continued to be stable despite the oil price decline.

GCC: CDS Spreads, 2008–June 2015
(Basis points)

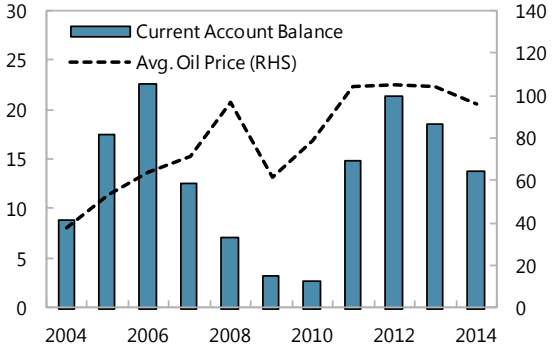


Sources: Country authorities; Haver; Markit; Bloomberg; and Dealogic.

Figure 4. External Sector Developments

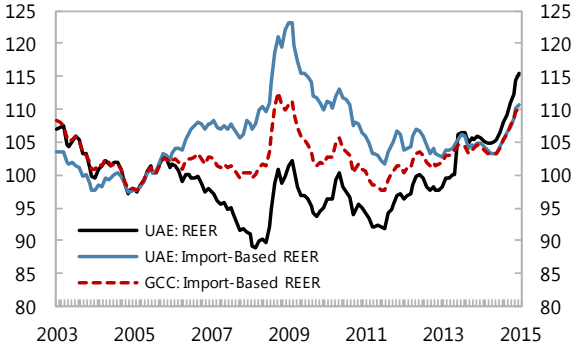
The current account surplus is declining amid lower oil prices.

Current Account Balance
(Percent of GDP)



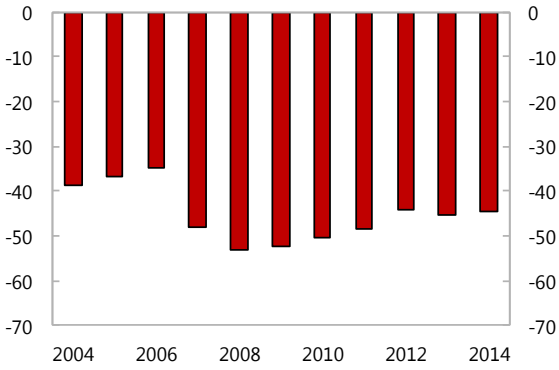
And the real effective exchange rate has appreciated.

Real Effective Exchange Rate
(Index; 2005=100)



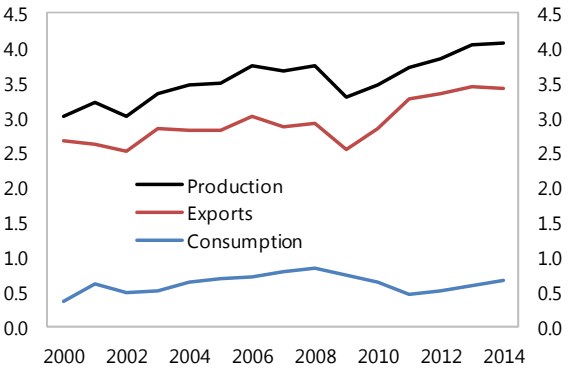
Non-oil external deficits remain large.

Balance on Non-Oil Goods and Services
(Percent of GDP)



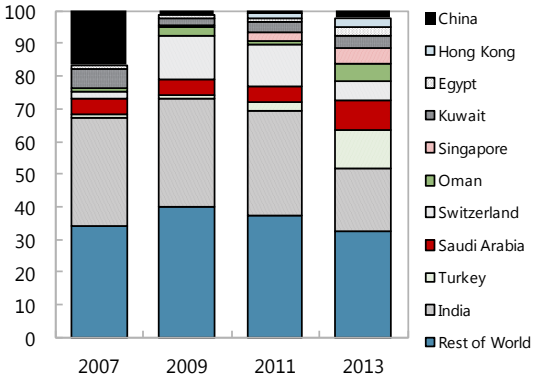
Hydrocarbon exports are flattening as domestic consumption grows, despite robust production.

Hydrocarbon Production, Consumption, and Exports
(Millions of barrels per day)



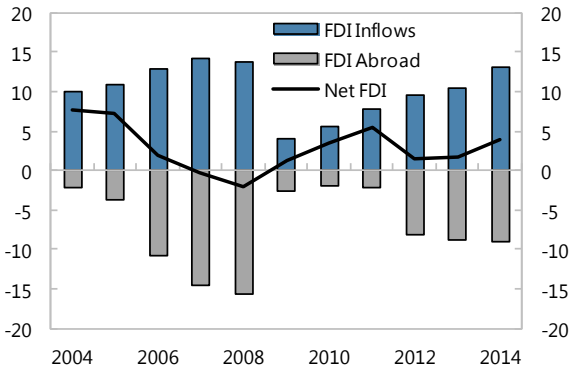
The diversification of export destinations is underway.

Non-Oil Exports: Top 10 Partners, 2007-13
(Share of Total Non-Oil Exports)



Foreign direct investment has increased steadily.

Foreign Direct Investment
(US $ billions)

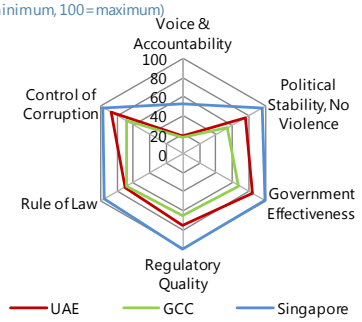


Sources: Country authorities; Haver; NBS; and IMF staff estimates.

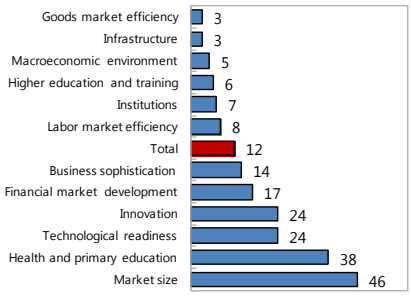
Figure 5. Business Environment and Governance Indicators

UAE ranks favorably on a number of governance and competitiveness indicators, but there is scope for improvement.

World Governance Indicators, 2013
(0=minimum, 100=maximum)

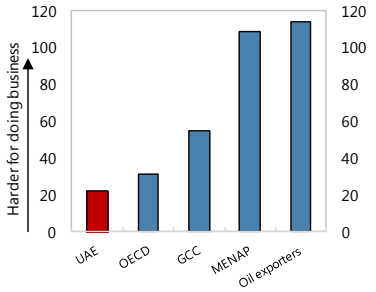


Global Competitiveness Index Ranks by Category, 2014-15
(Rank out of 144)

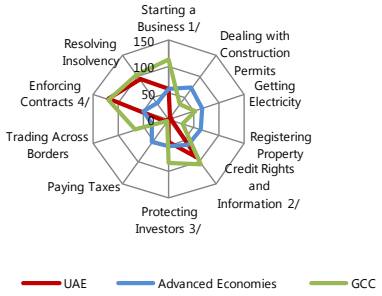


Further progress in contract enforcement, resolving insolvency , and strengthening legal rights of lenders while improving coverage of and access to credit information would be particularly helpful.

World Bank Doing Business, 2014
(Rank out of 189)

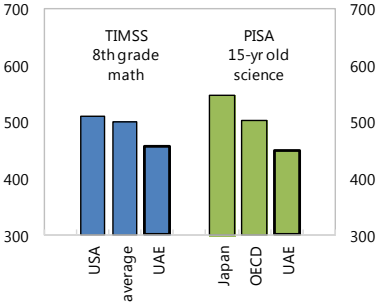


World Bank Doing Business, 2014
(Rank out of 189)

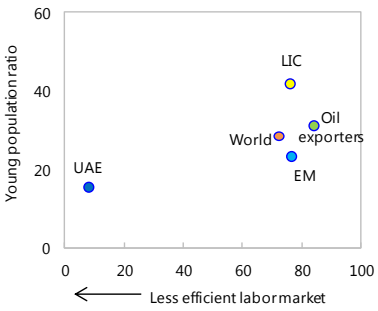


Quality in education and efficiency of labor markets need to be improved.

School Math and Science Scores 5/
(Scores)



Labor Market Efficiency and Young Population Ratio
(Population ratio for those of 14 years or younger)



Sources: Global Competitiveness Report (2014–15); World Bank Doing Business Report (2015), World Governance Indicators (2013); World Development Indicators (2013); Nielsen; TIMSS (2011), U.S. Department of Education; PISA (2012), OECD; and IMF staff estimates.

1/ Starting a business encompasses the procedures, time, and cost (including minimum capital requirement) required for an entrepreneur to start and operate a business.

2/ Getting credit is a combination of (i) the legal rights of borrowers and lenders that facilitate lending; and (ii) the coverage, scope, and accessibility of credit information via public credit registries and private credit bureaus.

3/ Protecting investors measures the strength of minority shareholder protection against directors' misuse of corporate assets for personal gain.

4/ Enforcing contracts measures the procedures, time, and cost involved in resolving a standardized commercial lawsuit between domestic businesses through the local first-instance court.

5/ TIMSS was designed to measure the achievement of U.S. students compared to those in over 50 other countries. PISA is an assessment performed by the OECD to approximately 28 million students of various countries.

Table 2. United Arab Emirates: Selected Macroeconomic Indicators, 2012–20

	2012	2013	Prel. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
Hydrocarbon sector									
Exports of oil, oil products, and gas (in billions of U.S. dollars)	126.4	129.4	111.6	70.0	78.2	83.3	88.1	92.0	95.2
Average crude oil export price (in U.S. dollar per barrel)	112.0	110.0	98.9	61.5	67.2	70.0	72.5	74.1	75.0
Crude oil production (in millions of barrels per day)	2.7	2.8	2.8	2.9	2.9	3.0	3.1	3.1	3.2
	(Annual percent change, unless otherwise indicated)								
Output and prices									
Nominal GDP (in billions of UAE dirhams)	1,371	1,422	1,467	1,297	1,402	1,487	1,583	1,685	1,809
Nominal GDP (in billions of U.S. dollars)	373	387	399	353	382	405	431	459	493
Real GDP	7.2	4.3	4.6	3.0	3.1	3.3	3.5	3.6	3.8
Real hydrocarbon GDP	7.6	2.9	4.0	2.0	2.1	1.9	2.0	2.0	2.0
Real nonhydrocarbon GDP	7.1	5.0	4.8	3.4	3.6	3.8	4.1	4.4	4.6
CPI inflation (average)	0.7	1.1	2.3	3.8	3.0	2.6	2.8	3.0	3.3
	(Percent of GDP, unless otherwise indicated)								
Investment and saving									
Gross domestic investment	23.1	23.2	24.7	22.2	22.0	22.8	23.2	24.3	25.5
Total fixed capital formation	22.5	22.6	24.1	21.5	21.3	22.1	22.6	23.8	25.0
Public	8.7	9.0	10.4	8.9	7.0	6.4	6.1	5.8	5.6
Private	13.8	13.6	13.6	12.7	14.4	15.7	16.6	18.0	19.4
Gross national saving	44.5	41.6	38.3	27.2	27.9	29.0	29.7	30.9	32.3
Public	18.6	17.1	11.7	3.5	4.8	5.5	7.0	7.9	8.2
Private	25.8	24.6	26.7	23.7	23.2	23.5	22.7	23.0	24.1
Public finances									
Revenue	40.1	41.0	37.8	32.6	32.1	31.8	32.2	32.0	31.0
Taxes	22.8	22.4	19.1	14.5	15.0	15.0	15.0	14.7	14.2
Other revenue 1/	17.0	18.2	18.3	17.6	16.7	16.4	16.8	16.9	16.4
Expenditures	29.2	30.6	32.8	35.5	31.9	30.3	28.8	27.4	26.0
Expense 2/	26.0	28.2	30.4	32.8	29.2	27.7	26.2	24.9	23.4
Net acquisition of nonfinancial assets	3.2	2.4	2.4	2.7	2.6	2.6	2.6	2.6	2.6
Net lending(+)/borrowing(-) (Revenue minus expenditures)	10.9	10.4	5.0	-2.9	0.2	1.5	3.4	4.6	5.1
Adjusted non-hydrocarbon primary balance 3/	-36.2	-35.4	-36.7	-34.0	-30.2	-28.5	-26.8	-25.2	-23.4
Gross general government debt	21.9	16.4	14.3	16.4	15.2	14.2	13.2	12.4	11.8
Net of government deposits in the banking system	1.1	0.2	-3.7	-2.0	-3.3	-4.2	-5.0	-6.2	-7.0
	(Annual percent change)								
Monetary sector 4/									
Net foreign assets	74.0	53.0	16.2	3.1	5.2	4.5	4.7	5.9	5.9
Net domestic assets	9.5	15.5	5.5	8.0	11.8	11.4	12.3	12.1	12.2
Credit to private sector	1.6	3.5	11.5	7.2	8.8	9.4	10.6	11.7	12.6
Broad money	4.4	22.5	8.0	6.8	10.2	9.8	10.6	10.8	10.9
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports and re-exports of goods, of which:	360	374	371	339	361	385	414	445	485
Hydrocarbon	126	129	112	70	78	83	88	92	95
Nonhydrocarbon, excluding re-exports	100	104	112	117	122	130	140	153	169
Imports of goods	218	230	240	248	263	281	303	328	361
Current account balance	79.6	71.4	54.6	17.6	22.6	25.4	28.0	30.5	33.4
Current account balance (in percent of GDP)	21.3	18.4	13.7	5.0	5.9	6.3	6.5	6.7	6.8
External debt (in percent of GDP)	38.7	44.4	49.1	58.7	56.0	54.3	52.6	50.8	48.8
Gross official reserves 5/	47.1	68.2	78.5	76.8	83.7	91.2	99.1	108.5	118.4
In months of next year's imports of goods & services, net of re-exports	3.5	4.8	5.4	4.9	5.0	5.1	5.1	5.1	5.1
Memorandum items:									
Local currency per U.S. dollar (period average)	3.67	3.67	3.67	..	..	..	..	..	..
Nominal effective exchange rate (2010 = 100)	101.5	106.1	110.7	..	..	..	..	..	..
Real effective exchange rate (2010 = 100)	93.5	93.7	96.8	..	..	..	..	..	..

Sources: UAE authorities; and IMF staff estimates.

1/ Includes staff estimates on profit transfers from the national oil company to SWF and SWF returns (investment income).

2/ Includes loans and equity to finance development projects.

3/ In percent of nonhydrocarbon GDP. Excludes staff estimates on SWF investment income.

4/ As a result of changes in economic sector classifications in bank report forms during 2013, readings for annual percent changes for broad money and private sector credit for 2013 are inaccurate. The central bank estimates that private sector credit growth was around 8.2 percent in 2013.

5/ Excludes staff estimates on foreign assets of sovereign wealth funds.

Table 3. United Arab Emirates: Balance of Payments, 2012–20

(Billions of U.S. dollars)

	2012	2013	Prel. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
	(Billions of U.S. dollars, unless otherwise specified)								
Current account balance	79.6	71.4	54.6	17.6	22.6	25.4	28.0	30.5	33.4
(in percent of GDP)	21.3	18.4	13.7	5.0	5.9	6.3	6.5	6.7	6.8
Trade balance	141.7	144.2	130.9	90.6	98.3	104.2	111.0	117.6	124.0
Exports	359.7	374.2	370.7	338.8	361.1	385.4	413.9	445.2	484.8
Oil and oil products	112.7	116.4	98.9	61.9	69.2	73.8	78.1	81.6	84.5
Natural gas	13.6	13.0	12.7	8.1	9.0	9.5	10.0	10.4	10.7
Nonhydrocarbon	100.0	104.1	112.4	117.0	122.1	130.0	140.5	152.8	168.9
Re-exports	133.4	140.7	146.7	151.9	160.8	172.0	185.3	200.4	220.7
Imports (f.o.b.)	-218.0	-230.0	-239.8	-248.2	-262.8	-281.2	-302.9	-327.6	-360.8
Imports by emirates	-143.3	-146.0	-147.3	-152.0	-161.5	-172.9	-185.7	-200.0	-219.9
Free zones	-68.7	-77.9	-86.6	-90.1	-94.1	-100.2	-108.2	-117.7	-130.1
Natural gas	-6.0	-6.1	-5.9	-6.1	-7.2	-8.1	-9.0	-9.9	-10.9
Income, net	0.3	0.2	0.3	2.2	2.4	3.0	3.7	5.6	10.5
Banking system (net)	-1.4	-1.6	-1.6	-2.4	-2.0	-1.1	-0.2	0.4	0.5
Private non-banks (net)	-1.5	-1.8	-1.9	-1.0	-1.2	-1.6	-1.9	-2.1	-2.1
Government	7.4	8.1	8.2	8.7	9.2	9.8	10.4	12.2	17.1
Official debt service (interest)	-1.1	-1.3	-1.4	-0.7	-1.0	-1.3	-1.6	-1.8	-1.8
Foreign partners - oil	-3.0	-3.3	-3.1	-1.9	-2.2	-2.3	-2.4	-2.5	-2.6
Foreign partners - gas	0.0	0.0	0.0	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6
Services, net	-47.2	-49.3	-50.8	-51.5	-54.4	-57.4	-61.1	-65.3	-71.3
Credits	16.1	18.2	20.6	21.2	23.2	25.6	28.1	31.0	34.4
Debits	-63.2	-67.4	-71.4	-72.8	-77.6	-82.9	-89.2	-96.3	-105.7
Transfers, net	-15.2	-23.7	-25.7	-23.7	-23.7	-24.4	-25.6	-27.4	-29.8
Private (incl. remittances)	-14.4	-17.9	-19.3	-20.9	-22.3	-23.7	-25.3	-27.1	-29.4
Official	-0.8	-5.8	-6.4	-2.8	-1.4	-0.7	-0.4	-0.4	-0.4
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-45.9	-49.5	-52.4	-19.3	-15.7	-17.9	-20.1	-21.1	-23.6
Private capital	-14.6	-17.1	-19.8	-23.2	-17.5	-13.5	-14.3	-15.2	-16.4
Direct investment, net	1.4	1.7	3.9	2.0	2.5	2.7	3.0	3.3	3.8
Portfolio flows, net	1.0	1.1	1.2	1.1	1.2	1.3	1.3	1.4	1.5
Commercial banks	-8.7	-12.4	-17.4	-18.5	-12.8	-8.5	-9.1	-9.8	-10.6
Private non-banks and other 1/	-8.3	-7.5	-7.6	-7.9	-8.4	-8.9	-9.5	-10.2	-11.1
Official capital 2/	-31.3	-32.4	-32.6	3.9	1.8	-4.4	-5.8	-5.9	-7.2
Errors and omissions	-23.6	-2.0	7.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	10.0	19.9	9.3	-1.7	6.9	7.5	7.9	9.4	9.9
Change in central bank reserves	-10.0	-19.9	-9.3	1.7	-6.9	-7.5	-7.9	-9.4	-9.9
Memorandum items:									
GDP (billions of U.S. dollars)	373.4	387.2	399.5	353.2	381.7	404.9	431.0	458.8	492.6
Gross reserves of central bank (billions of U.S. dollars)	47.1	68.2	78.5	76.8	83.7	91.2	99.1	108.5	118.4
in months of next year's imports, net of re-exports	3.5	4.8	5.4	4.9	5.0	5.1	5.1	5.1	5.1

Sources: UAE authorities; and IMF staff estimates.

1/ Estimate based on *UNCTAD World Investment Report.*

2/ Including estimated changes in SWF net external assets.

Table 4a. United Arab Emirates: Consolidated General Government Finances, 2012–20

	2012	2013	Prel. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
	(Billions of UAE dirhams, unless otherwise specified)								
Total revenue	550.0	582.8	553.9	422.2	449.4	473.0	509.0	538.8	561.4
Taxes	312.8	319.1	280.1	188.2	209.8	223.5	236.8	247.7	257.3
Social Contributions	4.5	5.1	5.3	5.5	5.8	6.2	6.6	7.1	7.7
Grants	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	232.7	258.7	267.8	228.6	233.8	243.3	265.6	284.1	296.4
Expenditures (a+b)	400.9	434.5	480.8	460.1	446.6	450.7	455.9	462.2	470.1
Expense (a)	356.6	401.0	446.1	425.3	409.8	412.2	415.4	419.1	423.7
Compensation of employees	39.1	42.1	47.2	48.6	52.0	55.2	58.9	63.1	68.5
Use of goods and services	40.4	43.2	54.4	55.3	57.2	59.2	58.4	55.0	49.9
Consumption of fixed capital	3.5	3.3	3.7	3.8	4.1	4.4	4.7	5.0	5.4
Interest	4.3	5.9	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Subsidies	8.4	10.1	19.8	13.0	12.0	10.7	9.4	8.0	6.2
Grants	2.6	21.6	21.9	11.3	6.1	3.5	2.2	2.2	2.2
Social Benefits	48.8	52.4	54.7	56.7	58.5	60.1	61.8	63.5	65.3
Other expenses 2/	209.5	222.3	241.3	233.4	216.7	216.1	217.0	219.2	223.0
Net acquisition of nonfinancial assets (b)	44.3	33.5	34.7	34.8	36.8	38.5	40.6	43.1	46.4
Net operating balance (Revenue minus Expense)	193.4	181.9	107.8	-3.0	39.7	60.8	93.7	119.8	137.8
Net lending(+)/borrowing(-) (Revenue minus expenditures)	149.1	148.4	73.1	-37.8	2.9	22.3	53.1	76.7	91.4
Net acquisition of financial assets 1/ 3/	160.8	204.2	79.6	-29.8	8.5	27.1	56.3	83.0	100.9
Domestic	17.7	25.2	50.9	10.1	7.8	7.2	5.5	14.3	12.0
Foreign	143.1	179.0	28.7	-40.0	0.7	20.0	50.7	68.7	88.9
Net incurrence of liabilities	11.7	55.8	6.5	8.0	5.6	4.9	3.2	6.3	9.5
Domestic	10.8	34.0	16.6	4.9	4.9	4.9	4.9	4.9	4.9
Foreign	0.9	21.8	-10.1	3.1	0.7	0.0	-1.7	1.4	4.6
Memorandum Items:									
Hydrocarbon revenue	396.3	401.7	351.9	221.9	249.8	266.7	282.9	295.7	306.1
Profit transfers from the national oil company to SWF 4/	100.1	103.2	91.7	54.3	61.4	65.5	69.4	72.3	74.7
Non-hydrocarbon revenue	153.7	181.1	202.0	200.3	199.7	206.2	226.1	243.2	255.3
Investment income (from SWF) 4/	58.6	67.6	78.0	81.0	76.8	80.0	96.0	108.7	115.5
Abu Dhabi capital transfers	62.3	60.7	63.5	49.0	26.9	21.6	17.2	13.8	11.0
Adjusted non-hydrocarbon primary balance 5/	-301.5	-315.0	-353.7	-337.7	-320.6	-321.3	-322.7	-324.5	-327.1
In percent of non-hydrocarbon GDP	-36.2	-35.4	-36.7	-34.0	-30.2	-28.5	-26.8	-25.2	-23.4
Fiscal break-even oil price (US$ per barrel)	69.9	69.4	78.4	72.0	66.5	64.2	58.9	54.8	52.6
	(Percent of GDP)								
Total revenue	40.1	41.0	37.8	32.6	32.1	31.8	32.2	32.0	31.0
Taxes	22.8	22.4	19.1	14.5	15.0	15.0	15.0	14.7	14.2
Social Contributions	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	17.0	18.2	18.3	17.6	16.7	16.4	16.8	16.9	16.4
Expenditures	29.2	30.6	32.8	35.5	31.9	30.3	28.8	27.4	26.0
Expense	26.0	28.2	30.4	32.8	29.2	27.7	26.2	24.9	23.4
Compensation of employees	2.8	3.0	3.2	3.7	3.7	3.7	3.7	3.7	3.8
Use of goods and services	2.9	3.0	3.7	4.3	4.1	4.0	3.7	3.3	2.8
Consumption of fixed capital	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Subsidies	0.6	0.7	1.3	1.0	0.9	0.7	0.6	0.5	0.3
Grants	0.2	1.5	1.5	0.9	0.4	0.2	0.1	0.1	0.1
Social Benefits	3.6	3.7	3.7	4.4	4.2	4.0	3.9	3.8	3.6
Other expenses 2/	15.3	15.6	16.4	18.0	15.5	14.5	13.7	13.0	12.3
Net acquisition of nonfinancial assets	3.2	2.4	2.4	2.7	2.6	2.6	2.6	2.6	2.6
Net operating balance (Revenue minus Expense)	14.1	12.8	7.4	-0.2	2.8	4.1	5.9	7.1	7.6
Net lending(+)/borrowing(-)	10.9	10.4	5.0	-2.9	0.2	1.5	3.4	4.6	5.1
Net acquisition of financial assets 1/ 3/	11.7	14.4	5.4	-2.3	0.6	1.8	3.6	4.9	5.6
Domestic	1.3	1.8	3.5	0.8	0.6	0.5	0.3	0.8	0.7
Foreign	10.4	12.6	2.0	-3.1	0.0	1.3	3.2	4.1	4.9
Net incurrence of liabilities	0.9	3.9	0.4	0.6	0.4	0.3	0.2	0.4	0.5
Domestic	0.8	2.4	1.1	0.4	0.4	0.3	0.3	0.3	0.3
Foreign	0.1	1.5	-0.7	0.2	0.1	0.0	-0.1	0.1	0.3
Memorandum Items:									
Hydrocarbon revenue	28.9	28.2	24.0	17.1	17.8	17.9	17.9	17.5	16.9
Profit transfers from the national oil company to SWF 4/	7.3	7.3	6.3	4.2	4.4	4.4	4.4	4.3	4.1
Non-hydrocarbon revenue	11.2	12.7	13.8	15.4	14.2	13.9	14.3	14.4	14.1
Investment income (from SWF) 4/	4.3	4.8	5.3	6.2	5.5	5.4	6.1	6.4	6.4
Abu Dhabi capital transfers	4.5	4.3	4.3	3.8	1.9	1.4	1.1	0.8	0.6

Source: Country authorities and IMF staff estimates.
1/ Includes staff estimates on profit transfers from the national oil company to SWF and SWF returns (investment income).
2/ Includes Abu Dhabi capital transfers (loans and equity to finance development projects).
3/ Excludes Abu Dhabi capital transfers (loans and equity to finance development projects).
4/ Staff estimates.
5/ Excludes staff estimates on SWF investment income.

Table 4b. United Arab Emirates: Central Government Finances, 2012–20

	2012	2013	Prel. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
				(Billions of UAE dirhams)					
Total revenue	61.2	62.6	61.8	62.8	64.5	66.0	67.8	69.9	72.3
Taxes	5.0	5.3	5.3	5.5	5.6	5.8	6.0	6.1	6.4
Social Contributions	4.4	5.1	5.3	5.4	5.8	6.2	6.6	7.1	7.7
Grants	16.6	17.7	17.2	17.1	17.6	18.0	18.5	19.0	19.6
Other Revenue	35.2	34.5	34.0	34.8	35.5	36.1	36.8	37.7	38.6
Expenditures (a+b)	63.8	59.3	62.7	62.8	64.5	66.0	67.8	69.8	72.2
Expense (a)	58.4	57.5	57.7	58.7	60.5	62.3	64.4	66.5	69.1
Compensation of employees	18.2	18.5	19.8	20.4	21.8	23.1	24.7	26.4	28.7
Use of goods and services	17.0	16.8	17.0	16.6	16.3	16.2	16.0	15.8	15.6
Consumption of fixed capital	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.1	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Social Benefits	11.0	13.9	12.9	13.4	13.7	14.0	14.3	14.4	14.4
Other expenses	9.7	7.1	6.8	7.0	7.3	7.6	8.0	8.4	8.9
Net acquisition of nonfinancial assets (b)	5.4	1.9	5.0	4.2	4.0	3.7	3.5	3.3	3.2
Net operating balance (Revenue minus Expense)	2.8	5.1	4.1	4.2	4.0	3.7	3.5	3.3	3.2
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-2.6	3.3	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets	-18.1	-28.1	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-18.0	-37.5	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-0.1	9.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-15.5	-31.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-15.5	-31.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent of GDP)					
Total revenue	4.5	4.4	4.2	4.8	4.6	4.4	4.3	4.1	4.0
Taxes	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Social Contributions	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Grants	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.1	1.1
Other Revenue	2.6	2.4	2.3	2.7	2.5	2.4	2.3	2.2	2.1
Expenditures (a+b)	4.7	4.2	4.3	4.8	4.6	4.4	4.3	4.1	4.0
Expense (a)	4.3	4.0	3.9	4.5	4.3	4.2	4.1	3.9	3.8
Compensation of employees	1.3	1.3	1.3	1.6	1.6	1.6	1.6	1.6	1.6
Purchase of goods and services	1.2	1.2	1.2	1.3	1.2	1.1	1.0	0.9	0.9
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Social Benefits	0.8	1.0	0.9	1.0	1.0	0.9	0.9	0.9	0.8
Other expenses	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net acquisition of nonfinancial assets (b)	0.4	0.1	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Net operating balance (Revenue minus Expense)	0.2	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-0.2	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets	-1.3	-2.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-1.3	-2.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-1.1	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-1.1	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Country authorities and IMF staff estimates.

Table 4c. United Arab Emirates: Abu Dhabi Government Finances, 2012–20

	2012	2013	Prel. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
				(Billions of UAE dirhams)					
Total revenue	457.7	473.8	436.2	311.4	335.1	355.5	388.0	413.9	431.7
Taxes	293.2	298.4	256.9	166.2	186.8	199.6	212.0	221.8	230.1
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	164.4	175.4	179.2	145.2	148.3	155.8	176.0	192.0	201.6
Expenditures (a+b)	296.2	335.7	369.8	349.4	332.5	333.6	335.4	337.8	341.1
Expense (a)	273.0	311.8	348.9	327.8	309.4	309.2	309.3	309.8	310.7
Compensation of employees	6.3	8.2	9.9	10.2	11.0	11.6	12.4	13.3	14.4
Use of goods and services	12.1	14.2	23.9	24.6	26.4	28.0	26.9	23.0	17.5
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	3.5	2.6	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Subsidies	1.5	0.2	8.3	3.0	2.5	1.8	1.1	0.6	0.1
Grants	15.6	37.3	36.4	26.3	21.6	19.4	18.6	19.1	19.7
Social Benefits	35.8	35.9	38.8	40.2	41.4	42.5	43.7	45.0	46.5
Other expenses 2/	198.3	213.5	230.5	222.3	205.5	204.8	205.6	207.7	211.4
Net acquisition of nonfinancial assets (b)	23.2	23.9	20.9	21.5	23.1	24.4	26.1	28.0	30.4
Net operating balance (Revenue minus Expense)	184.7	162.0	87.3	-16.4	25.7	46.3	78.7	104.1	121.0
Net lending(+)/borrowing(-) (Revenue minus expenditures)	161.5	138.1	66.4	-38.0	2.6	21.9	52.6	76.1	90.7
Net acquisition of financial assets 1/ 3/	146.0	137.0	58.5	-40.0	0.7	20.0	50.7	68.7	88.9
Domestic	2.8	-32.7	30.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	143.2	169.7	28.1	-40.0	0.7	20.0	50.7	68.7	88.9
Net incurrence of liabilities	-15.5	-1.1	-7.9	-2.0	-2.0	-1.9	-1.9	-7.4	-1.8
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-15.5	-1.1	-7.9	-2.0	-2.0	-1.9	-1.9	-7.4	-1.8
Memorandum Items:									
Hydrocarbon revenue	389.8	396.3	346.5	218.3	245.8	262.6	278.6	291.3	301.6
Profit transfers from the national oil company to SWF 4/	100.1	103.2	91.7	54.3	61.4	65.5	69.4	72.3	74.7
Non-hydrocarbon revenue	67.8	77.5	89.7	93.1	89.3	92.9	109.4	122.6	130.1
Investment income (from SWF) 4/	58.6	67.6	78.0	81.0	76.8	80.0	96.0	108.7	115.5
Abu Dhabi capital transfers	62.3	60.7	63.5	49.0	26.9	21.6	17.2	13.8	11.0
Adjusted non-hydrocarbon primary balance 5/	-283.5	-323.2	-357.0	-336.2	-318.8	-319.6	-320.9	-322.7	-325.4
In percent of Abu Dhabi non-hydrocarbon GDP	-72.5	-75.3	-78.4	-69.5	-61.4	-57.9	-54.5	-51.1	-47.5
				(Percent of Abu Dhabi GDP)					
Total revenue	50.3	49.7	47.0	39.7	39.2	39.2	40.2	40.4	39.6
Taxes	32.2	31.3	27.7	21.2	21.9	22.0	22.0	21.7	21.1
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	18.1	18.4	19.3	18.5	17.4	17.2	18.2	18.8	18.5
Expenditures (a+b)	32.6	35.2	39.9	44.6	38.9	36.8	34.7	33.0	31.3
Expense (a)	30.0	32.7	37.6	41.8	36.2	34.1	32.0	30.3	28.5
Compensation of employees	0.7	0.9	1.1	1.3	1.3	1.3	1.3	1.3	1.3
Purchase of goods and services	1.3	1.5	2.6	3.1	3.1	3.1	2.8	2.3	1.6
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subsidies	0.2	0.0	0.9	0.4	0.3	0.2	0.1	0.1	0.0
Grants	1.7	3.9	3.9	3.3	2.5	2.1	1.9	1.9	1.8
Social Benefits	3.9	3.8	4.2	5.1	4.9	4.7	4.5	4.4	4.3
Other expenses 2/	21.8	22.4	24.9	28.4	24.1	22.6	21.3	20.3	19.4
Net acquisition of nonfinancial assets (b)	2.6	2.5	2.3	2.7	2.7	2.7	2.7	2.7	2.8
Net operating balance (Revenue minus Expense)	20.3	17.0	9.4	-2.1	3.0	5.1	8.2	10.2	11.1
Net lending(+)/borrowing(-) (Revenue minus expenditures)	17.8	14.5	7.2	-4.8	0.3	2.4	5.5	7.4	8.3
Net acquisition of financial assets 1/ 3/	16.1	14.4	6.3	-5.1	0.1	2.2	5.3	6.7	8.2
Domestic	0.3	-3.4	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	15.7	17.8	3.0	-5.1	0.1	2.2	5.3	6.7	8.2
Net incurrence of liabilities	-1.7	-0.1	-0.9	-0.3	-0.2	-0.2	-0.2	-0.7	-0.2
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-1.7	-0.1	-0.9	-0.3	-0.2	-0.2	-0.2	-0.7	-0.2
Memorandum Items:									
Hydrocarbon revenue	42.9	41.6	37.4	27.9	28.8	28.9	28.9	28.5	27.7
Profit transfers from the national oil company to SWF 4/	11.0	10.8	9.9	6.9	7.2	7.2	7.2	7.1	6.8
Non-hydrocarbon revenue	7.5	8.1	9.7	11.9	10.5	10.2	11.3	12.0	11.9
Investment income (from SWF) 4/	6.4	7.1	8.4	10.3	9.0	8.8	9.9	10.6	10.6
Abu Dhabi capital transfers	6.8	6.4	6.8	6.2	3.2	2.4	1.8	1.3	1.0

Source: Country authorities and IMF staff estimates.

1/ Includes staff estimates on profit transfers from the national oil company to SWF and SWF returns (investment income).
2/ Includes Abu Dhabi capital transfers (loans and equity to finance development projects).
3/ Excludes Abu Dhabi capital transfers (loans and equity to finance development projects).
4/ Staff estimates.
5/ Excludes staff estimates on SWF investment income.

Table 4d. United Arab Emirates: Dubai Government Finances, 2012–20

	2012	2013	Prel. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
				(Billions of UAE dirhams)					
Total revenue	39.6	55.7	59.1	51.2	53.0	54.7	56.4	58.3	60.5
Taxes	13.4	14.2	16.6	15.1	15.8	16.5	17.1	17.8	18.8
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue	26.2	41.5	42.5	36.1	37.2	38.2	39.3	40.4	41.8
Expenditures (a+b)	49.2	48.1	51.5	51.2	52.9	54.4	56.0	57.8	60.0
Expense (a)	35.0	41.9	45.0	44.5	45.8	46.8	48.0	49.2	50.6
Compensation of employees	11.4	11.9	13.2	13.6	14.6	15.4	16.5	17.7	19.2
Use of goods and services	9.7	10.4	11.4	11.8	12.2	12.5	12.8	13.2	13.7
Consumption of fixed capital	3.0	2.9	3.3	3.4	3.6	3.8	4.1	4.4	4.8
Interest	0.8	3.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Subsidies	6.8	9.8	11.3	9.8	9.3	8.8	8.1	7.2	6.0
Grants	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Social Benefits	1.5	2.1	2.1	2.1	2.3	2.4	2.6	2.7	3.0
Other expenses	0.1	0.2	0.6	0.6	0.6	0.7	0.7	0.8	0.8
Net acquisition of nonfinancial assets (b)	14.3	6.2	6.5	6.7	7.1	7.6	8.1	8.6	9.4
Net operating balance (Revenue minus Expense)	4.6	13.8	14.1	6.7	7.3	7.8	8.4	9.1	10.0
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-9.6	7.6	7.6	0.0	0.1	0.3	0.4	0.5	0.6
Net acquisition of financial assets	37.3	95.9	22.4	10.1	7.8	7.2	5.5	14.3	12.0
Domestic	37.3	95.9	22.4	10.1	7.8	7.2	5.5	14.3	12.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	46.9	88.3	14.8	10.1	7.7	6.9	5.2	13.8	11.4
Domestic	30.5	65.4	16.9	5.0	5.0	5.0	5.0	5.0	5.0
Foreign	16.4	22.9	-2.2	5.1	2.7	1.9	0.2	8.8	6.4
				(Percent of Dubai GDP)					
Total revenue	11.5	15.1	15.4	12.7	12.3	12.0	11.6	11.2	10.7
Taxes	3.9	3.9	4.3	3.7	3.7	3.6	3.5	3.4	3.3
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue	7.6	11.2	11.1	8.9	8.6	8.4	8.1	7.8	7.4
Expenditures (a+b)	14.4	13.0	13.4	12.7	12.3	11.9	11.5	11.1	10.6
Expense (a)	10.2	11.4	11.7	11.0	10.6	10.3	9.9	9.4	8.9
Compensation of employees	3.3	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Purchase of goods and services	2.8	2.8	3.0	2.9	2.8	2.7	2.6	2.5	2.4
Consumption of fixed capital	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Interest	0.2	0.9	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Subsidies	2.0	2.7	2.9	2.4	2.2	1.9	1.7	1.4	1.1
Grants	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Social Benefits	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other expenses	0.0	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Net acquisition of nonfinancial assets (b)	4.2	1.7	1.7	1.6	1.7	1.7	1.7	1.7	1.7
Net operating balance (Revenue minus Expense)	1.4	3.7	3.7	1.7	1.7	1.7	1.7	1.7	1.8
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-2.8	2.1	2.0	0.0	0.0	0.1	0.1	0.1	0.1
Net acquisition of financial assets	10.9	26.0	5.8	2.5	1.8	1.6	1.1	2.7	2.1
Domestic	10.9	26.0	5.8	2.5	1.8	1.6	1.1	2.7	2.1
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	13.7	23.9	3.8	2.5	1.8	1.5	1.1	2.7	2.0
Domestic	8.9	17.7	4.4	1.2	1.2	1.1	1.0	1.0	0.9
Foreign	4.8	6.2	-0.6	1.3	0.6	0.4	0.0	1.7	1.1

Source: Country authorities and IMF staff estimates.

Table 5. United Arab Emirates: Monetary Survey, 2012–20

	2012	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
				(Billions of UAE dirhams)					
Net foreign assets	161	246	286	295	310	324	339	359	380
Foreign assets	479	663	786	829	860	890	922	959	999
Central Bank	173	251	288	282	307	335	364	399	435
Commercial banks	307	412	497	547	553	555	558	561	564
Foreign liabilities	319	417	500	534	550	566	583	600	618
Central bank	3	3	8	8	8	8	8	8	8
Commercial banks	315	413	492	526	542	558	575	592	610
Net domestic assets	702	811	855	924	1,033	1,151	1,292	1,448	1,624
Claims on government (net)	-64	-45	-87	-92	-95	-97	-98	-107	-114
Claims	157	133	122	127	132	137	142	146	151
Deposits	221	178	208	219	226	234	239	253	265
Claims on other sovereign	76	91	107	…	…	…	…	…	…
Claims on public sector enterprises	133	177	196	217	240	263	289	319	352
Claims on private sector	833	861	960	1,029	1,119	1,225	1,355	1,513	1,704
Claims on other financial institutions	88	92	42	44	45	44	43	43	42
Other items (net)	-364	-365	-363	-382	-383	-391	-405	-426	-467
Capital and reserves (-)	-317	-299	-319	-349	-372	-397	-423	-453	-488
Other assets (net)	-47	-66	-44	-32	-11	6	18	27	21
Central Bank	-194	-228	-250	-241	-261	-283	-305	-331	-358
Commercial banks	147	162	206	209	250	289	323	358	379
Broad money (M2)	862	1,057	1,141	1,218	1,343	1,474	1,631	1,807	2,005
Money	299	380	436	466	513	564	623	691	766
Currency outside banks	46	50	59	63	69	76	84	93	104
Dirham demand deposits	254	329	377	403	444	487	539	597	663
Quasi-money	563	677	705	753	830	911	1,008	1,117	1,239
Foreign currency deposits	139	196	217	229	252	277	306	339	377
Dirham time and savings deposits	424	481	488	524	577	634	701	777	862
Memorandum items:									
Dh-denominated liquidity	723	861	924	990	1,091	1,198	1,325	1,468	1,628
Reserve money	238	282	309	330	332	347	384	425	472
Foreign currency deposits / total deposits (in percent)	17.1	19.5	20.1	19.8	19.8	19.8	19.8	19.8	19.8
NFA/ M2 (in percent)	18.6	23.3	25.0	24.2	23.1	22.0	20.8	19.9	19.0
CBU foreign assets/reserve money (in percent)	72.5	88.9	93.2	85.4	92.7	96.5	94.8	93.7	92.2
NFA of Central Bank	169.5	247.2	280.3	273.9	299.5	326.9	356.1	390.6	426.9
NFA of commercial banks	-8.8	-1.2	5.4	20.7	10.4	-3.1	-17.1	-31.6	-46.5
M2 velocity (nonhydrocarbon GDP)	1.0	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7
				(Changes in percent; unless otherwise indicated)					
Claims on private sector 1/	1.6	3.5	11.5	7.2	8.8	9.4	10.6	11.7	12.6
Broad money (M2) 1/	4.4	22.5	8.0	6.8	10.2	9.8	10.6	10.8	10.9
Money	13.3	26.9	14.9	6.8	10.2	9.8	10.6	10.8	10.9
Quasi Money	0.3	20.2	4.1	6.8	10.2	9.8	10.6	10.8	10.9
Velocity (non-oil GDP/M2)	1.0	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Base money	12.3	18.2	9.7	6.8	0.4	4.6	10.6	10.8	10.9
Money multiplier (M2/base money)	3.6	3.7	3.7	3.7	4.0	4.2	4.2	4.2	4.2

Sources: Central Bank of the UAE, and IMF staff estimates and projections.

1/ As a result of changes in economic sector classifications in banking forms during 2013, readings for annual percent changes for private sector credit and broad money for 2013 have been effected accordingly.

Table 6a. Dubai: Maturing Bonds and Syndicated Loans 1/2/

(In millions of U.S. dollars)

	Debt Type	2015	2016	2017	2018	2019	2020	2015-20	Beyond	Unallocated	Total
Government of Dubai 3/											
	Bonds	500	900	600	20,000	0	750	22,750	3,800		26,550
	Loans	180	418	1,064	36	36	0	1,734	181		1,915
	Total	680	1,318	1,664	20,036	36	750	24,484	3,981		28,465
Dubai, other sovereign 4/	Loans domestic									29,047	29,047
	Total									29,047	29,047
Investment Corporation of Dubai and subsidiaries 5/											
	Bonds	908	2,564	1,588	832	1,419	761	8,073	5,724		13,797
	Loans	851	1,779	1,093	4,331	47	0	8,101	3,068		11,169
	Total	1,759	4,343	2,681	5,163	1,466	761	16,174	8,792		24,966
Dubai World and subsidiaries											
	Bonds	0	42	1,500	0	650	0	2,192	3,310		5,502
	Loans	0	1,125	2,698	3,793	0	0	7,616	12,900		20,516
	Total	0	1,167	4,198	3,793	650	0	9,808	16,210		26,018
Nakheel											
	Bonds	0	1,195	0	0	0	0	1,195	0		1,195
	Loans	0	0	0	0	0	0	0	0		0
	Total	0	1,195	0	0	0	0	1,195	0		1,195
Dubai Holding and subsidiaries											
	Bonds	0	0	984	0	0	0	984	0		984
	Loans	31	6,300	2,150	0	1,400	0	9,881	6,159		16,040
	Total	31	6,300	3,134	0	1,400	0	10,865	6,159		17,024
Other Dubai Inc. 6/											
	Bonds	325	500	0	1,000	0	1,500	3,325	700		4,025
	Loans	0	855	1,185	588	540	0	3,168	1,939		5,107
	Total	325	1,355	1,185	1,588	540	1,500	6,493	2,639		9,132
Total Dubai Inc.		2,115	14,361	11,199	10,545	4,056	2,261	44,535	33,800		78,335
Total Dubai Debt		2,795	15,679	12,862	30,581	4,092	3,011	69,020	37,780	29,047	135,847
Dubai Inc. (less than 50% government ownership) 7/											
	Bonds	0	500	800	500	500	0	2,300	1,212		3,512
	Loans	0	951	0	450	500	0	1,901	1,500		3,401
	Total	0	1,451	800	950	1,000	0	4,201	2,712		6,914
Total, including GREs with minortity ownership		2,795	17,130	13,662	31,531	5,092	3,011	73,221	40,492	29,047	142,761
In percent of Dubai 2014 GDP		2.7	16.3	13.0	30.1	4.9	2.9	69.9	38.6	27.7	136.2
Memorandum items:											
Restructured debt of Dubai Inc.		31	7,195	4,148	0	0	0	11,374	13,000		24,374
Government guaranteed 8/		427	452	322	2,420	68	645	4,334	0		4,334
Total Government of Dubai including guarantees		1,107	1,770	1,986	22,456	104	1,395	28,818	3,981		32,799
Of total debt: bonds and loans by banks		908	2,397	2,388	832	1,419	0	7,944	4,667		12,612

Sources: Dealogic; Zawya; Bloomberg; Dubai authorities; and IMF staff estimates.

1/ Excluding bilateral bank loans and accounts payable, except for the sovereign.
2/ Regardless of residency of debt holders.
3/ Includes syndicated and bilateral loans.
4/ Emirates National Bank of Dubai related party lending.
5/ Does not include financial leases.
6/ Includes DEWA, DIFC, DAE, Borse Dubai, and others.
7/ Dubai GREs with government ownership below 50% (Emaar, DIB, CBD).
8/ RTA, Dubai World, and Dubai Airport.

Table 6b. Abu Dhabi: Maturing Bonds, Syndicated and Bilateral Loans

(In millions of U.S. dollars)

	Debt Type	2015	2016	2017	2018	2019	2020	2015-20	Beyond	Total
Government of Abu Dhabi										
	Bonds	0	0	0	0	1,500	0	1,500	0	1,500
	Loans	375	360	346	347	348	324	2,100	331	2,430
	Guarantees	176	176	176	163	163	163	1,018	26	1,045
	Total	551	536	522	510	2,011	487	4,618	357	4,975
Abu Dhabi Water & Electricity Authority 1/	Bonds	0	1,000	1,250	1,250	500	0	4,000	4,111	8,111
	Loans	885	537	524	569	376	103	2,995	52	3,047
	Total	885	1,537	1,774	1,819	876	103	6,995	4,163	11,159
Etihad Airways										
	Bonds	0	0	0	0	0	0	0	0	0
	Loans	830	638	518	692	536	405	3,618	1,165	4,783
	Total	830	638	518	692	536	405	3,618	1,165	4,783
Etihad Rail										
	Bonds	0	0	0	0	0	0	0	0	0
	Loans	0	246	492	246	0	0	985	0	985
	Total	0	246	492	246	0	0	985	0	985
International Petroleum Investment Company										
	Bonds	1,750	1,711	1,500	1,095	0	4,999	11,055	6,065	17,121
	Loans	0	851	0	663	0	0	1,514	0	1,514
	Total	1,750	2,562	1,500	1,759	0	4,999	12,569	6,065	18,635
Mubadala Development Company 2/										
	Bonds	0	750	0	109	500	0	1,359	1,648	3,007
	Loans	393	28	29	72	357	449	1,327	175	1,501
	Total	393	778	29	181	857	449	2,686	1,822	4,509
Tourism and Development Investment Company										
	Bonds	0	0	0	0	0	0	0	600	600
	Loans	0	300	0	1,913	0	0	2,213	0	2,213
	Total	0	300	0	1,913	0	0	2,213	600	2,814
Other Abu Dhabi Inc. 3/										
	Bonds	0	0	0	0	0	0	0	0	0
	Loans	243	344	386	309	209	231	1,722	177	1,899
	Total	243	344	386	309	209	231	1,722	177	1,899
Total Abu Dhabi Inc.		4,101	6,404	4,699	6,919	2,478	6,187	30,788	13,994	44,782
Total Abu Dhabi debt		4,652	6,940	5,221	7,429	4,489	6,675	35,406	14,351	49,757
ADCB, NBAD, UNB, and Al Hilal										
	Bonds	1,803	1,499	1,893	2,210	2,111	156	9,672	1,717	11,389
	Loans	50	0	0	0	0	0	50	0	50
	Total	1,853	1,499	1,893	2,210	2,111	156	9,722	1,717	11,439
Total Abu Dhabi debt, including banks		6,505	8,439	7,114	9,639	6,600	6,830	45,128	16,068	61,196
Abu Dhabi Inc. (less than 50% government ownership) 4/										
	Bonds	855	1,529	1,150	0	825	21	4,380	1,219	5,599
	Loans	1,036	0	340	750	0	0	2,127	70	2,197
	Total	1,891	1,529	1,490	750	825	21	6,506	1,289	7,796
Total, including GREs with minortity ownership		8,396	9,969	8,604	10,389	7,424	6,851	51,634	17,358	68,992
In percent of Abu Dhabi 2014 GDP		3.3	3.9	3.4	4.1	2.9	2.7	20	6.9	27.3
Memorandum items:										
Of total debt: bonds and loans by banks		1,853	1,499	1,893	2,210	2,111	156	9,722	1,717	11,439

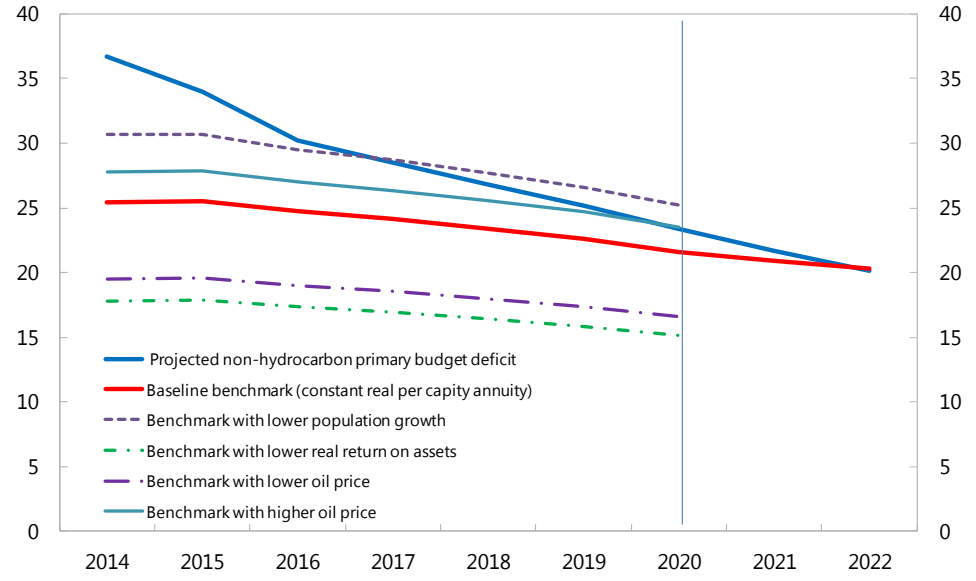
Sources: Dealogic; Zawya; Bloomberg; Abu Dhabi authorities; and Fund staff estimates.

1/ Includes TAQA & US$6.6 billion non-recourse debt for IWPP.
2/ Includes Dolphin, EMAL.
3/ Includes ADPC, GHC, ADNEC.
4/ Below 50 percent government-owned entities; includes Aldar, FGB, NCCC, Sorouh, ADIB.

Annex I. United Arab Emirates: Long-term Fiscal Sustainability Analysis

Staff analysis based on the permanent income hypothesis suggests that under conservative baseline assumptions the government does not save its exhaustible oil revenue sufficiently for future generations, but favorable persistent shocks could imply a smaller gap.[1] The gap between the projected deficits and the deficits consistent with a constant real per capita annuity is 11 percent of nonhydrocarbon GDP in 2014 (see chart). With fiscal consolidation assumed in the baseline, the gap is projected to almost disappear by 2020. If beyond the forecast period, consolidation continues in the same pace as envisaged for 2020 under the baseline, the fiscal stance would be fully consistent with intergenerational equity by 2022. Another approach in estimating annuity would yield different results: the constant real annuity rule would imply a negative gap of 9 percent of nonhydrocarbon GDP in 2020. Both types of annuities are used in the literature.[2]

Fiscal Sustainability Analysis, 2014–22
(Percent of non-hydrocarbon GDP)



Source: IMF staff calculations.

[1] Long-term sustainability assumes intergenerational equity by calculating a constant real per capita government spending path (and related nonhydrocarbon deficit) that delivers a constant real per capita annuity to finance government spending after hydrocarbon revenues are exhausted. Projections until 2020 are based on staff's macroframework, including the WEO assumptions about the oil price. After 2020, the baseline scenario assumes flat hydrocarbon production and annual oil price growth of 2 percent, inflation growth of 2 percent, population growth of 1.5 percent, and real return on assets of 4 percent. Alternative scenarios assume: (i) lower population growth by 0.5 percentage point; (ii) lower real return on assets by 1 percentage point; (iii) lower oil price by $10 in 2015–20 and to remain constant thereafter; and (iv) higher oil price by $10 in 2015-20 and to increase by 2 percent per annum in nominal terms thereafter.

[2] See Bems, R., and I. de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," IMF Working Paper 09/281.

Annex II. United Arab Emirates: Debt Sustainability Analysis

United Arab Emirates Government Debt Sustainability Analysis (DSA) – Baseline Scenario

(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators

	Actual			Projections					
	2004-2012 1/	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross government debt	17.4	16.4	14.3	16.4	15.2	14.2	13.2	12.4	11.8
Government gross financing needs	-10.8	-8.6	-2.1	4.9	1.8	0.6	2.8	-2.6	-3.5
Real GDP growth (in percent)	4.3	4.3	4.6	3.0	3.1	3.3	3.5	3.6	3.8
Inflation (GDP deflator, in percent)	7.8	-0.6	-1.3	-14.1	4.8	2.7	2.9	2.7	3.4
Nominal GDP growth (in percent)	13.8	3.7	3.2	-11.6	8.1	6.1	6.4	6.5	7.3
Effective interest rate (in percent) 3/	7.7	4.5	5.2	4.9	5.7	6.0	5.2	6.5	6.7

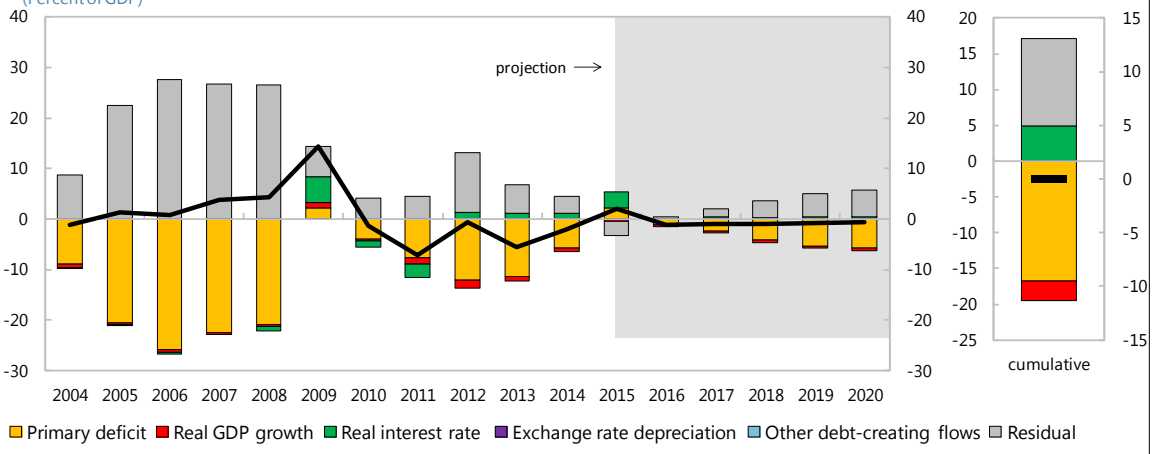
As of June 22, 2015		
Sovereign Spreads		
EMBIG (bp) 2/		45
5Y CDS (bp)		60
Ratings	Foreign	Local
Moody's	Aa2	Aa2
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance 8/
Change in gross government sector debt	1.6	-5.6	-2.0	2.1	-1.2	-0.9	-1.0	-0.8	-0.6	-2.5	
Identified debt-creating flows	-13.8	-11.2	-5.5	4.8	-1.5	-2.4	-4.4	-5.4	-5.9	-14.7	
Primary deficit	-13.4	-11.4	-5.8	2.1	-1.1	-2.4	-4.2	-5.4	-5.8	-16.8	-0.1
Primary (noninterest) revenue and grants	36.5	41.0	37.8	32.6	32.1	31.8	32.2	32.0	31.0	191.6	
Primary (noninterest) expenditure	23.0	29.6	32.0	34.7	31.0	29.4	27.9	26.6	25.2	174.8	
Automatic debt dynamics 4/	-0.3	0.2	0.3	2.7	-0.4	0.0	-0.2	0.0	-0.1	2.1	
Interest rate/growth differential 5/	-0.3	0.2	0.3	2.7	-0.4	0.0	-0.2	0.0	-0.1	2.1	
Of which: real interest rate	0.1	1.1	1.0	3.2	0.1	0.5	0.3	0.5	0.4	4.9	
Of which: real GDP growth	-0.5	-0.9	-0.7	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-2.8	
Exchange rate depreciation 6/	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of deposits (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Prefunding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 7/	15.4	5.7	3.4	-2.7	0.2	1.5	3.4	4.6	5.3	12.2	

Debt-Creating Flows

(Percent of GDP)



Source: IMF staff.

1/ Based on available data.

2/ Abu Dhabi's Long-term bond spread over U.S. bonds. 5Y CDS is also related to the Emirate of Abu Dhabi.

3/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

4/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

5/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

6/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

7/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. Also indicates that public debt increases by more than the borrowing requirement.

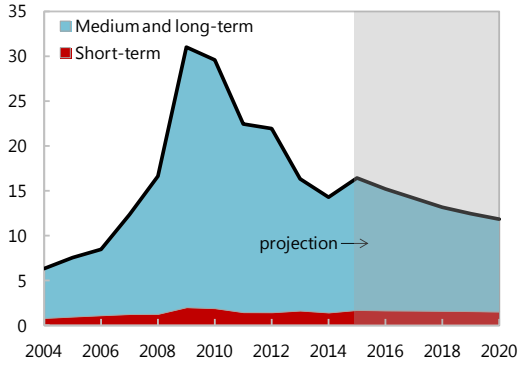
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

United Arab Emirates Government DSA – Composition of Government Debt and Alternative Scenarios

Composition of Government Debt

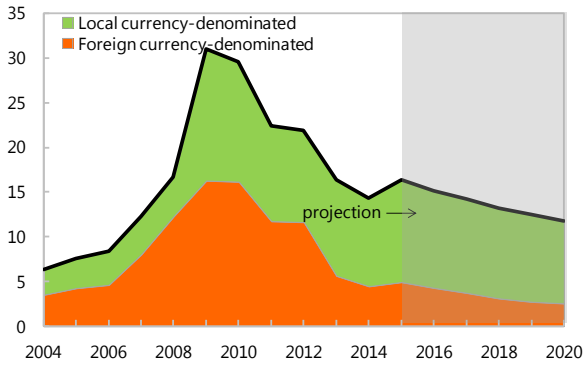
By Maturity

(Percent of GDP)

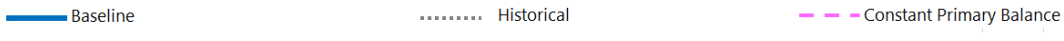


By Currency

(Percent of GDP)

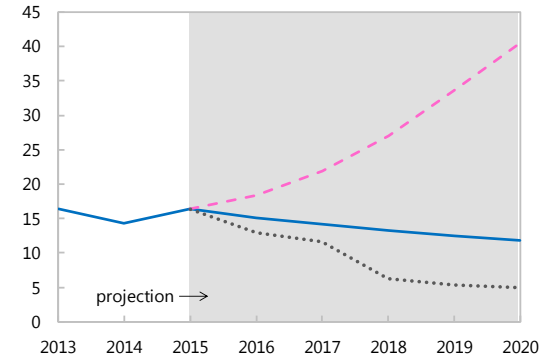


Alternative Scenarios



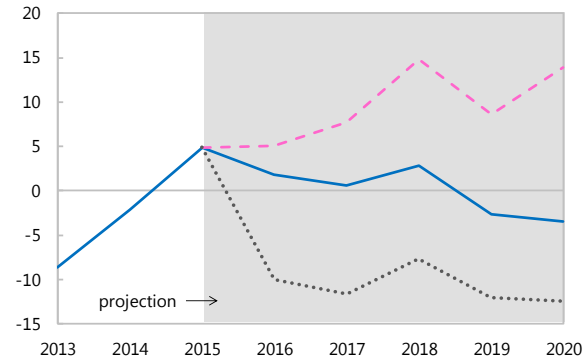
Gross Nominal Government Debt

(Percent of GDP)



Government Gross Financing Needs

(Percent of GDP)



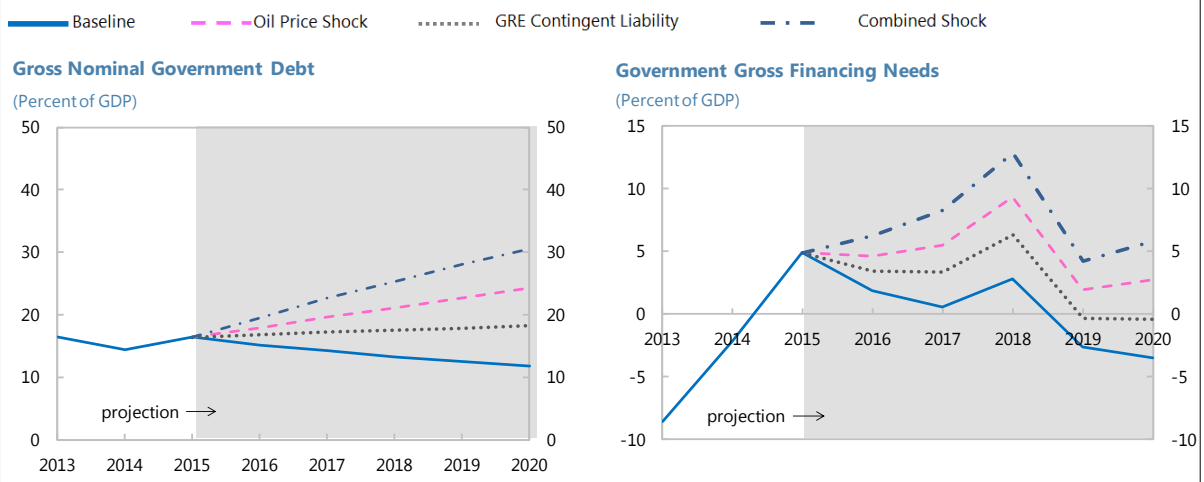
Underlying Assumptions

(Percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.0	3.1	3.3	3.5	3.6	3.8
Inflation	-14.1	4.8	2.7	2.9	2.7	3.4
Primary Balance	-2.1	1.1	2.4	4.2	5.4	5.8
Effective interest rate	4.9	5.7	6.0	5.2	6.5	6.7
Constant Primary Balance Scenario 1/						
Real GDP growth	3.0	3.1	3.3	3.5	3.6	3.8
Inflation	-14.1	4.8	2.7	2.9	2.7	3.4
Primary Balance	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Effective interest rate	4.9	5.7	5.6	4.7	6.1	5.7

Historical Scenario 1/	2015	2016	2017	2018	2019	2020
Real GDP growth	3.0	3.8	3.8	3.8	3.8	3.8
Inflation	-14.1	4.8	2.7	2.9	2.7	3.4
Primary Balance	-2.1	12.9	12.9	12.9	12.9	12.9
Effective interest rate	4.9	5.7	6.4	5.4	7.3	7.8

1/ The scenario assumes that no new debt is issued if the gross financing needs are negative.
Source: IMF staff.



Underlying Assumptions
(Percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.0	3.1	3.3	3.5	3.6	3.8
Inflation	-14.1	4.8	2.7	2.9	2.7	3.4
Primary Balance	-2.1	1.1	2.4	4.2	5.4	5.8
Effective interest rate	4.9	5.7	6.0	5.2	6.5	6.7

Oil Price Scenario 1/	2015	2016	2017	2018	2019	2020
Real GDP growth	3.0	3.1	3.3	3.5	3.6	3.8
Inflation	-14.1	4.8	2.7	2.9	2.7	3.4
Primary Balance	-2.1	-1.7	-0.3	1.7	2.9	3.5
Effective interest rate	4.9	5.7	5.7	4.8	6.2	6.1

GRE Contingent Liability Scenario 2/	2015	2016	2017	2018	2019	2020
Real GDP growth	3.0	3.1	3.3	3.5	3.6	3.8
Inflation	-14.1	4.8	2.7	2.9	2.7	3.4
Primary Balance	-2.1	-0.5	0.9	2.9	4.2	4.8
Effective interest rate	4.9	5.7	5.8	5.0	6.3	6.3

Combined Scenario 3/	2015	2016	2017	2018	2019	2020
Real GDP growth	3.0	3.1	3.3	3.5	3.6	3.8
Inflation	-14.1	4.8	2.7	2.9	2.7	3.4
Primary Balance	-2.1	-3.3	-1.8	0.4	1.7	2.4
Effective interest rate	4.9	5.7	5.5	4.7	6.1	5.9

1/ Oil price is lower by $10 in 2016-20.
2/ 20 percent of GRE debt is taken over by the government in 2016-20.
3/ This scenario combines the oil price and the GRE contingent liability scenarios.

Source: IMF staff.

Fiscal Risks Captured by the Alternative Scenarios

- ***Lower oil prices.*** An illustrative drop in oil prices by $10 a barrel would put the gross debt ratio on an upward path. The primary balance would deteriorate to 3.5 percent of GDP in 2020, with government debt rising to 24 percent of GDP.
- ***GRE contingent liability.*** The scenario assumes that the government gradually takes over 20 percent of GRE debt (in 2016-20). The primary balance deteriorates to 4.8 percent of GDP in 2020, with government debt increasing to 18 percent of GDP.
- ***Combined scenario.*** This scenario combines the oil price and GRE contingent liability scenarios. The primary balance would deteriorate to 2.4 percent of GDP in 2020, with debt rising to 31 percent of GDP.

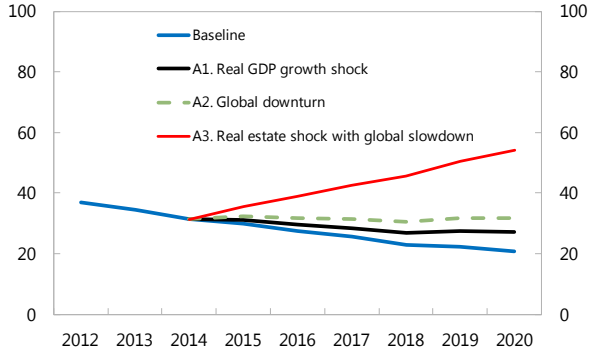
Dubai Government's Debt Sustainability

While Dubai's government debt sustainability has improved, it could rise rapidly under severe shocks:

- A sharp decline in GDP growth in 2015 (by ¾ of standard deviation from the baseline) and a gradual recovery in 2016–20 would raise the debt-to-GDP ratio by about 6 percentage points in 2020 compared to the baseline.
- Under a severe global downturn scenario, which assumes a real GDP shock, lower real interest rates, and deterioration in the primary balance in the medium term, Dubai's government debt would increase to about 32 percent of GDP in 2020.
- A scenario that combines a global downturn with a real estate shock, under which the government would take over 20 percent of the GREs' total debt in the medium term, would imply a substantial increase in the government debt-to-GDP ratio, to about 54 percent, more than twice as large as under the baseline.

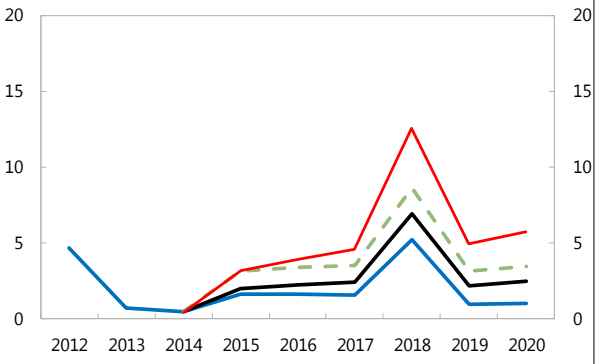
Dubai – Government Debt Sustainability Analysis

Gross Nominal Government Debt, 2012–20
(Percent of Dubai GDP)



Sources: Country authorities; and IMF staff estimates.

Gross Government Financing Needs, 2012–20
(Percent of Dubai GDP)



Sources: Country authorities; and IMF staff estimates.

Dubai Government Debt Sustainability, 2012–20
(In percent of Dubai GDP)

	Actual			Projections						Debt stabilizing
	2012	2013	2014	2015	2016	2017	2018	2019	2020	primary balance
Government debt 1/	37.0	34.5	31.3	29.9	27.6	25.5	23.0	22.3	20.9	-0.7
Alternative scenarios										
A1. Real GDP growth shock 2/				31.1	29.6	28.4	26.9	27.3	27.0	-0.5
A2. Global downturn scenario 3/				32.2	31.8	31.5	30.7	31.7	31.8	-0.1
A3. Real estate shock with global downturn 4/				35.7	39.0	42.6	45.7	50.6	54.2	3.4
Memorandum items										
Real GDP growth baseline			3.8	3.6	3.7	4.0	4.4	4.7	5.0	
Real GDP growth path in the global downturn scenario				0.9	2.4	2.6	3.0	3.3	3.7	

Sources: UAE authorities and Fund staff estimates and projections.

1/ Dubai government and government guaranteed debt.
2/ Real GDP growth is at baseline minus 3/4 standard deviation in 2015, 1/2 standard deviation in 2016 and 1/4 standard deviation thereafter.
3/ Combination of real GDP growth shock scenario and 1/4 standard deviation shocks to the baseline for real interest rate and 1/2 standard deviation shocks to primary balance in 2015–20
4/ Under the global downturn scenario, the government takes over 20 percent of total GREs debt in 2015-20.

Table 1. UAE: External Debt Sustainability Framework, 2010–20

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	48.5	39.7	38.7	44.6	49.2			**58.8**	**56.0**	**54.4**	**52.6**	**50.9**	**48.8**	**-1.2**
2 Change in external debt	-3.1	-8.7	-1.1	6.0	4.6			9.6	-2.8	-1.7	-1.8	-1.7	-2.1	
3 Identified external debt-creating flows (4+8+9)	-10.0	-25.0	-24.7	-20.5	-16.3			-7.5	-8.6	-9.0	-9.3	-9.5	-9.7	
4 Current account deficit, excluding interest payments	-4.2	-16.1	-22.7	-20.0	-15.3			-7.0	-8.3	-9.1	-9.8	-10.1	-10.1	
5 Deficit in balance of goods and services	-6.5	-18.1	-25.3	-24.5	-20.0			-11.1	-11.5	-11.5	-11.6	-11.4	-10.7	
6 Exports	78.8	90.6	100.6	101.3	98.0			101.9	100.7	101.5	102.6	103.8	105.4	
7 Imports	72.2	72.5	75.3	76.8	77.9			90.9	89.2	89.9	91.0	92.4	94.7	
8 Net non-debt creating capital inflows (negative)	-1.6	-1.8	-0.6	-0.7	-1.3			-0.9	-1.0	-1.0	-1.0	-1.0	-1.1	
9 Automatic debt dynamics 1/	-4.2	-7.2	-1.3	0.1	0.3			0.4	0.6	1.1	1.5	1.7	1.5	
10 Contribution from nominal interest rate	1.7	1.4	1.4	1.5	1.6			2.0	2.3	2.8	3.3	3.5	3.3	
11 Contribution from real GDP growth	-0.7	-1.9	-2.7	-1.6	-2.0			-1.7	-1.7	-1.7	-1.8	-1.8	-1.8	
12 Contribution from price and exchange rate changes 2/	-5.1	-6.6	-0.1	0.2	0.6			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	6.9	16.3	23.6	26.5	20.9			17.1	5.8	7.3	7.5	7.7	7.6	
External debt-to-exports ratio (in percent)	61.5	43.9	38.4	44.0	50.2			57.7	55.7	53.6	51.3	49.0	46.3	
Gross external financing need (in billions of US dollars) 4	64.2	27.8	1.9	15.4	35.6			80.7	79.6	79.9	80.5	81.2	81.7	
in percent of GDP	22.4	8.0	0.5	4.0	8.9			22.8	20.9	19.7	18.7	17.7	16.6	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**58.8**	**48.2**	**37.9**	**27.9**	**18.1**	**8.4**	**-2.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	1.6	4.9	7.2	4.3	4.6	3.8	3.9	3.0	3.1	3.3	3.5	3.6	3.8	
GDP deflator in US dollars (change in percent)	11.0	15.8	0.2	-0.6	-1.3	6.1	10.0	-14.1	4.8	2.7	2.9	2.7	3.4	
Nominal external interest rate (in percent)	3.7	3.5	3.9	4.1	3.8	6.4	4.0	3.6	4.3	5.4	6.5	7.1	7.1	
Growth of exports (US dollar terms, in percent)	11.5	39.8	19.4	4.4	-0.3	16.6	17.7	-8.0	6.7	6.9	7.6	7.7	9.0	
Growth of imports (US dollar terms, in percent)	10.4	21.9	11.6	5.7	4.6	15.9	16.8	3.1	6.0	7.0	7.7	8.1	10.1	
Current account balance, excluding interest payments	4.2	16.1	22.7	20.0	15.3	15.3	7.1	7.0	8.3	9.1	9.8	10.1	10.1	
Net non-debt creating capital inflows	1.6	1.8	0.6	0.7	1.3	1.7	2.1	0.9	1.0	1.0	1.0	1.0	1.1	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

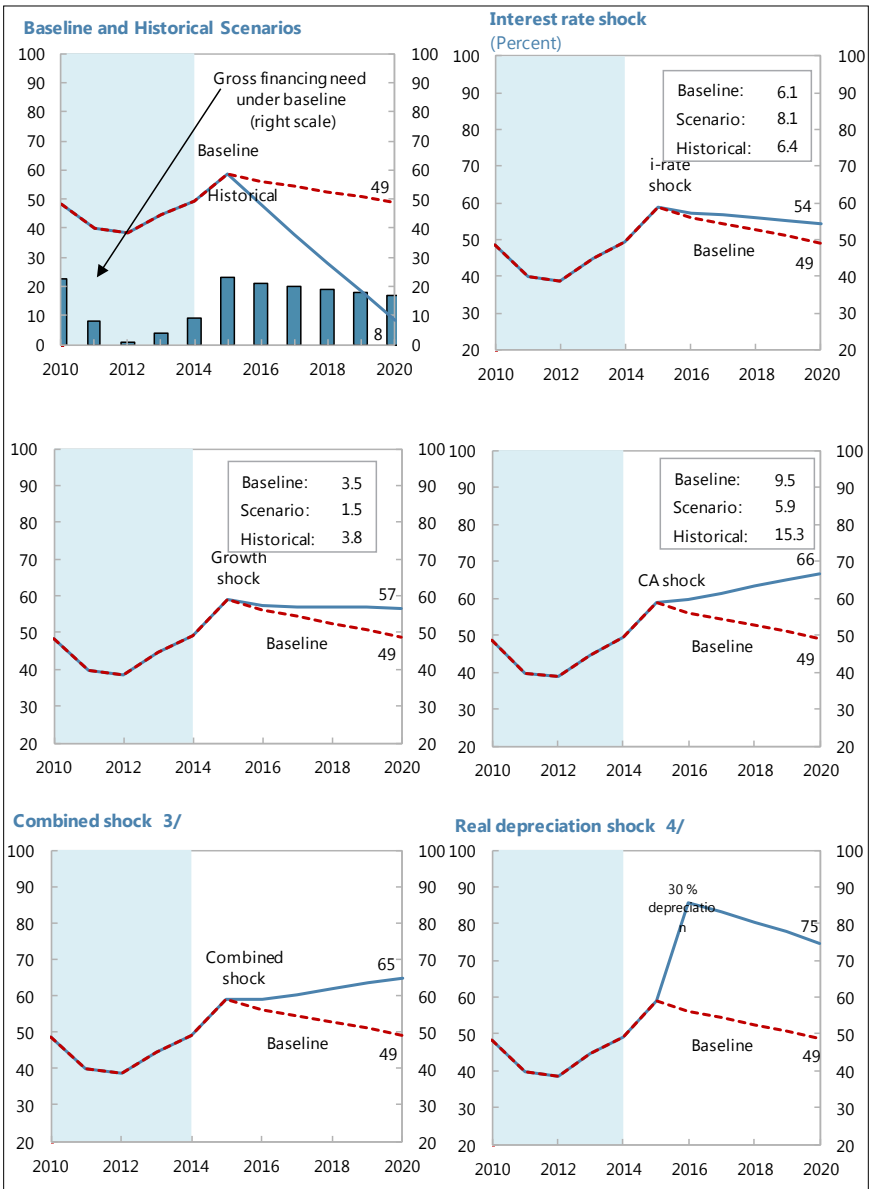
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. UAE: External Debt Sustainability: Bound Tests 1/2/

(External debt in percent of GDP)



Sources: UAE desk data; and staff estimates and projections.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

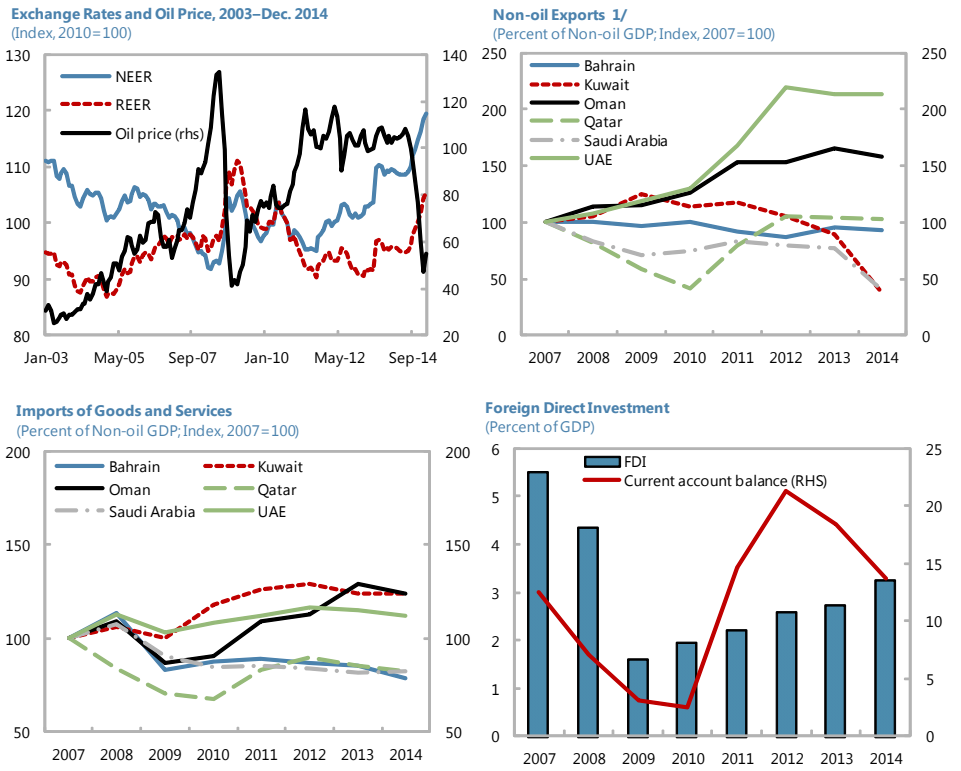
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2015.

Annex III. United Arab Emirates: External Sector Assessment

Staff believes the peg to the U.S. dollar serves the UAE well. Estimates from the external sustainability approach suggest that the current account balances in 2015 and the medium term are slightly lower than the levels consistent with fundamentals. These results largely reflect suboptimal saving of exhaustible hydrocarbon revenues for future generations. Fiscal adjustment planned by the authorities in 2015-20 and beyond will bring the current account back in line with fundamentals. External buffers are ample.

The current account surplus in 2014 declined due to lower oil prices, and the UAE's exchange rate appreciated in line with the U.S. dollar. With a large drop in oil prices, the current account surplus declined to 14 percent of GDP, from 18 percent in 2013, and is projected to decline significantly further going forward (to about 6 percent of GDP on average in 2015-20). The dirham has appreciated by 13 percent in Q1 2015 year-on-year in real effective terms, reflecting the real effective appreciation of the U.S. dollar, but moving counter to what would have been desirable in the face of the oil price shock. The terms of trade fell by 8 percent in 2014 and are projected to decline by 19 percent this year.



Sources: National authorities; and IMF staff calculations.
1/ For the UAE, non-oil exports and imports exclude re-exports.

Non-oil trade volumes have so far been stable. Limited import substitution, reliance on hydrocarbon exports priced in U.S. dollars, and flexible use of foreign workers who are paid wages

set internationally limit the scope for the exchange rate to affect trade volumes. Nonhydrocarbon exports as a share of nonhydrocarbon GDP have significantly increased over the past years.

Capital flows to the UAE have remained resilient in the presence of lower oil prices. FDI annual inflows have been stable at about 4 percent of nonhydrocarbon GDP over the last years. International bond issuance stood at $19 billion in 2014, up 16 percent from 2013. Issuance has accelerated strongly in 2015, reaching $8 billion year-to-date in April, which represents a 65 percent year-over-year increase. Although international banks reduced exposures to non-bank borrowers in Q4 2014, total credit to the UAE's non-bank sector increased by $1 billion in 2014.

The external sustainability (ES) approach suggests that the current account balances are too low to generate an equitable amount of savings to support future generations once hydrocarbon resources are exhausted, although the results are sensitive to the choice of annuity and the assumptions made.[1] Since external imbalances in the UAE stem largely from the government sector, adjustment should occur through fiscal consolidation rather than exchange rate devaluation.

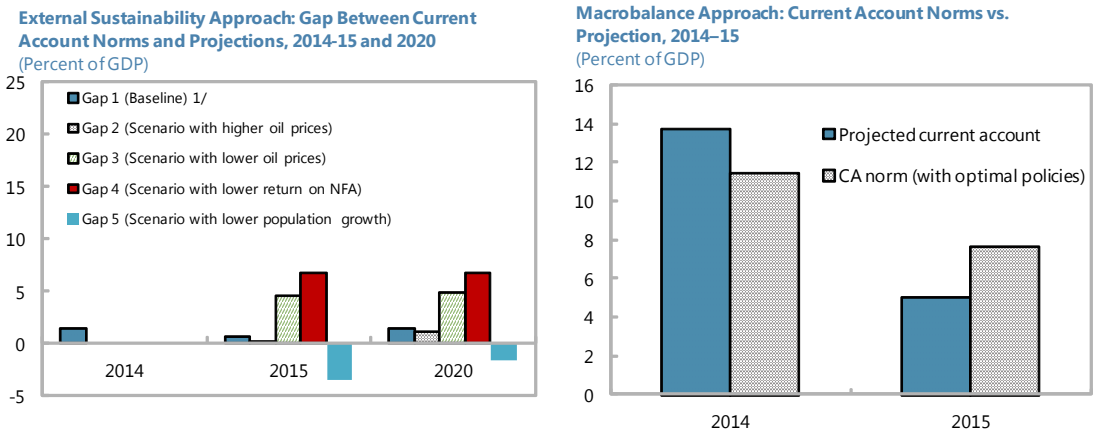
- The ES approach is based on the permanent income hypothesis model and is the preferred method for the UAE because a current account gap according to the model would reflect suboptimal saving of hydrocarbon revenues. The results are sensitive to the assumptions made for oil prices, return on assets, and population growth.[2]

- The implied norm estimated by this method for 2014 (based on the constant real per capita annuity) is slightly higher than the current account surplus of 14 percent of GDP. The model permits consumption smoothing during periods of oil price volatility and thus reduces the required norm in line with projected oil prices in the medium term. Therefore, the norm declines to 6-8 percent of GDP in the medium term, and is estimated to be slightly higher than the projected current account balance: the gap will be less than 2 percent in 2015–20. Under the constant real annuity rule, the implied norm is lower by 7 to 12 percent of GDP than the projected surplus in the medium term.Under the constant real annuity rule, the implied norm is lower by 7 to 12 percent of GDP than the projected surplus in the medium term.[3]

[1] The approach calculates the current account required for the net present value (NPV) of hydrocarbon and investment income to equal the NPV of imports net of nonhydrocarbon exports. To support intergenerational equity, the economy would then choose a path for imports, and hence a current account norm, by accumulating net foreign assets at an appropriate pace.

[2] Projections until 2020 are based on staff's macroframework, including the WEO assumptions about the oil price. After 2020, the baseline scenario assumes flat hydrocarbon production and annual oil price growth of 2 percent, inflation of 2 percent, population growth of 1.5 percent, and real return on assets of 4 percent. Alternative scenarios assume: (i) lower population growth by 0.5 percentage point; (ii) lower real return on assets by 1 percentage point; (iii) lower oil price by $10 in 2015-20 and to remain constant thereafter; and (iv) higher oil price by $10 in 2015-20 and to increase by 2 percent annually thereafter.

[3] As mentioned in Annex I, both types of annuities are used in the literature; see Bems, R., and I. de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," IMF Working Paper 09/281.



Sources: IMF staff estimates.
1/ Baseline and scenarios are based on the constant annuity real per capita rule.

The macro-balance approach implies a larger gap between the current account balance and the norm in 2015.

- This approach uses regression analysis for a broad cross-section of countries to predict the equilibrium current account consistent with a range of structural and policy variables, and estimates the impact of changes in variables on the norm.[4] The model's predicted value for 2014 is 9½ percent of GDP based on actual policies. Imposing fiscal policy consistent with intergenerational equity raises the norm by 3 percent, while allowing for 2014 estimates of global policy gaps reduces it by 1 percentage points, resulting in a norm of 11½ percent, which is slightly lower than the 2014 current account balance. For 2015, the norm—which is based on the optimal fiscal policy projected for 2020—declines to 8 percent of GDP, or 3 percentage points higher than the projected current account balance.

- The external sustainability approach is the preferred method for the UAE as indicated above. The EBA-Lite model is estimated on a wide group of countries with very different characteristics and therefore may not accurately capture the features of undiversified hydrocarbon exporters—despite the inclusion of some hydrocarbon-related variables—such as the need for intergenerational savings because oil resources are non-renewable.

External buffers, defined as central bank reserves plus estimated sovereign wealth fund assets, significantly exceed standard adequacy levels from a precautionary perspective. At US$72 billion (2015 projection), central bank reserves cover 4 months of imports (net of re-exports), 70 percent of short-term debt, and 21 percent of broad money. Combined with estimated assets in sovereign wealth funds, which are mandated to make resources available in case of need, the buffers are well above the range recommended by the Fund's reserve adequacy metric.[5]

[4] This approach employs the External Balance Assessment – Lite (EBA-Lite) model.

[5] As developed in *Assessing Reserve Adequacy* (02/14/11), http://www.imf.org/external/np/pp/eng/2011/021411b.pdf.

Annex IV. United Arab Emirates: Oil and Macro-Financial Linkages—A VAR Analysis

The vulnerability of the UAE economy to lower oil prices and higher US interest rates depends on the sectoral linkages. The hydrocarbon sector represents 40 percent of the UAE GDP, with non-hydrocarbon output also heavily reliant on hydrocarbon revenues via current and capital spending. Non-hydrocarbon industrial activities are commonly energy intensive and resource related (metals, petrochemicals, and construction), while services (retail, restaurants, transport, communication, and social services) are heavily driven by government spending financed by hydrocarbon revenues.[1]

Bank credit is driven by government current and capital spending and hydrocarbon developments. Fiscal spending on infrastructure and investment projects fuels bank credit to public sector entities or private contractors. Bank credit for personal lending (including mortgage and consumer loans) is importantly driven by public sector wages as banks are able to deduct loan payments directly from government employees' paychecks. In addition, public sector deposits are a cheap source of funding. As a result, any decline in oil prices and revenues has an impact on the banking system.

To assess the vulnerability of the UAE economy to lower oil prices, a three-variable VAR including the oil price (Brent crude), non-hydrocarbon GDP, and non-performing loans (as a percentage of gross loans) as dependent variables is estimated, where NPL is a proxy for the average probability of default. As the sample size is small (annual data during 1993–2014), no other variables were included in the VAR with one lag. As a result, important transmission mechanisms of oil prices shocks could be missing in the analysis. Oil price and non-hydrocarbon GDP are log-differenced while NPLs are a simply differenced and the estimated coefficients can be interpreted as either elasticities for oil price and non-hydrocarbon GDP or semi-elasticities for NPLs. A separate VAR to assess the impact of higher US rates on the UAE banking system will be estimated and included.

Oil prices and non-oil GDP are key drivers of NPLs. The variables were ordered according to their degree of independence so as to be able to structurally identify the VAR through a standard Choleski decomposition. The oil price is considered the most exogenous variable, followed by non-hydrocarbon GDP and NPLs. The Table and the Figure provide, respectively, the elasticities and impulse-response coefficients when error terms are shocked with one-standard deviation shocks (accumulated). As expected, preliminary results indicate that

UAE: Estimated VAR Elasticities of Oil Prices, Real, Non-Oil GDP, and NPLs

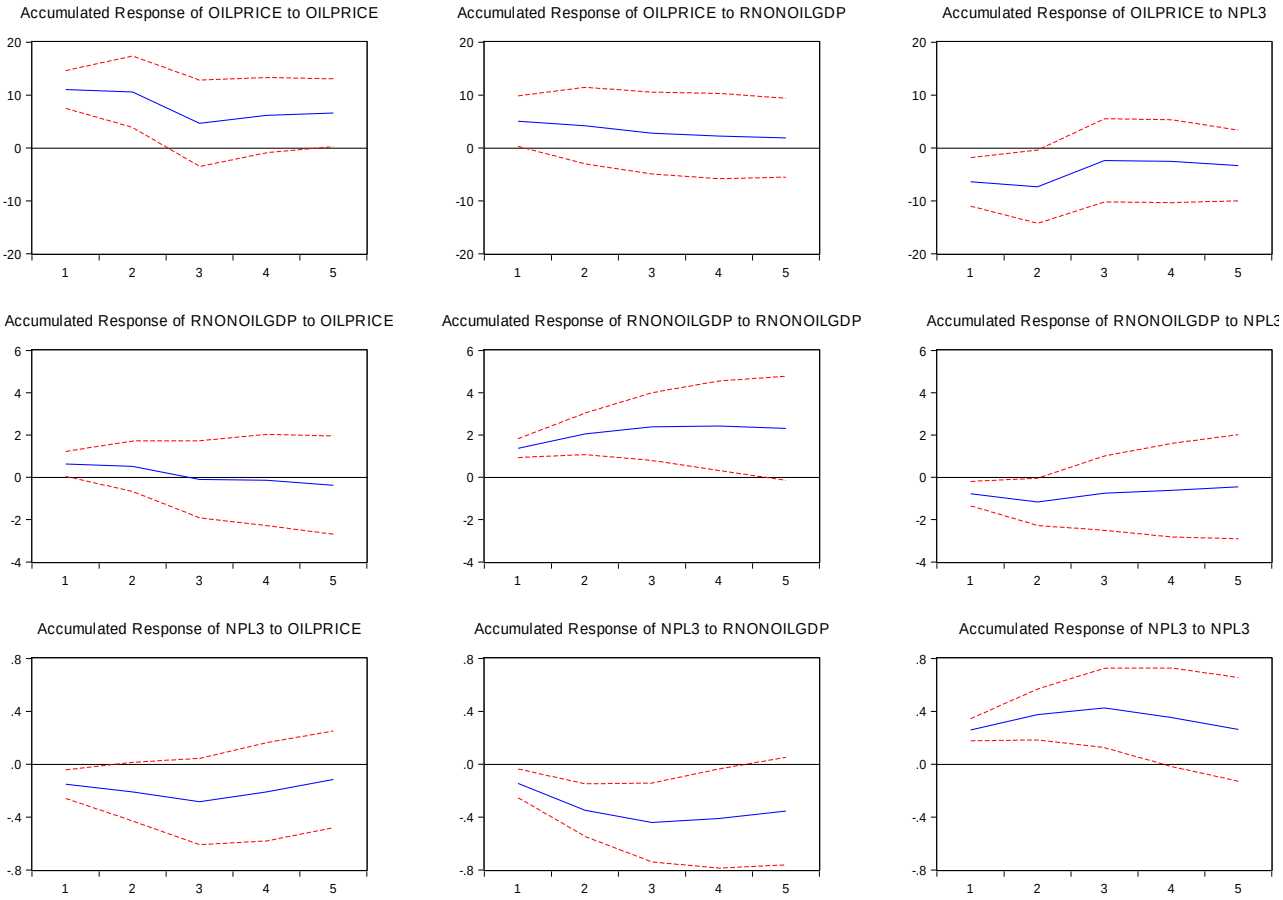
	On Impact	After 3 years
Non-oil GDP to oil price	0.057*	-0.021
NPLs to oil price	-0.014*	-0.061*
NPLs to non-oil GDP	-0.106*	-0.185*
Non-oil GDP to NPLs	-2.990*	-1.760

Source: IMF staff calculations.
*Statistically significant at 5 percent.

[1] Husain et al. (2008) and Cherif and Hasanov (2014).

lower oil prices reduce non-oil GDP (elasticity of 0.057) and increase NPLs (semi-elasticity of -0.014) over a year. On impact, negative feedback loops between NPLs and non-oil GDP can also develop. However, after 3 years, the response of non-oil GDP to an increase in NPLs is not statistically significant, which could be attributed to the intervention of UAE authorities to strengthen the banking system. The response of NPLs to non-oil growth on the other hand intensifies after 3 years.

Accumulated Response to Generalized One Standard Deviation Innovations (±2 Standard Errors)



Source: IMF Staff Estimates.

Annex V. United Arab Emirates: Islamic Finance—Growth and Challenges

Islamic finance continues to grow rapidly in the United Arab Emirates (UAE). Islamic assets have grown by about 13 percent annually for the past five years.[1] The system is bank-dominated and Islamic banks (IBs) assets reached 17 percent of the total banking sector assets (corresponding to US$107 billion), 19 percent of total deposits, and 18 percent of total financing by end-2014. Two banks account for almost 65 percent of total Islamic assets and could be considered systemically important, with 5.3 percent and 5.1 percent of the total banking sector assets, respectively. Issuance of the Islamic debt instrument, sukuk, is also on the rise and the outstanding amount reached US$5.4 billion as of end-2014.

Similar to conventional banks (CBs), IBs' balance sheets are comprised mostly of short-term loans that are funded mainly by deposits. The role of debt instruments and foreign liabilities as a source of funding is still limited. However, there are slight deviations between the IBs' and CBs' balance sheet metrics, such as equity to assets, deposits, and short-term funding to assets, although it is notable that the share of loans in total assets in IBs is lower than that of CBs by 10 percent (see table).

Selected Balance Sheet Items and Financial Soundness Indicators of Conventional and Islamic Banks, 2014

	Total	CBs	IBs
Total assets (in millions of AED)	2,304,869	1,912,948	391,921
Relative size by assets		*83.0*	*17.0*
Equity to total assets	12.8	13.8	10.4
Deposits and ST funding to total Assets	76.2	75.4	79.4
Loans to total assets	64.7	66.4	57.9
Loans/deposits and short-term funding	91.8	100.7	83.2
Investments to total assets 1/	14.8	15.3	12.4
NPLs to total loans	7.0	6.8	7.9
Liquid assets to total liabilities	19.0	19.2	17.8
Capital adequacy ratio	18.1	18.9	14.9
Return on equity 2/	13.8	14.0	13.3
Return on assets 2/	2.1	2.2	1.8

Sources: UAE Central Bank; and IMF staff calculations.
1/ Investments in property, equity, and securities.
2/ Differences in return on equity and assets are due to differences in sample coverage.

IBs' soundness has improved in 2014, but remain below those of CBs. IBs are relatively well capitalized and the capital adequacy ratio (CAR) averaged 14.9 percent, although it is considerably lower than that of CBs. The NPLs ratio to total loans stabilized around 7.9 percent in 2014, which is relatively higher than for CBs. IBs' profitability, in terms of return on equity (ROE) and return on

[1] There are eight Islamic banks, 12 Islamic finance companies, an Islamic investment company, and 23 Islamic windows set up by conventional banks.

assets (ROA), stood at comfortable levels at 13.3 percent and 1.8 percent, respectively. Furthermore, IBs' liquidity has increased to 17.8 percent in 2014, although it is slightly lower than that of CBs.

While growing fast, regulators need to adequately address IBs specific risks in order to maintain financial soundness. Due to its unique business model, IBs are highly exposed to specific risks, mainly liquidity, concentration, Shari'ah compliance, displaced commercial,[2] and investment risks.

- *Regulatory and supervisory regime*. While there is a law on Islamic banking, there is no specific supervisory regime for IBs. A tailor-made regulation and risk-based supervision are warranted in order to capture the specific risks, mentioned above, embedded in IBs. Islamic windows are currently operating in a strict conventional regulatory framework. A targeting oversight is justified to reduce the risks specific to Islamic products and to ensure adequate consumer protection.
- *Shari'ah compliance risk*. To mitigate such a risk, each individual bank's Shari'ah Board should be strengthened further by enforcing its independence, transparency, accountability, and its members could be subject to "fit and proper" requirement. In addition, to further harmonize the features of Islamic products and ensure consistency across institutions, the authorities should accelerate the establishment of a *National Shari'ah Board* with the mandate to provide binding interpretation and fatwa on Islamic financial products.
- *Governance structure*. It is advisable to develop a tailor-made governance structure of IBs, which is aimed at enhancing transparency and actively involving investment depositors in the decision making, including in the allocation of funds and redistribution of profit.
- *Specific macroprudential regime*. The central bank may consider defining tailor-made macroprudential tools to address IBs liquidity and investment risks. In particular, new specific reporting requirements should be introduced that are aimed at enabling IBs to develop robust liquidity management. For instance, the *mudaraba* deposits directed toward specific investments and as a balance sheet item might be excluded from the new liquidity ratio to be effectively implemented in 2015. Similarly, this instrument should be included in the definition of Net Stable Funding Ratio (NSFR), to come into effect on January 2018.
- *Safety nets and bank resolution*. There is no formal bank resolution framework, including deposit guarantee scheme. During the financial crisis in September 2008, the central bank introduced the Liquidity Support Facility (LSF) to banks facing a shortfall in liquidity against their loan portfolio. Recently, the central bank issued an Interim Marginal Lending Facility (IMLF) to provide liquidity overnight against collateral. As of April 2015, the central bank has extended the spectrum of eligible collateral to include Shari'ah-compliant securities other than CDs. The CB should consider establishing explicit safety nets and banking resolution for the system as a whole, taking also into account Islamic finance specificities.

[2] While competing with CBs, IBs might be forced to forego part of their profits to pay comparable rates of return to their clients, or to avoid subjecting their depositors to having to bear losses when the return on underlying assets falls short.

INTERNATIONAL MONETARY FUND

UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 13, 2015

Prepared By Middle East and Central Asia Department

CONTENTS

FUND RELATIONS

(As of May 31, 2015)

Membership Status: Joined 9/22/72; accepted Article VIII status in February 1974

General Resources Account

	SDR Million	Percent Quota
Quota	752.50	100.00
Fund holdings of currency	479.45	63.71
Reserve tranche position	273.62	36.36

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	568.41	100.00
Holdings	542.47	95.44

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund

		Forthcoming			
	2015	**2016**	**2017**	**2018**	**2019**
Charges/interest	0.01	0.02	0.02	0.02	0.02
Total	**0.01**	**0.02**	**0.02**	**0.02**	**0.02**

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Arrangement

The U.A.E dirham was officially pegged to the SDR at the rate of AED 4.76190=SDR1 from November 1980 to February 2002—albeit de facto it was pegged to the dollar at a fixed parity. Since then, the de jure and de facto exchange rate regime has been a conventional peg to the U.S. dollar, with the mid-point between the official buying and selling rates fixed at AED 3.6725 = US$1.

The U.A.E. has accepted the obligation of Article VIII, Sections 2, 3, and 4. There are no restrictions on the making of payments and transfer for current international transactions, except for those restrictions for security reasons that have been notified to the Fund, by the authorities, in accordance with Executive Board Decision No. 144 (52/51).

Article IV Consultation

The U.A.E. is on the annual consultation cycle. The previous consultation discussions were held during April 23-May 8, 2014. The Article IV consultation was concluded on June 26, 2014. The staff report was published on July 3, 2014, and is available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=41703.0 (Country Report No. 14/187).

FSAP Participation, ROSCs, and OFC Assessments

FSAPs were conducted in 2003 and 2007.

Technical Assistance:

STA	Multi-sector	April 2008
STA	Balance of Payments	March-April 2009
MCM	Macroprudential Tools and Liquidity Management	January 2011
STA	National Accounts	September 2011
MCM	Payment Systems	November 2011
STA	Balance of Payments Statistics	June 2012
FAD	Fiscal Coordination	June 2012
STA	Government Finance Statistics	April 2013
STA	National Accounts Statistics	May 2013
STA	International Investment Position	January 2014
FAD	Fiscal Coordination	January 2014
FAD	Fiscal Coordination	March 2014
STA	Fiscal Information and Coordination	May 2014
STA	Consumer Price Index	November 2014
STA	Government Finance Statistics	January 2015
FAD	Fiscal Coordination	January 2015

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

(As of June 2015)

Technical cooperation between the United Arab Emirates (UAE) and the Bank began in 1980, starting with two studies: a comprehensive national health assessment study and a government computer center restructuring study. Later, the Government requested assistance in agriculture and water resource management, including environmental impact assessments. Cooperation has been modest during the past five years and included assistance in debt market development (2008) and in labor market development (2011).

More recently, the Bank has supported efforts by the Ministry of Finance to enhance the efficiency and effectiveness of public resource utilization the health, education, and infrastructure sectors. The Bank also helped assess the financial implications of various health insurance schemes and supported the establishment of a Tax Information Exchange Unit. Dialogue is now underway with the Ministry of Finance for possible support to fiscal coordination across Emirates, and for further develop public finance management systems.

The Bank has also delivered technical assistance to individual Emirates.

- Abu Dhabi: The Bank assisted with development of food security programs and is helping strengthen the institutional capacity and performance of the Judicial Department. Assistance will start to the Department of Economic Development to increase reliance on knowledge in economic activity.
- Dubai: Assistance in the analysis of retirement planning options for expatriate workers was delivered in 2012. The Bank also reviewed Dubai's efforts to enhance private education outcomes through an innovative, governance-based approach.
- Abu Dhabi, Dubai, Ajman, and Ras AlKhaimah recently requested World Bank assistance to enhance the business climate.
- Ajman is in dialogue with the World Bank to improve urban management, enhance solid waste management, and address water sector challenges in a comprehensive manner.

STATISTICAL ISSUES

(As of June 2015)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, but there are substantial shortcomings on the dissemination of accounts of government-related entities (GREs). In particular, there is limited data on GRE debt and contingent liabilities to the government. The federal and individual emirates' agencies have improved the availability and quality of the statistics, but more progress is needed. The adoption of the Federal Statistics Law on May 18, 2009, and the establishment of an independent National Bureau of Statistics (NBS) are important steps in establishing a statistical system at the federal level. While the Law expressly requires all agencies and local statistical centers to provide data as required by the NBS, its success will depend on implementing arrangements, staffing, funding and training.
National Accounts: The methodology broadly conforms to the 1968 SNA. GDP is compiled annually with a lag of around 5 months. Some progress has been made in improving the source data but further work is needed to improve updating procedures. Work is ongoing to compile quarterly national accounts. **Price statistics:** Data are published with a delay of one month. Consumer price indexes and GDP deflators need further harmonization at the federal level.
Government finance statistics: In 2011, GFSM 2001 was introduced by the federal and several emirate governments, and the institutional arrangement to ensure adequate data provision was established. This consolidation should complement initiatives to establish debt management units at both the emirate and federal levels. The UAE submitted its fiscal accounts to the *GFS Yearbook* for the first time in 2012.
Monetary statistics: The central bank has shifted the responsibility for compiling and disseminating monetary data to the Banking Supervision Department, in order to improve the timeliness of data to monthly frequency with less than a month lag. Although some monetary aggregates and FSIs are already published on a monthly basis, the Banking Supervision Department has not been trained in MFSM 2000 and the published data do not follow the recommended methodology. An STA mission will visit the UAE in March 2016 to support the authorities in strengthening their monetary and financial statistics.
Balance of Payments: The information needed to compile the balance of payments is insufficient, especially for the financial account. Many components of the IIP also are missing or incomplete, as the data on government foreign assets and private holdings of foreign assets and liabilities are not published or lack appropriate surveys. The development of a comprehensive BOP and IIP is however within the reach of the UAE if the central bank, the NBS, and the Ministry of Economy strengthen their capacity and receive appropriate support at the high level. The CBU has introduced an international transactions reporting system to strengthen the quality of balance of payments statistics. The authorities continue a project to compile the IIP, which will close an important statistical gap. An STA mission will visit the UAE in September 2015 to support the authorities in progressing with strengthening their BOP/IIP.
II. Data Standards and Quality
Participant in the GDDS since July 31, 2008. The metadata were last updated in 2008 (Monetary and BOP), 2008 (National Accounts and Prices), and 2008 (Government Finance). No Data ROSC is available.

UAE: Table of Common Indicators Required for Surveillance

(As of June 20, 2015)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Real time	Real time	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/14	03/15	M	M	M
Reserve/Base Money	12/14	03/15	M	M	M
Broad Money	12/14	03/15	M	M	M
Central Bank Balance Sheet	12/14	03/15	M	M	M
Consolidated Balance Sheet of the Banking System	12/14	03/15	M	M	M
Interest Rates[2]	Real time	Real time	D	D	D
Consumer Price Index	04/15	05/15	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/14	05/14	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[4]	12/14	05/14	A	A	NA
External Current Account Balance	2014	05/15	A	A	A
Exports and Imports of Goods and Services	2014	05/15	A	A	A
GDP/GNP	2014	05/15	A	A	A
Gross External Debt	...	...	NA	NA	NA
International Investment Position[5]	...	...	NA	NA	NA

[1] Any reserve assets that are pledge of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by means as well as the national values of derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Including currency and maturity composition.

[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I): Not Available (NA).