INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/251

UNITED ARAB EMIRATES

July 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED ARAB EMIRATES

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 2016 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 views of the Executive Board as expressed during its July 20, 2016 consideration of 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 July 20, 2016, following discussions that ended on May 9, 2016, 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 5, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the United Arab Emirates.

The documents listed below have 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.

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July 20, 2016

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IMF Executive Board Concludes 2016 Article IV Consultation with the United Arab Emirates

On July 20, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the United Arab Emirates.

Persistently lower oil prices continue to weigh on economic sentiment and fiscal and external positions, but large buffers built over time have provided ample policy space, limited negative inward spillovers and contained the weakening of investor appetite.

Non-oil economic activity has slowed to 3.7 percent in 2015 driven by a contraction of public investment in the context of fiscal consolidation, and lower contribution from domestic private demand. Negative effects on overall growth were partially offset by the increase in oil production. Despite the strong fiscal policy response to adjust to lower oil prices, the fiscal balance turned to a deficit of 2.1 percent of GDP, while the current account surplus declined to 3.3 percent of GDP. Banks remained well capitalized and liquid, though pressures on profitability are emerging as asset quality weakens due to the economic slowdown and rising funding costs.

Economic activity is expected to moderate further in 2016, before improving over the medium term. Nonhydrocarbon growth is projected to slow to 2.4 percent in 2016 due to fiscal consolidation, the stronger dollar, and tighter monetary and financial conditions. Over the medium-term, nonhydrocarbon growth is forecast to increase to above 4 percent as the dampening effect of fiscal consolidation is offset by improvements in economic sentiment and financial conditions as oil prices rise, a pickup in private investment in the run-up to the Expo 2020, and stronger external demand.

Executive Board Assessment[2]

Executive Directors welcomed the United Arab Emirates' resilience to the oil price shock. Directors commended the authorities for their prudent policies, which helped build large fiscal

[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.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

and external buffers and strengthened the economy. Nevertheless, persistent lower oil prices continue to pose challenges. Directors underscored the need for sustained sound macroeconomic policies to reduce fiscal vulnerabilities, safeguard financial stability, and promote long-term growth.

Directors welcomed the authorities' commitment to pursue fiscal consolidation. For the near term, in light of the ample buffers, they generally considered a gradual adjustment effort to be appropriate in order to minimize the negative impact on growth. However, stronger fiscal consolidation will be needed over the medium term to ensure intergenerational equity.

Directors encouraged the authorities to diversify revenues and rationalize current spending, while further strengthening public financial management. They welcomed the plans to introduce a VAT and increase excise taxes, which could be followed by a corporate income tax. Directors also recommended phasing out remaining energy subsidies, while protecting the vulnerable. Priority should also be given to curb other current spending, while preserving public investment and enhancing its efficiency. Directors noted that developing a consolidated forward-looking medium-term fiscal framework would assist the authorities in setting direction for fiscal policy, and in aligning resource allocation with the UAE 2021 vision. They encouraged the authorities to strengthen the debt management framework to better account for contingent liabilities from Government Related Entities and Public-Private Partnerships.

Directors noted that the peg remains an appropriate anchor for price and financial stability. They supported continued efforts to enhance the monetary framework, particularly by improving liquidity management. Directors encouraged further steps to develop domestic debt markets and reduce private sector foreign exchange exposure. They also encouraged the authorities to tap into sovereign wealth funds and international capital markets to finance the deficit.

Directors welcomed the ongoing revision of the central bank and banking law and plans to strengthen banking regulation and supervision. They emphasized that the new law should further enhance central bank independence and governance, align the macroprudential institutional framework with best practices, upgrade banking sector regulation and supervision in line with global standards, strengthen safety nets, and improve the resolution framework. Directors encouraged the authorities to implement their plans to phase in the Basel III capital framework, enforce loan concentration limits, strengthen corporate governance, and move toward risk-based supervision. They supported ongoing efforts to strengthen the AML/CFT framework and address de-risking.

Directors commended the efforts to further diversify the economy away from oil. They encouraged continued action to increase productivity and foster competitiveness. Efforts should continue to improve the business environment, ease restrictions on FDI in the new investment law, and spur competition. In addition, priority should be given to upgrading the quality of education, promoting innovation and entrepreneurship, and facilitating SMEs' and startups' access to finance, notably through an approval of the bankruptcy law and further broadening the credit bureau's coverage.

United Arab Emirates: Selected Macroeconomic Indicators, 2013–17

(Quota: SDR 752.5 million as of March. 2016)

(Population: 9.4 million, nationals: 1 million)

(Per capita GDP-2014: $43,180; poverty rate: n.a.; unemployment rate: 4.2% (2009))

	2013	2014	Est. 2015	Proj. 2016	Proj. 2017
Hydrocarbon sector					
Exports of oil, oil products, and gas (in billions of U.S. dollars)	129.4	101.9	61.5	54.5	64.8
Average crude oil export price (in U.S. dollar per barrel)	110.0	98.9	52.4	45.3	52.6
Crude oil production (in millions of barrels per day)	2.8	2.8	3.0	3.0	3.1
	(Annual percent change, unless otherwise indicated)				
Output and prices					
Nominal GDP (in billions of UAE dirhams)	1,427	1,476	1,360	1,380	1,490
Nominal GDP (in billions of U.S. dollars)	389	402	370	376	406
Real GDP	4.7	3.1	4.0	2.3	2.5
Real hydrocarbon GDP	2.9	0.8	4.6	2.0	2.0
Real nonhydrocarbon GDP	5.6	4.1	3.7	2.4	2.7
CPI inflation (average)	1.1	2.3	4.1	3.3	2.8
	(Annual percent change, unless otherwise indicated)				
Public finances					
Revenue	40.8	37.3	28.5	26.4	27.0
Taxes	22.4	19.0	11.9	11.1	12.6
Other revenue 1/	18.1	18.0	16.2	15.0	14.1
Expenditures	30.4	32.3	30.6	29.9	28.3
Expense 2/	28.1	29.6	28.1	27.3	25.6
Net acquisition of nonfinancial assets	2.3	2.7	2.5	2.6	2.6
Net lending(+)/borrowing(-) (Revenue minus expenditures)	10.4	5.0	-2.1	-3.5	-1.3
Adjusted non-hydrocarbon primary balance 3/	-35.2	-37.6	-29.0	-26.0	-24.5
Gross central government debt	16.3	14.2	16.6	18.3	17.8
Net of government deposits in the banking system	0.1	-4.1	1.4	2.6	1.4
	(Annual percent change)				
Monetary sector 4/					
Net foreign assets	53.0	16.2	-11.5	2.2	8.4
Net domestic assets	15.6	5.5	11.2	6.5	5.8
Credit to private sector	3.5	11.5	8.7	5.0	6.1
Broad money	22.5	8.0	5.5	5.6	6.3
	(Billions of U.S. dollars, unless otherwise indicated)				
External sector					
Exports and re-exports of goods, of which:	371	343	300	304	323
Hydrocarbon	129	102	61	55	65
Nonhydrocarbon, excluding re-exports	104	101	104	110	116
Imports of goods	230	235	224	232	242
Current account balance	74.1	40.3	12.3	5.3	12.2
Current account balance (in percent of GDP)	19.1	10.0	3.3	1.4	3.0
External debt (in percent of GDP)	44.3	48.8	60.2	60.1	56.3
Gross official reserves 5/	68.2	78.5	94.0	95.1	100.9
In months of next year's imports of goods & services, net of re-exports	5.0	6.0	6.9	6.6	6.5
Memorandum items:					
Local currency per U.S. dollar (period average)	3.67	3.67	3.67	..	..
Nominal effective exchange rate (2010 = 100)	106.1	110.7	..	..	..
Real effective exchange rate (2010 = 100)	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.
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.

INTERNATIONAL MONETARY FUND

UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

July 5, 2016

KEY ISSUES

Context. Sustained low oil prices have led to a weakening of fiscal and external positions, tightening of monetary and financial conditions, and somewhat softer economic sentiment. Substantial fiscal consolidation was achieved in 2015, but it has weighed on non-oil growth and banks' asset quality.

Outlook and risks. Non-oil growth is expected to slow further in 2016, before improving over the medium term as oil prices recover and investment picks up in the run-up to the Expo2020. Macro-financial risks have increased, though the UAE's large buffers and safe-haven status have helped to limit negative inward spillovers.

Fiscal policy. Authorities' plans to pursue consolidation are welcome and should be supplemented by additional measures to diversify revenues and phase out subsidies over the medium-term, supported by further strengthening of public financial management. In the near-term, and given the headwinds from lower oil prices, the pace of consolidation should be eased to reduce its growth impact. In addition, the deficit financing strategy should avoid tightening banking system liquidity and crowding out credit to the private sector.

Financial stability. The banking system is resilient and has sufficient capital and liquidity buffers to withstand adverse shocks. However, pressures on liquidity, asset quality, and profitability are emerging and call for further strengthening prudential frameworks. The ongoing revision of the central bank and banking law is an opportunity to develop a fully-fledged macroprudential framework, further strengthen supervision, and beef up safety nets and the resolution framework. Also, efforts to strengthen the AML/CFT framework and address de-risking should continue.

Economic diversification. Structural reforms aimed at raising productivity, improving competitiveness and further diversifying the economy should be pursued. Focus should be on improving business environment, relaxing constraints on foreign ownership, fostering competition, upgrading the quality of education, promoting innovation and entrepreneurship, and easing SMEs' and startups' access to finance.

Approved By
Aasim M. Husain and Andrea Richter

Discussions for the 2016 Article IV were held in Abu Dhabi and Dubai during April 26 to May 9, 2016. The mission team comprised Mr. Zeidane (head), Mses. Garcia Martinez and Touré, Mr. Santos (all MCD), and Mr. El Murr (LEG). Mses. Abdelati and Merhi (OED) and Mr. Husain (MCD) joined the mission. Mses. Kargbo-Sical and Radwan and Messrs. Flores and Hiland assisted in the preparation of this report.

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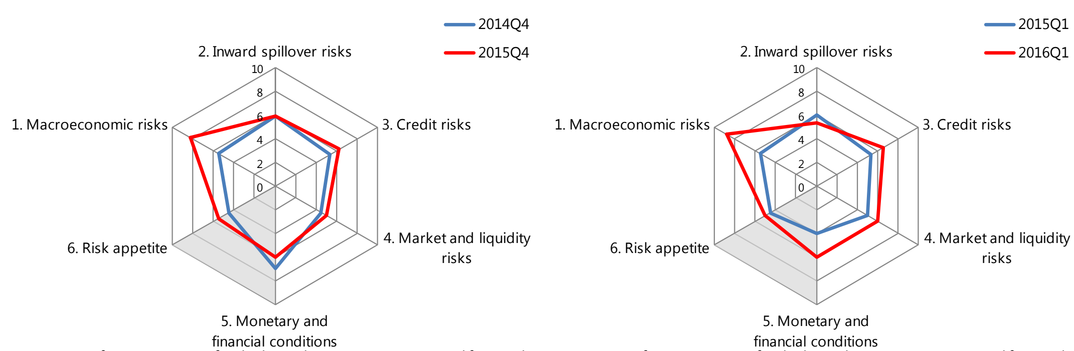
BACKGROUND

1. **The UAE is facing lower oil prices from a position of strength, but macro-financial stability risks have increased and financial conditions have tightened.** Fiscal prudence, progress in economic diversification and safe-haven status have helped build large fiscal and external buffers and strengthen the resilience of the economy. However, the sharp fall in oil prices and revenues, followed by sizable fiscal consolidation and, to a lesser extent, the appreciation of the real effective exchange rate have dampened non-oil growth and increased credit risk. The deficit financing in 2015 has contributed to liquidity pressures and tightening of monetary and financial conditions, which could be an additional drag on economic activity. The strong external balance sheet has so far helped to limit negative inward spillovers and to maintain robust risk appetite.

Financial Stability Map: United Arab Emirates



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

2. **Against this backdrop, the authorities have been implementing a number of reforms to strengthen macro-financial stability and pursue economic diversification**. They have made a number of advances in implementing the 2015 Article IV policy recommendations, among them resuming fiscal consolidation, developing a full-fledged macroprudential framework, phasing in Basel III capital and liquidity requirements, strengthening GREs' balance sheets, and enhancing SMEs' access to finance. (Table 1)

Table 1. Status of the 2015 Article IV Recommendations

Recommendations	Current Status
Macroeconomic policy mix	
Implement gradual fiscal consolidation	*Progress* . Front-loaded consolidation of 8½ percent of nonhydrocarbon GDP in 2015. Authorities plan to continue fiscal consolidation in 2016.
Composition of fiscal consolidation should favor raising non-oil revenues and rationalizing spending, including phasing out subsidies and lowering capital transfers to GREs.	*Progress* . The authorities have been coordinating with other GCC countries to introduce a VAT by 2018 and increase excise taxes. They raised electricity and water tariffs, removed fuel subsidies, and scaled back grants and capital transfers to GREs.
Strengthen medium-term fiscal frameworks	*Progress* . The authorities have initiated work on consolidated medium-term expenditure frameworks for education and healthcare.
Balance the deficit financing mix to not only rely on drawing down government deposits but also to tap sovereign wealth funds or capital markets.	*Progress* . Abu Dhabi relied on government deposits in 2015 but has changed the financing mix with a $5 billion Eurobond issuance in April 2016.
Financial stability	
Timely implement plans to phase in Basel III capital and liquidity standards over 2015-19.	*Progress* . The central bank issued in 2015 a regulation on liquidity requirements in line with Basel III and has also prepared a draft regulation to phase in Basel III capital standards.
Strengthen banking supervision	*Progress* . The central bank action ensured that credit risks are well provisioned before any distribution of 2015 banks' profits.
Develop the macroprudential framework and strengthen safety nets and resolution frameworks	*Progress* . The new central bank and banking law is under-preparation and the draft includes setting up a sound institutional framework for financial stability oversight, and addressing shortcomings of safety nets and resolution frameworks. The draft was reviewed by Staff.
Strengthen GREs' balance sheets	*Progress* . Authorities have stepped up oversight of GREs' investment and debt plans
Economic diversification	
Continue to diversify the economy and exports	*Progress* . The government has restated its vision to further diversify its economy away from oil, and is proactively pursuing the implementation of its plans in this regard.
Improve business environment and ease access to finance	*Progress* . Doing business scores have continued to improve. Coverage of credit bureau has increased. A new bankruptcy law is under preparation as well as a new investment law, which is expected to relax restrictions on foreign ownership.

RECENT MACRO-FINANCIAL DEVELOPMENTS

3. **Non-oil economic activity has slowed.** Amid lower oil prices non-hydrocarbon growth slowed to 3.7 percent in 2015, and declining PMI points also to continued softening of activity in the first months of 2016 (see Figures 1 and 2). The slowdown in 2015 was driven by a contraction of public investment in the context of fiscal consolidation, and lower contribution from domestic private demand as business and consumer confidence weakened and credit to the private sector slowed. The impact on overall growth was partially offset by an increase in oil production. Inflation has eased to 1.4 percent year-over-year by end-March 2016.

4. **The fiscal stance was contractionary in 2015** (Figure 3). With frontloaded fiscal consolidation in Abu Dhabi, the adjusted non-hydrocarbon deficit is estimated to have narrowed by 8½ percentage points to 29 percent of non-hydrocarbon GDP in 2015, leading to a reduction in the fiscal break-even oil price to about $60 in 2015 from $79 in 2014. In terms of its composition, the authorities scaled back capital transfers to GREs, cut government investment, raised electricity and water tariffs, and removed fuel subsidies.[1] Despite these measures, the overall fiscal balance turned to a deficit of 2.1 percent of GDP due to lower oil prices. The deficit was mainly financed by drawing down government deposits.

5. **The current account surplus declined sharply in 2015** to 3.3 percent of GDP from 10 percent in 2014, due to lower oil and gas prices (Figure 5). Nonhydrocarbon exports remained resilient. The tourism sector continued to expand in 2015, but at a slower pace. Foreign direct investment remained steady and net foreign inflows increased significantly, driven by banks' foreign borrowing. As a result, the overall external balance improved and gross international reserves at the CBU increased to USD 94 billion in 2015 from 78.5 billion in 2014. The REER appreciated by 9.5 percent in 2015, due mainly to the stronger U.S. dollar, to which the Dirham is pegged, and higher relative price inflation in the UAE, before edging down 1.5 percent year-to-date by end-March 2016. Due to its large external buffers, pressures on the peg were limited with the 3-month forward implied yield at 0.78 bps on April 29, the lowest in the GCC region.

6. **Banks remained well capitalized, but profitability pressures have emerged.** Domestic deposit growth has slowed significantly to 1.8 percent y-o-y at end–March 2016, reflecting lower government deposits. This has led to increased wholesale foreign funding (up to 11.8 percent of banks' liabilities by end–March 2016 from a 10.4 percent a year ago, mostly dollar-denominated and with an average maturity of about 2.6 years) to finance slowing but still robust domestic credit growth at 7.6 percent y-o-y at end-March 2016. Lending standards have tightened, though to a lesser extent in the first quarter of 2016 (Figures 1 and 4). Nevertheless, banking liquidity is still comfortable with an overall liquid asset ratio of 20.7 percent by end-March 2016. Banks remained well capitalized, though NPLs rose slightly to 5.3 percent by end-March, notably for SMEs, while NPL coverage by provisions remains at 108 percent. With slower deposit growth

[1] The authorities moved in July 2015 toward market-based pricing of gasoline and diesel, but fiscal gains have been limited as international prices further declined to below pre-reform domestic prices.

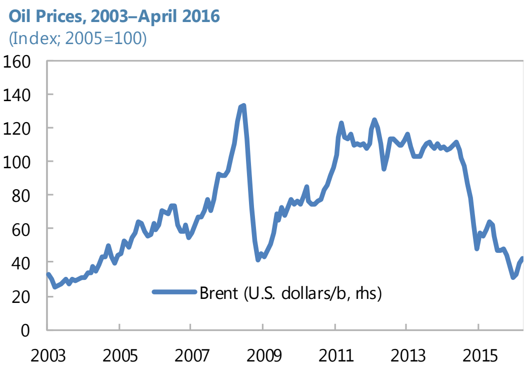
than loan growth and with the U.S. interest rate hike in December, interbank rates increased in 2015, and higher costs of funding and weaker asset quality could weigh on profitability in 2016. Overall, financial risks in the banking sector were still moderate at the end of the first quarter of 2016 as banks' balance sheets remained strong and the credit to non-oil GDP gap is estimated to have remained negative (see Figure 1 FSI heat map).

7. Real estate prices have continued to decline, but the quality of the real estate loan portfolio has remained resilient. Structural measures taken in 2014, such as the tightening of industry self-regulation, higher real estate fees, and tighter macroprudential regulation for mortgage lending, have helped contain speculative demand for real estate and led to declining prices. This trend has continued with Dubai's real estate average residential prices falling by 11 percent in 2015, also reflecting oversupply and strong headwinds on demand. In Abu Dhabi where the supply growth slowed, they fell by 0.8 percent. However, these developments do not appear to pose systemic risks for the financial sector, as the nonperforming loans for construction and real estate development declined from 12.3 percent in 2013 to 7.5 percent by end-March 2016. Similar improvements have been experienced for loans to households with NPLs ratio down from 10 to 4.9 percent over the same period.

8. GREs have continued to deleverage. Several GREs actively managed their debt, making early repayments and lengthening maturity profiles. Nonetheless, the GREs debt servicing capacity remains limited with an average interest coverage ratio (ICR) of 2 as of end-June 2015. In addition, total public debt in Dubai continued to be significant at 126.2 percent of Dubai GDP in 2015, large maturities are due by 2018, and net debt of GREs with an ICR lower than 1.5 was estimated at about U.S. $20 billion at end-June 2015. In Abu Dhabi, GREs have substantially reduced their debt.

Figure 1. Latest Economic Developments

Persistently lower oil prices....



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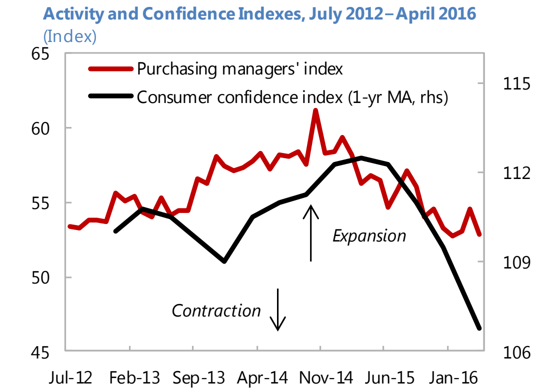
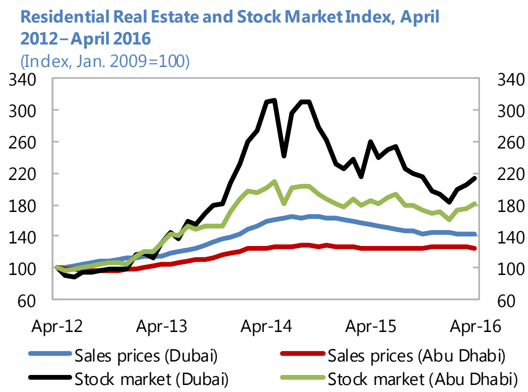
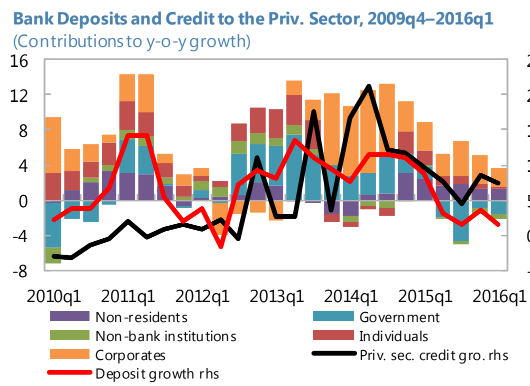


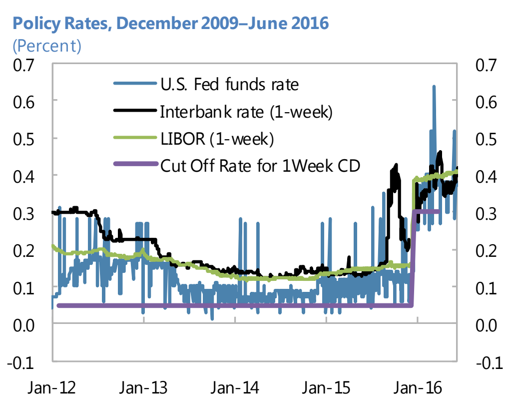
...Including on asset prices.



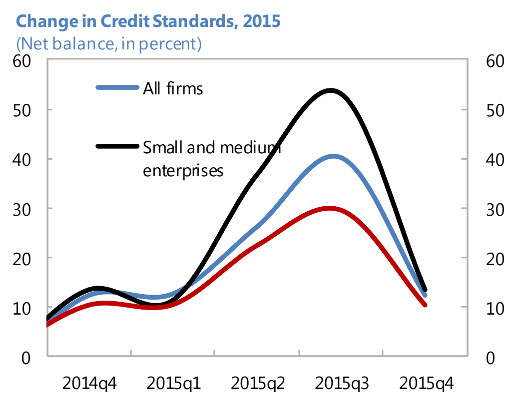
Despite continued slowdown of total deposits, credit to the private sector remains robust.



Monetary and financial conditions tigthened...



...As well as credit standards.



Sources: Country authorities; ENDB; Haver; HSBC; Reidin; and IMF staff estimates.

Figure 1. Latest Economic Developments (concluded)

Financial stability risk remains moderate.

Credit Cycle & FSI Heatmap

United Arab Emirates	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	Latest
Overall Financial Sector Rating	L	L	L	L	M	L	L	M	M	M	M	M
Credit cycle	L	L	L	L	M	L	L	L	L	L	L	L
Change in credit / Non-oil GDP ratio (pp, annual)	-1.9	1.2	-0.2	1.9	3.0	-3.0	-3.3	-3.8	-3.7	1.0	0.8	0.8
Growth of credit / Non-oil GDP (%, annual)	-1.3	0.9	-0.1	1.3	2.1	-2.1	-2.2	-2.6	-2.5	-2.5	0.7	0.7
Credit-to-Non oil GDP gap (st. dev.)	1.3	1.5	1.8	2.0	1.8	1.0	1.0	1.1	1.1	0.7	0.7	0.7
Balance Sheet Soundness	L	L	L	L	L	L	L	M	M	M	M	M
Balance Sheet Structural Risk	L	L	L	L	L	L	L	M	M	M	M	M
Deposit-to-loan ratio	95.4	100.3	102.2	105.3	102.4	103.1	102.8	99.8	97.2	99.1	99.0	99.0
FX liabilities % (of total liabilities)	0.0	32.2	33.0	31.9	33.9	34.5	35.5	35.7	36.4	36.7	36.3	36.3
FX loans % (of total loans)	0.0	21.3	21.7	22.5	22.9	24.2	24.6	24.8	24.3	23.7	24.0	24.0
Balance Sheet Buffers	L	L	L	L	L	L	L	L	L	L	L	L
Leverage	L	L	L	L	L	L	L	L	L	L	L	L
Leverage ratio (%)	14.4	15.5	14.7	15.1	15.2	15.7	15.1	15.4	15.7	15.8	15.8	15.8
Profitability	L	L	L	L	L	L	L	L	L	L	L	L
ROA	1.6	1.6	1.8	1.8	1.8	1.7	1.8	1.8	1.6	1.5	1.5	1.5
ROE	10.9	11.1	13.2	13.8	14.3	13.9	14.6	14.1	12.6	11.8	12.0	12.0
Asset quality	n.a.	L	L	L	L	L	L	L	L	L	L	L
NPL ratio	7.1	6.7	6.5	7.0	6.7	5.6	5.3	5.0	5.1	5.2	5.3	5.3
NPL ratio change (%, annual)	n.a.	-19.8	-7.9	-2.9	-6.4	-16.3	-18.3	-28.4	-23.5	-7.8	0.4	0.4
Memorandum Items												
Total credit-to-Non-oil GDP gap	-1.0	-1.0	-4.8	-4.8	-4.8	-4.8	-5.6	-5.6	-5.6	-5.6	-7.4	-7.4

Source: Country authorities; ENDB; Haver; HSBC; Reidin; and IMF staff estimates.

MACROECONOMIC OUTLOOK AND RISKS

9. **Economic activity is expected to further moderate in 2016, before improving over the medium term.** Nonhydrocarbon growth is projected to further slow to 2.4 percent in 2016 due to fiscal consolidation, a stronger dollar, and tighter monetary and financial conditions with credit growth falling to 5 percent. Over the medium term, nonhydrocarbon growth is forecast to recover to above 4 percent as the dampening effect of fiscal consolidation is offset by: (i) the expected improvement in oil prices and its positive effects on confidence and financial conditions; (ii) the pickup in private investment in the run-up to the Expo 2020 supported by robust private sector credit growth; and (iii) increased demand from Iran after the easing of sanctions.[2] Growth in hydrocarbon production will likely be limited, given the global supply glut. Inflation is projected to decline to 3.3 percent in 2016. The fiscal deficit is expected to widen and the current account surplus to decline in 2016, owing to lower oil prices, before improving over the medium term. Credit to non-oil GDP gap is forecast to remain negative over the medium-term, and credit to non-oil GDP to remain stable at 143.5 percent (Tables 2-5).

[2] The easing of Iran sanctions was estimated to add 1 percentage point to real GDP growth over 2016-18 (See Box 2, 2015 Article IV staff report). However, the significant positive impact might be delayed beyond 2016, as financial institutions' reengagement with Iran remains slow and so far trade does not appear to have picked up appreciably.

10. Risks are tilted to the downside. (See Risk Assessment Matrix).

- ***External risks***. The main external risk is a further sustained drop in oil prices, with export and fiscal revenue losses remaining the most significant transmission channels. The effects would be exacerbated by falling liquidity in the banking system from further draw-downs of government deposits, and rising NPLs due to weaker activity on account of fiscal retrenchment. Weaker asset quality could also have negative effects on credit and non-oil GDP growth. Moreover, lower oil prices would continue to exacerbate volatility in the stock markets and have a negative effect on real estate prices. Higher U.S. interest rates and volatile global financial conditions could also trigger rollover risks for banks and GREs, intensify liquidity strains and further weaken business and consumer confidence, and additional appreciation of the dollar would weigh on competitiveness and external demand. Slowdowns in other GCC countries could spill over through trade, tourism and asset prices, while increased issuance to finance deficits in these countries could put pressures on liquidity and cost of funding. Also, as an important partner in terms of inward FDI and tourism, a deterioration of the economic outlook in the UK or a large sustained depreciation of the pound following its decision to leave the EU, would have negative impact on the UAE economy, which could be compounded by possible negative spillovers from the EU and downward pressures on oil prices. By contrast, possible rebalancing of oil markets or geopolitical tensions could raise global energy prices and support UAE's fiscal and external positions. While the authorities broadly agreed on these risks and proposed policy responses, they pointed to other upside risks such as increased tourism and foreign investment due to the country's safe-haven status.

- ***Domestic risks.*** Dubai megaprojects, if not implemented prudently, may create additional macro-financial risks to GREs and banks, and ultimately to the fiscal position in light of the debt overhang from the 2008/9 global financial crisis. Authorities agreed and reiterated their commitment to continue strengthening the GREs' balance sheets.

United Arab Emirates: Risk Assessment Matrix[1]

Source of Risk / Nature of the shock	Impact if Realized	Policy Response
Persistently lower energy prices, triggered by supply factors reversing only gradually (High)	Lower oil exports and fiscal revenues. A $10 drop would worsen fiscal and external balances by 4 and 3½ percentage points of GDP respectively assuming no policy response.	Sustained fiscal consolidation.
	Slowdown in non-oil growth. A permanent $10 drop in oil prices could reduce UAE GDP level by 2½ percentage points after five years assuming that revenue losses are fully offset with expenditure cuts.	Gradual fiscal consolidation that preserves investment. Further economic diversification.
	Tighter banking liquidity and financial conditions, and a deterioration of asset quality in the banking sector.	Tap into SWFs to finance the deficit and strengthen capital adequacy, including through adequate provisioning while approving the insolvency regime for the corporate sector.
Tighter or more volatile global financial conditions (Medium)	Reversal of capital flows, higher risk premiums and possible valuation losses in sovereign wealth fund portfolios.	The CBU should stand ready to provide liquidity to banks as needed. Further develop domestic debt markets to reduce reliance on foreign financing.
	Rollover risks and liquidity strains on GREs.	Pursue active management of GREs debt, and avoid transfers of maturing debt by GREs to domestic banks.
Surge in the US dollar (High)	Further appreciation of the dirham in effective terms leading to competitiveness losses.	Pursue structural reforms to strengthen competitiveness.
Insufficient domestic policy reform to mitigate excessive risk taking by GREs (Medium)	Imprudent risk taking and re-leveraging by GREs.	Strengthen debt management framework.
Heightened risk of fragmentation/security dislocation in the Middle East (Medium)	UAE's external position could improve with higher oil prices.	Maintain prudent policies.
	Increased spending, especially in assistance to conflict-ridden populations.	Implement policies aimed at accelerating inclusive growth and further improving public services, including security.

[1] The. Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood 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 between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively. Colored boxes represent severity of impact. Red = High, Yellow =Medium, and Green = Low to Positive.

POLICY DISCUSSIONS

Strengthening Macroeconomic Stability

11. Gradual fiscal consolidation is key to reduce fiscal vulnerability and strengthen fiscal sustainability while cushioning its impact on growth. In the absence of further fiscal adjustment (beyond that already undertaken in 2015), the fiscal break-even oil price will remain above projected market prices over the medium term. Also calculations, based on the permanent income hypothesis (PIH), suggest that the 2015 non-hydrocarbon primary deficit exceeds the level consistent with a constant real per capita annuity that would ensure intergenerational equity, the gap being about 7.6 percent of non-oil GDP (Appendix I). These vulnerabilities call for additional fiscal consolidation over the medium term. However, considering large buffers, fiscal adjustment should be gradual to minimize its negative impact on growth.

12. Authorities plan to pursue fiscal consolidation. The baseline scenario, based on authorities' plans, forecasts a further narrowing of the nonhydrocarbon fiscal deficit by 8.6 percent of nonhydrocarbon GDP by 2021 (relative to the 2015 level) and a balanced overall budget by 2018. Planned fiscal measures are: (i) the implementation of VAT from 2018 onwards at a low rate of 5 percent; (ii) an increase of excise taxes on tobacco and alcohol, and their introduction on soft drinks starting from 2018; (iii) continued improvements in fees structure and collection, (iv) continued scaling back of grants and capital transfers to GREs; and (v) stabilization of the public wage bill as a share of non-oil GDP and of other expenses in real terms. Staff supports authorities' measures to curb current spending and diversify non-oil revenues. For 2016, approved budgets at the Federal and Dubai levels point to a slight fiscal consolidation of 0.1 percent of non-oil GDP. Abu Dhabi's budget has yet to be approved, but preliminary indications point to a sharp consolidation of about 2.9 percent of non-oil GDP.

13. While pursuing fiscal consolidation is appropriate, its pace should be more gradual, involving less consolidation in the near-term together with an acceleration beyond current plans over the medium-term. Considering the large buffers and potential headwinds to non-oil growth from external and financial conditions in 2016, it is important not to withdraw support from public demand too sharply, and therefore to lower the pace of consolidation, notably in Abu Dhabi, by raising capital spending while improving its efficiency. Over the medium term as the outlook improves, the pace of consolidation could be slightly accelerated with the objective to achieve an additional consolidation compared to the baseline of 2.1 percent of non-hydrocarbon, mostly back-loaded, that further reduces the gap to the level of nonhydrocarbon deficit that is consistent with intergenerational equity over the medium term. Suggested measures, which are aimed at increasing spending efficiency and diversifying non-oil revenues, include: (i) gradually phasing out electricity, water and gas subsidies, while protecting the lower-tier consumers; and (ii) introducing corporate income tax over the medium term, with a low rate of 10 percent (See below an illustrative estimation of measures). The authorities favor a more frontloaded fiscal consolidation as uncertainty on oil prices remains high. In terms of composition, while they agree on phasing out remaining subsidies over the medium term, they plan to wait for the completion of an impact study of corporate income tax before deciding its timeline, base and rate.

Illustrative Estimation of Additional Fiscal Measures Proposed By Staff

	2015	2016	2017	2018	2019	2020	2021	Total
Baseline scenario 1/								
Overall fiscal balance in percent of GDP	-2.1	-3.5	-1.3	0.2	1.2	1.8	2.3	
Non-hydrocarbon primary balance 2/	-29.0	-26.0	-24.5	-23.6	-22.8	-21.6	-20.4	
Adjustment of the non-oil primary balance as intended by the authorities	8.6	3.0	1.5	0.9	0.8	1.2	1.2	8.6
Scenario suggested by staff 1/								
Overall fiscal balance in percent of GDP	-2.1	-4.7	-1.8	0.2	1.8	3.1	5.0	
Non-hydrocarbon primary balance 2/	-29.0	-27.5	-25.5	-24.1	-22.8	-21.0	-18.3	
Total additional adjustment (a+b+c) 3/ 4/		-1.5	0.5	0.5	0.5	0.6	1.5	2.1
a. Additional revenues		0	0.3	0.3	0.3	0.3	1.5	2.7
b. Reduction in budgeted subsidies		0	0.2	0.2	0.2	0.3	0	0.9
c. Additional investment		-1.5	0	0	0	0	0	-1.5
Deviation between the projected non-hydrocarbon primary deficit and level consistent with intergenerational equity 5/		6.6	4.9	4.1	3.4	2.4	1.3	
Gap Breakeven to market prices (U.S.$)		18.9	9.6	2.7	-3.2	-8.2	-15.7	

1/ In percent of non-hydrocarbon GDP, unless otherwise indicated.
2/ Excludes staff estimates on SWF investment income.
3/ The additional adjustment would be expected to be back-loaded and based on energy reforms spread over 2017-20 and corporate income tax (CIT) in 2021.
4/ Includes savings of 2/3 from current water and electricity subsidies in 2017–20, while 1/3 is expected to remain in place to protect low-tier consumers.
5/ The gap is expected to close in 2021.

14. The longstanding exchange rate peg has served the UAE well and should be maintained. The peg anchored prices of tradables and thus inflation, and provided stability to income flows and financial wealth. Therefore, given the large external buffers, maintaining the peg remains appropriate. However, with the continued appreciation of the real effective exchange rate while terms of trade have deteriorated, the external position is moderately weaker than the level consistent with medium-term fundamentals, as illustrated by the estimated current account gap (Appendix III). To close this gap, the authorities agreed with staff that further fiscal adjustment, as recommended above, is needed. In addition, it is important to further strengthen the policy framework, through enhancing liquidity forecasting and management, further developing money and debt markets, and reducing foreign exchange exposure of banks and the corporate sector.

15. Deficit financing should remain supportive of private sector credit growth. Cumulative fiscal deficits are forecast at U.S $18.4 billion over 2016-21, which is small compared to the UAE's estimated fiscal buffers. To avoid crowding out the private sector, the authorities agree with staff that deficit financing should tap into sovereign wealth funds or international capital markets, instead of drawing down government deposits or incurring payment arrears. The recent Eurobond issuance by Abu Dhabi of $5 billion is welcome; further external bond issuance should be pursued. Increased domestic sovereign issuance, including by Abu Dhabi, would help deepen the domestic debt market, and provide the local and federal governments with a new funding source, and banks with a new instrument to manage liquidity, including by substituting part of the existing stock of CBU certificates of deposits (about $31.4 billion by end-March), which can be facilitated by lowering the volume of CDs and their average maturity. To allow issuance at the federal level, including of Sukuk which are also essential to help Islamic banks better manage their liquidity, the authorities should approve the Public Debt Law and the Trust law. The Central Bank (CBU) should use its instruments as needed to support healthy liquidity, and avoid unwarranted tightening of monetary conditions.

16. Fiscal policy should be supported by a stronger public financial management framework. Building on substantial progress already made on fiscal coordination and reporting, the authorities should develop a consolidated forward-looking medium-term fiscal framework to help set the direction for fiscal policy in the UAE as a whole and better align aggregate resource allocation with the 2021 vision. In that regard, the fiscal framework developed at the Federal level could be a good benchmark for the local level, while the plans to introduce a five-year federal fiscal framework and to consolidate medium-term budgets for education and healthcare are welcome. Abu Dhabi needs to adopt a multiyear performance-based budgeting framework, which has been prepared, to provide further clarity on its fiscal strategy and to strengthen its annual budget process, notably by approving budgets ahead of the fiscal year. Strong Public Finance Management systems at the local level should be in place to increase budget credibility and comprehensiveness, including by avoiding earmarking of revenues and firmly controlling expenditures. The authorities broadly concurred with staff's view and indicated that further work is ongoing to strengthen fiscal coordination and generalize accrual accounting.

17. Public debt management frameworks should also be further strengthened. Gross public debt-to-GDP is projected to pick up to 17.0 percent in 2017, before decreasing over the medium term. However, this ratio could double in a severe stress scenario with lower oil prices and higher default rate of GREs. Furthermore, staff analysis has shown that GREs' leverage increased in the past with weaker fiscal position and lower interest rates (see Appendix IV), and eventually necessitated large bailouts from local governments. Therefore, in this context of lower transfers to GREs and planned megaprojects, it is important to strengthen debt management frameworks to properly account for contingent liabilities from GREs as well as other Public-Private Partnerships (PPPs). This is particularly the case for Dubai, which needs to develop contingency plans in case a severe stress scenario materializes (Annex II). In this regard, recent efforts by the Dubai's supreme fiscal council and by Abu Dhabi's debt management office to closely review GREs' debt issuances are welcome and should be pursued, as envisaged by the authorities.

Safeguarding Financial Stability

18. Sustained lower oil prices and non-oil growth, and strong interconnectedness with GREs pose risks to the banking system. Lower oil prices have put pressures on banks' liquidity and profitability, due to declining government deposits, lower net interest margins and, possibly, deterioration of asset quality. Preliminary results of a bottom-up default analysis from an additional $10 decline in oil prices, suggest that the corporate sector probabilities of default would increase to the highest levels since 2009, which would lead to further deterioration in the asset quality of the banking system (see Appendix V). In the case of a more severe scenario, with a sharp contraction in non-oil GDP and fall in real estate prices, the CBU's credit risk stress test indicates that the capital adequacy ratios of five small to medium sized banks out of 22 banks would fall below the current 12 percent capital requirement by 2018 (see Box 1). Banking liquidity is also expected to remain comfortable, with the liquidity risk stress test indicating the banking system would have enough high-quality liquid assets to meet obligations for a 30-day period under a stress scenario. In addition, buffers in the banking system appear to be determined by both bank-specific and macro factors, including oil prices. As envisaged, the central bank should encourage banks identified in the stress tests to strengthen their capital and liquidity positions.

19. The new central bank and banking law should be swiftly approved and implemented to help strengthen, in particular, the macroprudential framework. Authorities and staff agree that the new law should: (i) further enhance central bank independence and governance; (ii) align the macroprudential institutional framework with best practices, including by giving the central bank the responsibility of supervising all systemically important financial institutions; (iii) enhance regulation and supervision of the banking sector in line with global standards, notably the Basel core principles for effective supervision; (iv) strengthen safety nets; and (v) improve the resolution framework. The implementation of the law will help develop a proper macroprudential framework with the central bank coordinating the Financial Stability Committee. This needs to be accompanied by strengthening the central bank's institutional capacity and its macroprudential tools. In this regard and to avoid a build-up of systemic liquidity risks, the lending to stable resources ratio should not be relaxed, and LCR and NSFR should be implemented as planned, both in foreign and domestic currencies as the existing regulation appropriately requires that liquid assets be held in the currency of the net outflows. Also, as systemic risks for the financial sector from declining real estate prices remain contained, there is no need to ease the corresponding macroprudential measures (loan-to-value and debt service-to-income). In addition, better monitoring of real estate markets and mortgage lending is needed to continue to appropriately calibrate these measures and contain related macro-financial risks.

Box 1. 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 from a weakening economy. Expected losses (ELs) arising from a three-year downturn scenario were estimated for 11 asset classes on a consolidated basis. Key assumptions include exposure-at-default (loans and advances) as of end-2015, 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 net of income before provisions and distributed dividends affect the capital adequacy ratio (CAR). PDs are a function of real GDP, Dubai real estate prices, and lagged PDs to capture persistence. The downturn scenario consists of a GDP contraction of 3.5 and 1.6 percent in 2016 and 2017 respectively, and no growth in 2018 (compared to growth of 2.3, 2.5 and 3.1 percent, respectively in the baseline scenario) while real estate prices fall by 28.1 percent in 2016, 6 percent in 2017, and 5.3 percent in 2018. This scenario implies a total increase in PDs by 3.8 times at end-2018.

Credit Risk Stress Testing

	Local banks	Less than AED 30 billion	Between AED 30 and 120 billion	Larger than AED 120 billion
2015				
CAR (in percent)	17.8	19.8	17.5	18.1
Number of banks	21	7	9	5
Aggregate capital (in AED billion)	292.7	21.2	86.6	184.9
2018 1/				
CAR post stress	15.7	16.6	12.4	15.3
Number of banks below 12%	5	2	3	0
Aggregate capital short fall in AED billion	7.3	1.7	5.6	0

Source: CBUAE
1/ Three-year adverse scenario.

Few medium and small banks would be adversely affected as a result of higher NPL ratios in 2015. The average CAR would decline from 17.8 percent to 15.7 percent under the downturn scenario. However, the capital of two small and three medium banks would be below the 12 percent minimum CAR, with a capital shortfall of AED 7.3 billion (0.4 percent of 2018 GDP). However, the CARs could still be further adversely affected by risks arising from single-name concentrations, second-round effects, and higher LGD than observed during major debt GRE and corporate restructurings following the 2008–09 crisis. Further capital injection is needed to strengthen the resilience of the five banks.

Liquidity Risk Stress Testing

The CBU also conducted a liquidity stress test based on the Liquidity Coverage Ratio (LCR) methodology.[1] 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 under the baseline scenario. Data were of end-March 2016.

Liquidity Risk Stress Testing

	Local banks	Less than AED 30 billion	Between AED 30 and 120 billion	Larger than AED 120 billion
Baseline LCR				
LCR (in percent)	140	214	141	135
Number of banks with LCR<100	1	0	1	0
Liquidity shortfall (in AED million)	0	0	50	0
Liquidity shortfall (in percentage of total assets)				
Stressed LCR				
LCR (in percent)	128	201	129	123
Number of banks with LCR<100	1	0	1	0
Liquidity shortfall (in AED million)	0	0	600	0
Liquidity shortfall (in percentage of total assets)				

Source: CBUAE

Overall, all banks would have LCRs above 100 percent under the adverse scenario. The average LCR would decline from 140 percent under the LCR baseline to 128 percent under the adverse LCR scenario. However, one medium bank would be slightly below the minimum 100 percent LCR under both the baseline and adverse LCR scenarios. The low impact of the adverse scenario reflects the new liquidity regulation that has required banks to hold at least 10 percent of their total liabilities in eligible liquid assets (central bank certificate of deposits, reserve requirements, and domestic and foreign government securities with zero-risk weight). The phase-in introduction of the LCR provides banks with a gradual schedule to adjust to the 100 percent requirement by 2019.

[1] Based on assets and liabilities reported in the banking regulatory forms (BRFs).

20. CBU's plans to strengthen regulatory and supervisory frameworks are welcome and should be timely implemented. The central bank action to ensure that credit risks are well provisioned before any distribution of 2015 banks' profits is welcome, has contributed to strengthening capital buffers, and should be continued. The central bank has also prepared a draft regulation to phase in Basel III capital standards and should pursue it as planned while continuing to ensure that new additional Tier 1 and Tier 2 issuances are in line with Basel III requirements. To mitigate systemic risk from high concentration in the banking system, the new capital framework should also include capital charges for systemically important banks. Broad-based measures, such as counter-cyclical capital buffers and dynamic provisioning, should also be introduced to help reduce the pro-cyclicality of bank lending. Setting up limits to banks' open FX positions, especially in other foreign currencies than the US dollar, would also contain market risks and FX exposure of banks. Loan concentration limits for GREs and local governments should be strictly enforced. CBU's plans to strengthen banks' corporate governance should be timely implemented, notably to strengthen risk management and to address potential conflicts of interest from related-party lending, especially with GREs. Also, significant progress has been made in risk-based supervision by developing dashboards of risks by bank and should be accompanied by better risk-based allocation of supervisory resources. The recent approval of a centralized Shari'ah Board is also a step in the right direction to ensure consistency and clarity on Shari'ah governance of Islamic banks. While the authorities broadly agreed, they indicated that some areas of corporate governance, notably related to Boards composition, need to take into account the scarcity of qualified resources.

21. GREs should continue to manage their debt profiles proactively. As some GREs are highly indebted, managing upcoming debt repayments proactively is important, including using timely communication to guide market expectations and to contain financial stability risks posed by GREs. Improvements in GRE risk management, reporting, transparency, and governance are critical for further strengthening of GREs. A transfer of maturing debt by GREs to domestic banks should be avoided to preserve banking sector stability, while raising risk-weights of lending to GREs could make such transfer costly to banks. Also, the amendments to the governance rules of publicly listed companies, to better protect minority shareholders in GREs, will help limit excessive leverage and related-party transactions. The authorities noted that GREs are not a major concern as they have made progress in repaying back debt ahead of the payment schedules and are not cash-constrained.

22. Authorities' ongoing efforts to strengthen the AML/CFT framework and address de-risking should continue. Recent efforts include the adoption of by-laws in 2015, the launching of the national risk assessment, and the inclusion of AML/CFT requirements into risk-based supervision of banks. These welcome efforts should be pursued by timely conducting the national risk assessment, enhancing the monitoring of domestic and cross border financial flows, further upgrading the regulatory requirements for banks and exchange houses, improving the availability and use of beneficial ownership information on legal persons and trusts, and speeding up the development of risk-based tools for assessing the exposure of the banking and remittance activities to ML/TF threats while enhancing the mitigation of corresponding risks. These measures, combined with harmonization of procedures for creating legal persons in free zones and monitoring their activities, would contribute to easing de-risking practices by correspondent banks. In a recent survey run by the Arab Monetary Fund and Central Bank of the UAE, it was observed that some UAE banks had one or more correspondent banking relationships (CBRs) terminated, though most of them were able establish or use alternative relationships. Authorities remain concerned about de-risking and intend to continue their dialogue with foreign regulators and local and foreign banks to prevent disruptive losses of CBRs.

Further Diversifying Growth

23. Structural reforms should be pursued to strengthen competitiveness. The UAE is one of the most competitive economies of the region (Figure 6). However, reforms should continue at the federal and local levels to improve lagging areas of business environment such as starting a business, getting credit, enforcing contracts, streamlining exports procedures and resolving insolvency. Efficient public investment in infrastructure should be maintained, including through PPPs. In that regard, the new framework approved by Dubai government is welcome and should be accompanied by further strengthening the capability of the department of finance to monitor the related contingent liabilities.

24. Transitioning toward a knowledge-driven economy as envisaged in the UAE Vision 2021 would raise productivity, which has been a drag on non-oil growth (see Appendix VI). Supportive policies include relaxing restrictions on foreign ownership outside the free zone areas, further improving access to international markets and global supply chains, easing migration policies for highly-skilled workers, fostering competition, upgrading the quality of education, and continuing to harness innovation and the use of new technologies of information and communication. In particular, the new investment law should further ease restrictions on FDI while avoiding to set thresholds in terms of capital to benefit from the new regime, which could reduce attractiveness for innovative SMEs and startups. Priority should also be given to innovation financing. The innovation fund envisaged by the authorities is a good step in this direction, and should be supported by improving the framework for venture capital and crowd-funding. Raising productivity and improving competitiveness, along with targeted reforms to promote exports, will create the right conditions to continue to further diversify away from oil, in line with the authorities' objective to reduce the oil share in the GDP by a third over the next decade.

25. Public employment and labor market policies could be improved to spur private sector-led job creation for nationals. In that regard, it is important to control the size and wages of the civil service, which is critical to private sector competitiveness and attractiveness for nationals, to improve the skills-job match, notably by developing plans of education for employment and further integrating soft skills in the curricula, and to promote entrepreneurship, including through re-skilling, business incubation and other support services. Policies such as quotas, flexible work arrangements, provision of childcare services and active labor market programs could help increase women's participation in the workforce. In this regard, the new regulation by the Securities and Commodities Authority setting, on a "comply or explain" basis, a quota of 20 percent of women in the boards of listed companies is welcome.

26. Easing SME access to finance should be a priority. SME lending is estimated to represent only 4 percent of total lending and more than 77 percent of SMEs are reported lacking access to finance.[3] The inadequacy of the insolvency framework hurts SMEs access to finance and needs to be tackled by a swift approval of the bankruptcy law, which the authorities consider a high priority. Public funds should focus on providing guarantees and support services to SMEs and startups instead of direct lending. Efforts to strengthen the financial infrastructure, notably through broader coverage of the credit bureau, should be pursued, as planned by the authorities. Measures should be taken to promote capital market financing of SMEs, including through listing on equity markets and securitization of assets for debt issuance.

Improving Statistics

27. Further efforts are required to strengthen the statistical system. The authorities have made significant progress on fiscal, monetary and financial sector statistics. Further progress is needed to improve national accounts and external sector statistics, including the compilation of an international investment position, and to compile labor market statistics. In that regard, it is important to continue to strengthen coordination and data-sharing between the federal and local statistical agencies. Efforts are also needed to broaden the coverage of government statistics to GREs and of monetary and financial statistics to non-bank financial institutions.

STAFF APPRAISAL

28. With persistently lower oil prices, macro-financial stability risks have increased. Fiscal and external positions have weakened, despite the strong policy response in terms of fiscal consolidation, which in turn has led to a softening of economic activity and an uptick of credit risks. In addition, deficit financing has put pressure on liquidity and led to a further tightening of monetary and financial conditions. However, the large buffers built over time have helped limit negative inward spillovers and contain the softening of investor appetite.

29. The macroeconomic policy mix should focus on gradual fiscal consolidation, while maintaining the peg and employing a financing strategy that supports private credit growth. Greater fiscal consolidation than planned by the authorities will be needed over the medium term to close the gap to the level of non-oil fiscal balance that is consistent with intergenerational equity and to support external sustainability. However, in view of the ample policy space provided by the UAE’s large buffers, the pace of consolidation should be eased in 2016 to minimize its impact on growth at a time when sentiment is weak on account of the drop in oil prices. The peg remains appropriate as an anchor for price and financial stability, and should be maintained while efforts should be continued to enhance liquidity management, develop domestic debt markets and reduce foreign exchange exposure of banks and firms. Deficit financing should tap into sovereign wealth funds and international capital markets, instead of drawing down government deposits or incurring

[3] See Kazarian, E. and A. Santos (2015), “SME Access to Finance in the UAE,” IMF Country Report no. 15/220, pp. 24-35.

payment arrears. The CBU should stand ready to use its instruments if needed to support healthy liquidity.

30. In terms of composition, priority should be given to diversifying revenues and rationalizing current spending. Authorities' plans to introduce the VAT and increase excise taxes in 2018 are welcome, whose implementation should be followed by the introduction of a corporate income tax. Remaining subsidies should be phased out while protecting lower-tier consumers. Other current spending should continue to be curbed, while public investment should be preserved and its efficiency enhanced.

31. Public financial and debt management frameworks should continue to be strengthened. Developing a consolidated forward-looking medium-term fiscal framework would assist the authorities in setting direction for fiscal policy in the UAE as a whole and aligning resource allocation with the 2021 vision. In addition, strong Public Finance Management systems at the local level are needed to increase budget credibility and comprehensiveness. In the context of lower transfers by emirate governments to GREs and planned megaprojects, strengthening debt management frameworks is important to properly account for contingent liabilities from GREs as well as other Public-Private Partnerships (PPPs).

32. The ongoing revision of the central bank and banking law is an opportunity to strengthen prudential frameworks. The new law should further enhance central bank independence and governance, align the macroprudential institutional framework with best practices, enhance regulation and supervision of the banking sector in line with global standards, strengthen safety nets and improve the resolution framework. In particular, the authorities should develop a fully-fledged macroprudential framework and, in the meantime, should not relax the existing measures aimed at containing systemic liquidity risks and vulnerabilities from the real estate sector.

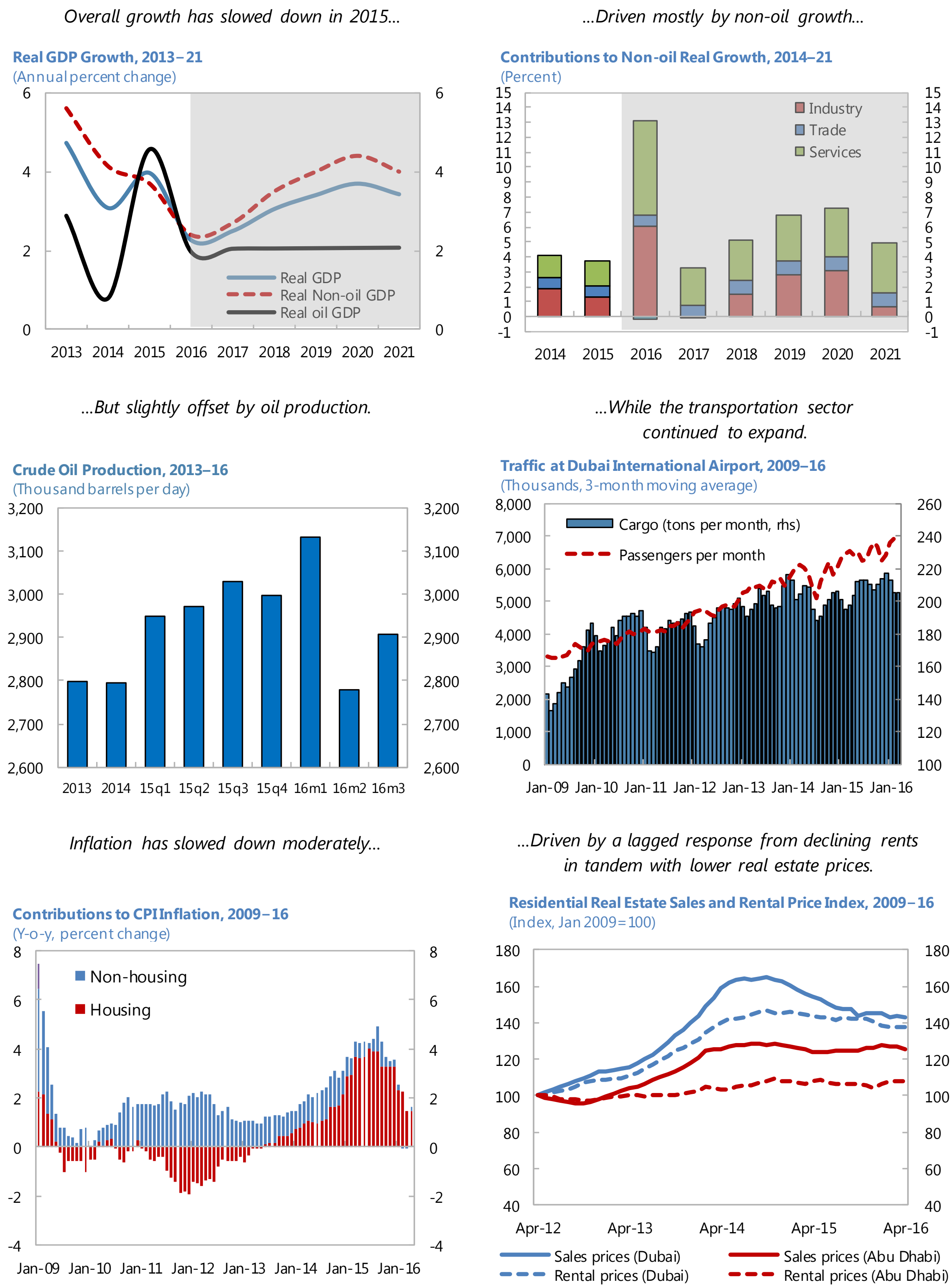
33. CBU's plans to strengthen regulation and supervision of the banking sector should be timely implemented. Overall, the banking sector has enough capital and liquidity buffers to withstand an adverse shock. Plans to encourage banks identified in the stress tests to strengthen their capital and liquidity positions are appropriate. Also, the CBU should continue to ensure adequate credit provisioning. The CBU's plans to phase in the Basel III capital framework, including capital surcharges for systemically important banks and counter-cyclical capital buffers, to strictly enforce loan concentration limits for GREs and local governments, to strengthen corporate governance, and to move toward risk-based supervision should be implemented as planned. Ongoing efforts to strengthen the AML/CFT framework and address de-risking should also be pursued.

34. Structural reforms aimed at raising productivity, improving competitiveness and further diversifying the economy should be pursued. Reforms should continue at the federal and local levels to improve lagging areas of business environment such as starting a business, obtaining credit, enforcing contracts, streamlining export procedures and resolving insolvency. Transition towards a knowledge-driven economy should be accelerated. In this regard, the new investment law should ease restrictions on FDI. Priority should be given to implementing the innovation strategy, notably by developing the policy framework for innovation financing such as venture capital and crowd-funding. Private sector-led job creation for nationals would require controlling the size and wages of the civil service, improving the skills-job match, and promoting entrepreneurship. To ease SMEs and startups' access to finance, the bankruptcy law should be swiftly approved, public funds more focused on providing guarantees, the credit bureau coverage broadened, and market financing enabled.

35. Further progress is needed in improving statistics. Improvements in external sector, national accounts, trade and labor market statistics are needed. In this regard, better coordination between the federal and the local levels is critical. Also, building on significant progress made over the past year, the authorities should broaden the coverage of fiscal accounts and financial sector indicators.

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

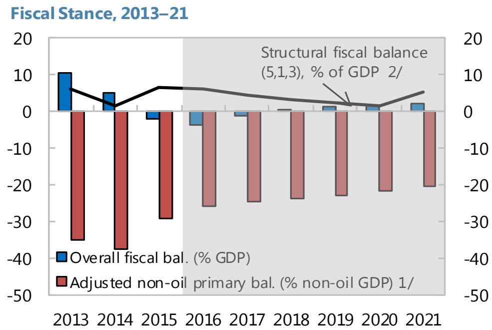
Figure 2. Real Sector Developments and Outlook



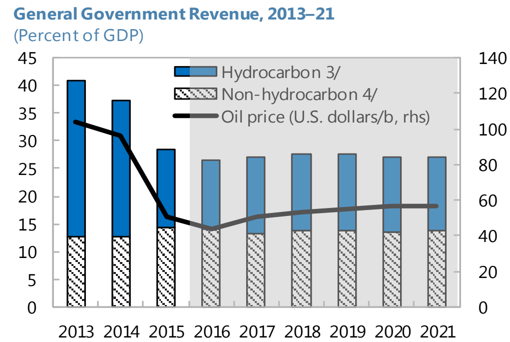
Sources: Country authorities; Haver; Markit; HSBC; Reidin; and IMF staff estimates.

Figure 3. Fiscal Developments and Outlook

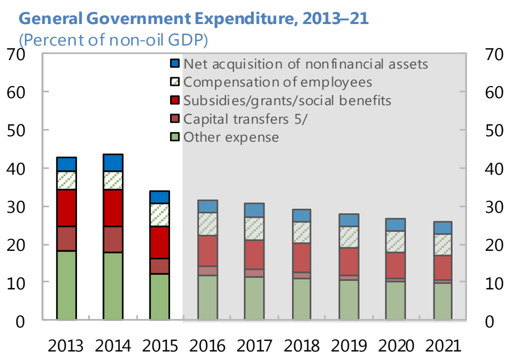
Even though the fiscal stance was contractionary, the overall fiscal balance deteriorated in 2015.



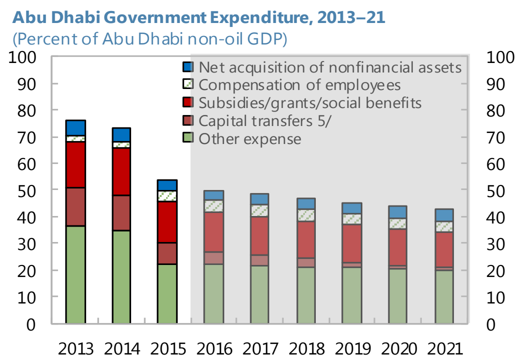
Hydrocarbon-related revenues declined due to lower oil prices.



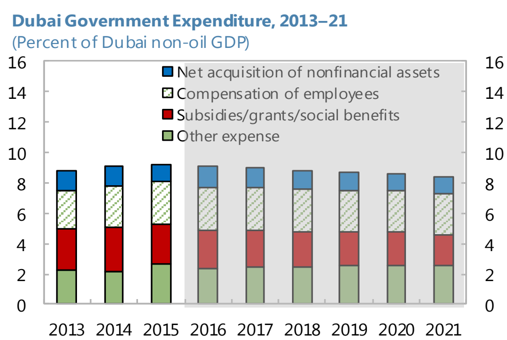
Government spending remained elevated…



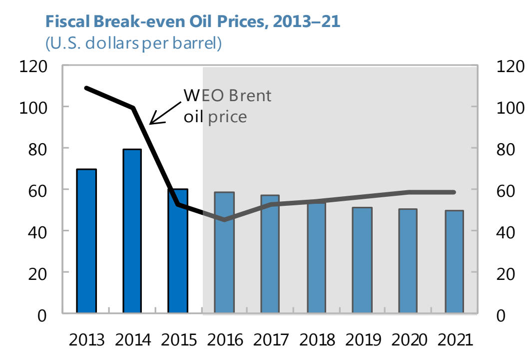
…Due to high government expense in Abu Dhabi…



…And increasing government expense in



The gap between the break-even and the Brent prices has increased fiscal vulnerability.

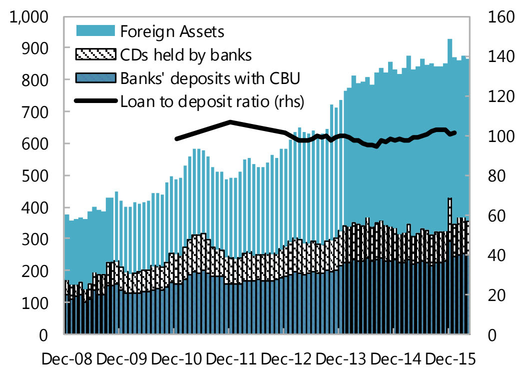


Sources: Country authorities; and IMF staff calculations.
1/ Excludes staff estimates on SWF returns (investment income).
2/ A 9-year moving average of hydrocarbon prices (prices of the past five years and projected prices for the current and the next three years).
3/ Includes staff estimates on profit 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 4. Monetary and Financial Developments

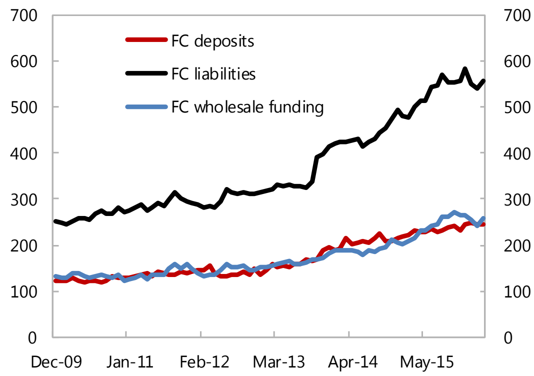
Banking sector liquidity continues to be comfortable…

Bank Liquidity, 2008–16
(Billions of Dirham)



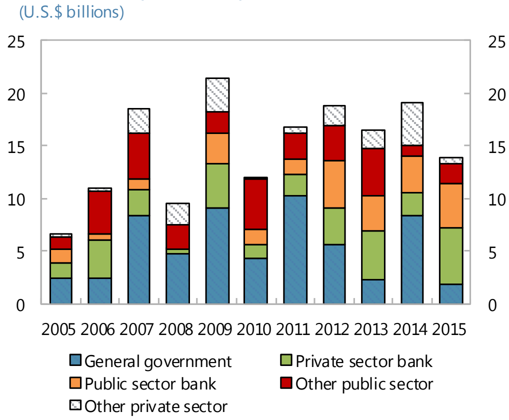
…Driven by an increase in foreign-currency denominated liabilities.

Bank Liabilities, 2009–16
(Billions of Dirham)



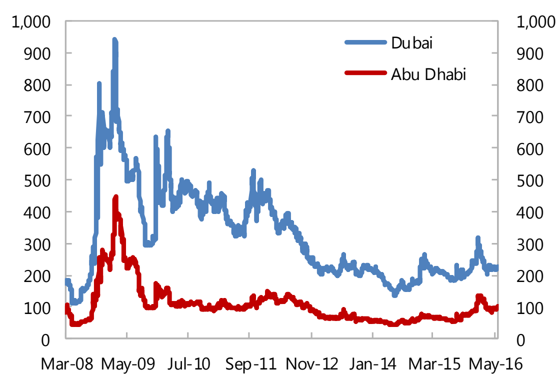
Even though total debt issuance has lowered, debt issuance by banks has helped them to close the funding gap….

Debt Issuance by Borrower Type, 2005–15
(U.S.$ billions)



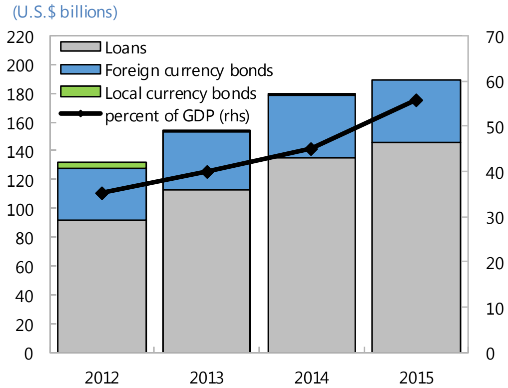
…While CDS spreads were moderetately higher.

CDS Spreads, 2008–16
(Basis points)



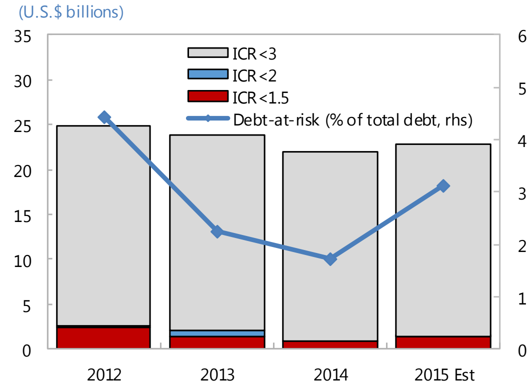
Non-financial corporate debt continued to increase…

Non-financial Corporate Debt, 2012–15
(U.S.$ billions)



…As well as debt at risk.

Non-financial Corporates: Vulnerable Debt, 2012–15
(U.S.$ billions)

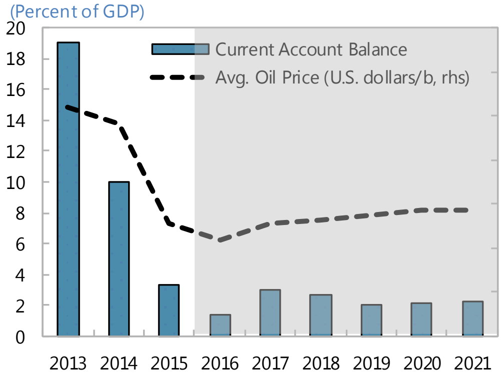


Sources: Country authorities; Orbis; Haver; Markit; Bloomberg; Dealogic; and IMF staff calculations.

Figure 5. External Sector Developments and Outlook

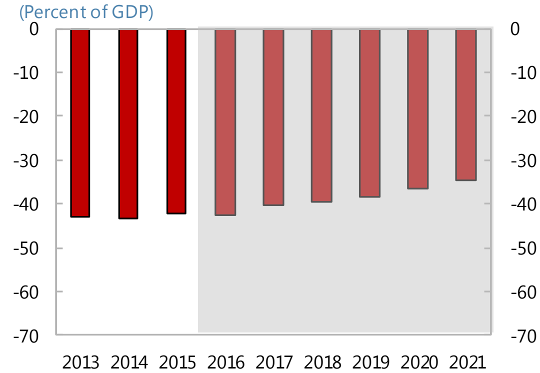
The current account surplus is declining amid lower oil prices.

Current Account Balance, 2013–21
(Percent of GDP)



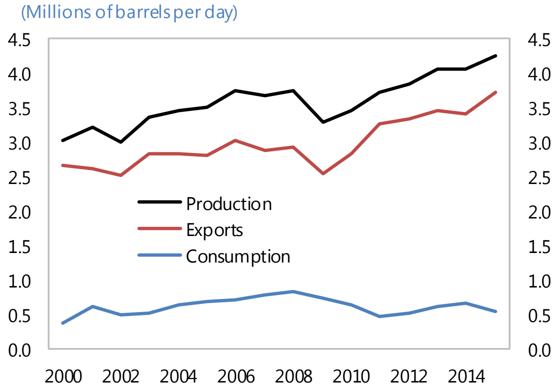
Non-oil external deficits remain large.

Balance on Non-Oil Goods and Services, 2013–21
(Percent of GDP)



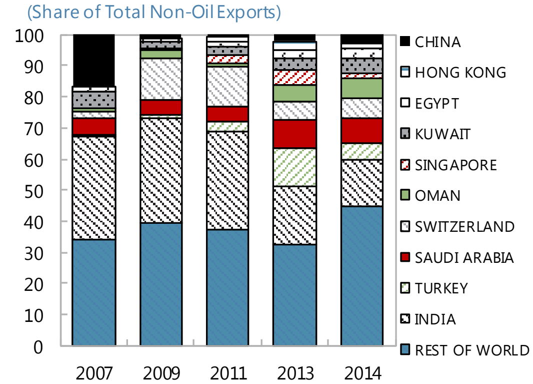
Hydrocarbon exports are increasing as domestic consumption declines and production remains robust.

Hydrocarbon Production, Consumption, and Exports, 2000–15
(Millions of barrels per day)



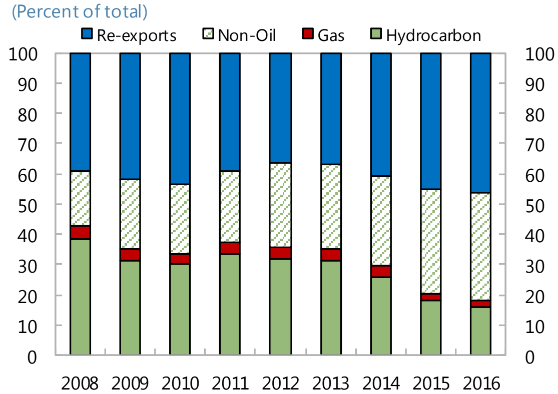
The diversification of export destinations is underway...

Non-Oil Exports: Top 10 Partners, 2007–14
(Share of Total Non-Oil Exports)



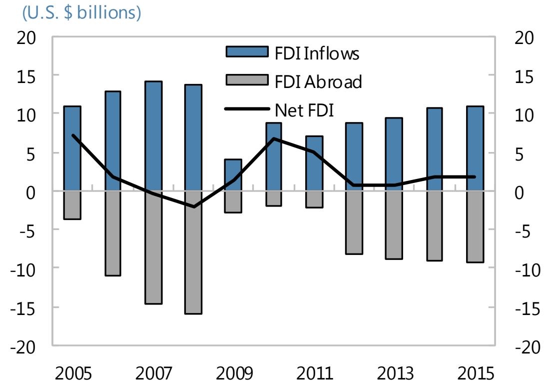
In tandem with the diversification of export products.

Exports Composition, 2008–16
(Percent of total)



Foreign direct investment flows have increased steadily.

Foreign Direct Investment, 2005–15
(U.S. $ billions)

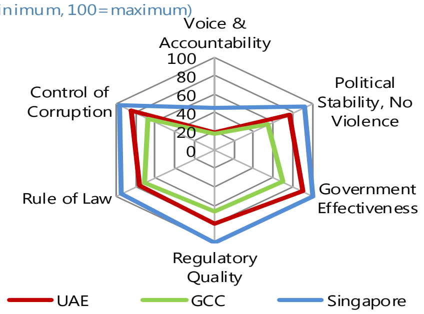


Sources: Country authorities; Haver; NBS; and IMF staff estimates.

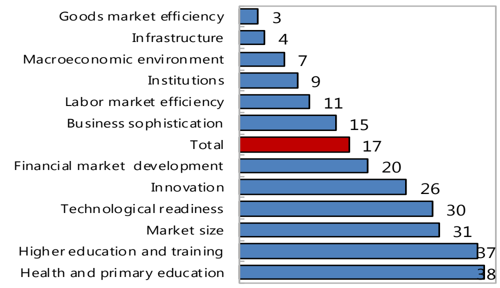
Figure 6. Business Environment and Government Indicators

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

World Governance Indicators, 2014
(0=minimum, 100=maximum)

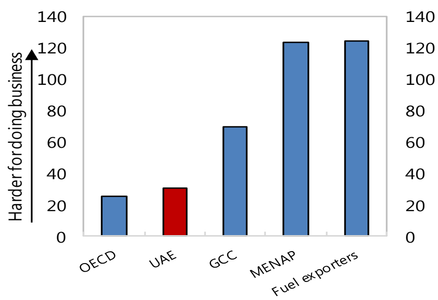


Global Competitiveness Index Ranks by Category, 2015–16
(Rank out of 140)

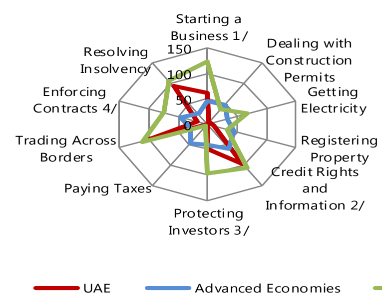


Further progress in contract enforcement, resolving insolvency, and strengthening legal rights of lenders while improving coverage of and access to credit information would be particularly helpful.

World Bank Doing Business, 2016
(Rank out of 189)

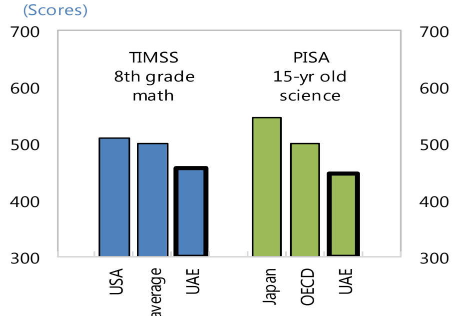


World Bank Doing Business, 2016
(Rank out of 189)

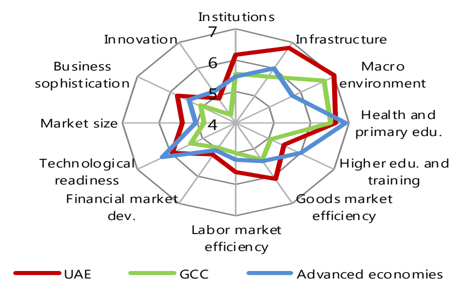


Education and innovation policies need to be further improved...

School Math and Science Scores 5/
(Scores)



Global Competitiveness Index, 2016
(1=minimum, 7=maximum)



Sources: Global Competitiveness Report (2015–16); World Bank Doing Business Report (2016), World Governance Indicators (2014); 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, 2013–21

(Quota: SDR 752.5 million as of March 2016)
(Population: 9.4 million, nationals: 1 million)
(Per capita GDP-2014: $43,180; poverty rate: n.a.; unemployment rate: 4.2% (2009))

	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
Hydrocarbon sector									
Exports of oil, oil products, and gas (in billions of U.S. dollars)	129.4	101.9	61.5	54.5	64.8	68.7	72.8	76.9	81.1
Average crude oil export price (in U.S. dollar per barrel)	110.0	98.9	52.4	45.3	52.6	54.5	56.5	58.4	60.1
Crude oil production (in millions of barrels per day)	2.8	2.8	3.0	3.0	3.1	3.2	3.3	3.3	3.4
	(Annual percent change, unless otherwise indicated)								
Output and prices									
Nominal GDP (in billions of UAE dirhams)	1,427	1,476	1,360	1,380	1,490	1,584	1,692	1,815	1,942
Nominal GDP (in billions of U.S. dollars)	389	402	370	376	406	431	461	494	529
Real GDP	4.7	3.1	4.0	2.3	2.5	3.1	3.4	3.7	3.4
Real hydrocarbon GDP	2.9	0.8	4.6	2.0	2.0	2.0	2.1	2.1	2.1
Real nonhydrocarbon GDP	5.6	4.1	3.7	2.4	2.7	3.5	4.0	4.4	4.0
CPI inflation (average)	1.1	2.3	4.1	3.3	2.8	3.1	3.3	3.5	3.6
	(Percent of GDP, unless otherwise indicated)								
Investment and saving									
Gross domestic investment	23.5	25.1	22.4	21.7	21.9	24.7	26.1	26.7	26.6
Total fixed capital formation	22.9	24.5	21.7	21.0	21.3	24.2	25.5	26.2	26.1
Public	9.0	10.4	7.8	6.9	6.5	6.1	5.8	5.6	5.6
Private	13.9	14.2	13.9	14.1	14.9	18.1	19.7	20.6	20.5
Gross national saving	41.2	38.1	25.7	23.1	25.0	27.3	28.0	28.6	28.5
Public	17.0	11.9	3.3	1.0	2.8	3.9	4.6	5.0	5.4
Private	24.2	26.2	22.4	22.1	22.1	23.4	23.4	23.6	23.1
Public finances									
Revenue	40.8	37.3	28.5	26.4	27.0	27.5	27.5	27.2	27.0
Taxes	22.4	19.0	11.9	11.1	12.6	12.9	12.9	12.9	13.1
Other revenue 1/	18.1	18.0	16.2	15.0	14.1	14.3	14.4	14.0	13.6
Expenditures	30.4	32.3	30.6	29.9	28.3	27.3	26.3	25.4	24.7
Expense 2/	28.1	29.6	28.1	27.3	25.6	24.7	23.7	22.8	22.1
Net acquisition of nonfinancial assets	2.3	2.7	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Net lending(+)/borrowing(-) (Revenue minus expenditures)	10.4	5.0	-2.1	-3.5	-1.3	0.2	1.2	1.8	2.3
Adjusted non-hydrocarbon primary balance 3/	-35.2	-37.6	-29.0	-26.0	-24.5	-23.5	-22.8	-21.6	-20.4
Gross general government debt	16.3	14.2	16.6	18.3	17.8	17.2	16.5	15.8	15.1
Net of government deposits in the banking system	0.1	-4.1	1.4	2.6	1.4	-0.1	-2.0	-3.6	-5.1
	(Annual percent change)								
Monetary sector 4/									
Net foreign assets	53.0	16.2	-11.5	2.2	8.4	3.9	-1.4	-5.1	-7.5
Net domestic assets	15.6	5.5	11.2	6.5	5.8	7.1	9.3	10.7	10.4
Credit to private sector	3.5	11.5	8.7	5.0	6.1	7.8	8.7	8.9	8.7
Broad money	22.5	8.0	5.5	5.6	6.3	6.4	7.2	7.8	7.5
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports and re-exports of goods, of which:	371	343	300	304	323	338	353	368	384
Hydrocarbon	129	102	61	55	65	69	73	77	81
Nonhydrocarbon, excluding re-exports	104	101	104	110	116	124	133	141	150
Imports of goods	230	235	224	232	242	255	269	281	292
Current account balance	74.1	40.3	12.3	5.3	12.2	11.0	8.9	9.5	10.4
Current account balance (in percent of GDP)	19.1	10.0	3.3	1.4	3.0	2.5	1.9	1.9	2.0
External debt (in percent of GDP)	44.3	48.8	60.2	60.1	56.3	53.6	50.8	47.9	45.4
Gross official reserves 5/	68.2	78.5	94.0	95.1	100.9	104.0	103.0	99.1	93.7
In months of next year's imports of goods & services, net of re-exports	5.0	6.0	6.9	6.6	6.5	6.2	5.7	5.2	4.7
Memorandum items:									
Local currency per U.S. dollar (period average)	3.67	3.67	3.67	..	..	..	..	..	..
Nominal effective exchange rate (2010 = 100)	106.1	110.7	..	..	..	..	..	..	..
Real effective exchange rate (2010 = 100)	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, 2013–21

(Billions of U.S. dollars)

	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
	(Billions of U.S. dollars, unless otherwise specified)								
Current account balance	74.1	40.3	12.3	5.3	12.2	11.0	8.9	9.5	10.4
(in percent of GDP)	19.1	10.0	3.3	1.4	3.0	2.5	1.9	1.9	2.0
Trade balance	141.0	108.4	76.6	71.7	81.0	82.8	84.4	86.5	92.1
Exports	371.0	343.1	300.5	304.0	323.5	337.9	352.9	367.9	384.1
Oil and oil products	116.4	88.9	53.8	48.3	57.5	61.0	64.7	68.4	72.1
Natural gas	13.0	13.0	7.7	6.2	7.3	7.7	8.1	8.5	8.9
Nonhydrocarbon	104.1	100.7	104.2	109.6	116.3	123.9	132.5	141.0	150.5
Re-exports	137.5	140.4	134.8	139.9	142.4	145.3	147.6	150.0	152.5
Imports (f.o.b.)	-230.0	-234.6	-223.9	-232.3	-242.5	-255.1	-268.5	-281.4	-292.0
Imports by emirates	-146.0	-148.2	-144.7	-148.4	-152.5	-157.9	-165.1	-177.1	-180.1
Free zones	-77.9	-80.5	-75.1	-79.1	-83.9	-90.5	-95.9	-95.9	-102.5
Natural gas	-6.1	-5.9	-4.1	-4.8	-6.1	-6.8	-7.5	-8.4	-9.4
Income, net	0.5	0.7	1.7	1.5	1.4	1.6	1.9	1.9	1.8
Banking system (net)	-1.5	-1.6	-1.6	-2.6	-2.1	-1.3	-0.6	-0.6	-0.8
Private non-banks (net)	-1.6	-1.5	-1.4	-1.2	-1.4	-1.7	-1.9	-1.9	-1.9
Government	8.1	8.2	8.2	8.4	8.6	8.8	9.0	9.2	9.5
Official debt service (interest)	-1.3	-1.4	-1.4	-0.9	-1.1	-1.4	-1.6	-1.6	-1.6
Foreign partners - oil	-3.3	-3.1	-2.0	-1.8	-2.2	-2.3	-2.5	-2.6	-2.7
Foreign partners - gas	0.0	0.0	0.0	-0.4	-0.5	-0.5	-0.5	-0.6	-0.6
Services, net	-40.9	-40.1	-36.1	-37.5	-38.1	-39.4	-40.9	-39.6	-41.2
Credits	21.2	23.8	27.2	27.7	29.1	30.6	32.1	36.6	37.6
Debits	-62.2	-63.9	-63.3	-65.1	-67.3	-70.0	-73.1	-76.2	-78.8
Transfers, net	-26.4	-28.7	-29.9	-30.4	-32.0	-34.1	-36.5	-39.3	-42.3
Private (incl. remittances)	-20.5	-22.1	-23.9	-25.2	-26.5	-28.3	-30.3	-32.6	-35.1
Official	-5.9	-6.6	-6.1	-5.2	-5.5	-5.8	-6.2	-6.7	-7.2
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-40.2	-39.0	-1.6	-4.3	-6.4	-7.9	-9.9	-13.3	-15.8
Private capital	-7.8	-6.4	20.1	-5.9	-4.9	-4.4	-3.8	-3.4	-3.0
Direct investment, net	0.7	1.8	1.7	1.5	1.9	2.1	2.5	2.9	3.2
Outward	-8.8	-9.0	-9.3	-9.7	-10.1	-10.6	-11.2	-11.8	-12.4
Inward	9.5	10.8	11.0	11.1	12.0	12.8	13.7	14.6	15.7
Portfolio flows, net	1.1	1.3	1.1	1.1	1.2	1.3	1.4	1.5	1.6
Commercial banks	-2.1	-1.8	24.9	-0.4	0.0	0.1	0.1	0.1	0.1
Private non-banks and other 1/	-7.5	-7.6	-7.6	-8.0	-8.0	-7.9	-7.8	-7.8	-7.9
Official capital 2/	-32.4	-32.6	-21.7	1.6	-1.4	-3.5	-6.0	-10.0	-12.9
Errors and omissions	-13.2	7.3	4.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	20.8	8.6	14.9	1.1	5.8	3.1	-1.0	-3.9	-5.4
Change in central bank reserves	-20.8	-8.6	-14.9	-1.1	-5.8	-3.1	1.0	3.9	5.4
Memorandum items:									
GDP (billions of U.S. dollars)	388.6	402.0	370.3	375.7	405.8	431.2	460.7	494.2	528.7
Gross reserves of central bank (billions of U.S. dollars)	68.2	78.5	94.0	95.1	100.9	104.0	103.0	99.1	93.7
in months of next year's imports, net of re-exports	5.0	6.0	6.9	6.6	6.5	6.2	5.7	5.2	4.7

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 4. United Arab Emirates: Consolidated General Government Finances, 2013–21

	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
			(Billions of UAE dirhams, unless otherwise specified)						
Total revenue	582.8	550.4	387.4	363.9	402.8	435.6	465.8	493.4	524.1
Taxes	319.1	279.9	162.4	153.0	187.4	205.0	217.8	233.8	254.9
Social Contributions	5.1	5.3	4.3	4.4	4.6	4.7	4.9	5.0	5.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	258.7	265.3	220.7	206.5	210.8	225.9	243.1	254.5	264.0
Expenditures (a+b)	434.5	477.3	415.9	412.6	421.5	432.4	445.8	461.4	480.3
Expense (a)	401.0	437.4	382.1	376.4	382.1	390.5	401.1	413.6	429.1
Compensation of employees	42.1	47.5	62.9	66.1	68.5	71.3	74.6	78.3	82.1
Use of goods and services	43.2	49.5	56.9	57.8	59.8	62.2	65.0	68.1	70.7
Consumption of fixed capital	3.3	3.8	4.4	4.6	4.8	5.2	5.5	5.9	6.4
Interest	5.9	4.1	3.4	3.9	4.4	4.9	5.6	6.4	7.3
Subsidies	23.5	29.6	20.9	20.4	20.9	21.6	22.3	23.1	23.9
Grants	21.6	21.9	22.2	20.1	20.7	21.2	21.9	22.5	23.3
Social Benefits	39.1	43.9	44.3	46.3	47.7	49.3	50.9	52.5	54.2
Other expenses 2/	222.3	237.1	167.3	157.3	155.3	154.8	155.4	156.9	161.3
Net acquisition of nonfinancial assets (b)	33.5	39.9	33.8	36.2	39.4	41.9	44.7	47.8	51.2
Net operating balance (Revenue minus Expense)	181.9	113.0	5.2	-12.5	20.7	45.1	64.7	79.7	95.0
Net lending(+)/borrowing(-) (Revenue minus expenditures)	148.4	73.1	-28.5	-48.7	-18.7	3.2	20.0	31.9	43.8
Net acquisition of financial assets 1/ 3/	204.2	77.2	-6.0	-13.4	8.3	21.8	44.8	46.6	61.2
Domestic	25.2	-82.2	-11.4	10.9	14.0	16.2	24.4	20.9	21.1
Foreign	179.0	159.5	5.4	-24.3	-5.7	5.5	20.4	25.7	40.0
Net incurrence of liabilities	55.8	4.1	22.6	35.4	27.1	18.6	24.7	14.7	17.4
Domestic	34.0	14.2	16.3	15.5	20.4	15.3	12.8	10.2	7.7
Foreign	21.8	-10.1	3.1	19.9	6.6	3.3	11.9	4.5	9.6
Memorandum Items:									
Hydrocarbon revenue	401.7	363.4	193.8	171.0	205.7	218.3	231.5	245.5	257.9
Profit transfers from the national oil company to SWF 4/	103.2	91.8	46.1	39.0	47.6	50.5	53.6	56.8	59.5
Non-hydrocarbon revenue	181.1	187.1	193.6	192.9	197.1	217.3	234.3	247.9	266.2
Investment income (from SWF) 4/	67.6	78.0	82.4	69.1	62.8	79.7	94.6	100.4	104.4
Abu Dhabi capital transfers	60.7	62.7	40.1	26.5	21.2	17.0	13.6	10.8	10.4
Adjusted non-hydrocarbon primary balance 5/	-315.0	-364.2	-301.4	-284.9	-282.9	-289.9	-300.5	-307.5	-311.2
In percent of non-hydrocarbon GDP	-35.2	-37.6	-29.0	-26.0	-24.5	-23.5	-22.8	-21.6	-20.4
Fiscal break-even oil price (US$ per barrel)	69.4	79.0	60.1	58.3	57.4	53.7	51.6	50.8	49.9
					(Percent of GDP)				
Total revenue	40.8	37.3	28.5	26.4	27.0	27.5	27.5	27.2	27.0
Taxes	22.4	19.0	11.9	11.1	12.6	12.9	12.9	12.9	13.1
Social Contributions	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	18.1	18.0	16.2	15.0	14.1	14.3	14.4	14.0	13.6
Expenditures	30.4	32.3	30.6	29.9	28.3	27.3	26.3	25.4	24.7
Expense	28.1	29.6	28.1	27.3	25.6	24.7	23.7	22.8	22.1
Compensation of employees	3.0	3.2	4.6	4.8	4.6	4.5	4.4	4.3	4.2
Use of goods and services	3.0	3.4	4.2	4.2	4.0	3.9	3.8	3.8	3.6
Consumption of fixed capital	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Subsidies	1.6	2.0	1.5	1.5	1.4	1.4	1.3	1.3	1.2
Grants	1.5	1.5	1.6	1.5	1.4	1.3	1.3	1.2	1.2
Social Benefits	2.7	3.0	3.3	3.4	3.2	3.1	3.0	2.9	2.8
Other expenses 2/	15.6	16.1	12.3	11.4	10.4	9.8	9.2	8.6	8.3
Net acquisition of nonfinancial assets	2.3	2.7	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Net operating balance (Revenue minus Expense)	12.7	7.7	0.4	-0.9	1.4	2.8	3.8	4.4	4.9
Net lending(+)/borrowing(-)	10.4	5.0	-2.1	-3.5	-1.3	0.2	1.2	1.8	2.3
Net acquisition of financial assets 1/ 3/	14.3	5.2	-0.4	-1.0	0.6	1.4	2.6	2.6	3.1
Domestic	1.8	-5.6	-0.8	0.8	0.9	1.0	1.4	1.2	1.1
Foreign	12.5	10.8	0.4	-1.8	-0.4	0.3	1.2	1.4	2.1
Net incurrence of liabilities	3.9	0.3	1.7	2.6	1.8	1.2	1.5	0.8	0.9
Domestic	2.4	1.0	1.2	1.1	1.4	1.0	0.8	0.6	0.4
Foreign	1.5	-0.7	0.2	1.4	0.4	0.2	0.7	0.2	0.5
Memorandum Items:									
Hydrocarbon revenue	28.1	24.6	14.3	12.4	13.8	13.8	13.7	13.5	13.3
Profit transfers from the national oil company to SWF 4/	7.2	6.2	3.4	2.8	3.2	3.2	3.2	3.1	3.1
Non-hydrocarbon revenue	12.7	12.7	14.2	14.0	13.2	13.7	13.8	13.7	13.7
Investment income (from SWF) 4/	4.7	5.3	6.1	5.0	4.2	5.0	5.6	5.5	5.4
Abu Dhabi capital transfers	4.3	4.2	2.9	1.9	1.4	1.1	0.8	0.6	0.5

Sources: 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 4a. United Arab Emirates: Central Government Finances, 2013–21

	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
				(Billions of UAE dirhams)					
Total revenue	62.6	61.8	66.6	68.4	69.5	72.3	74.1	76.2	78.4
Taxes	5.3	5.3	5.6	5.4	5.6	7.2	7.8	8.4	9.1
Social Contributions	5.1	5.3	4.3	4.4	4.5	4.7	4.8	5.0	5.2
Grants	17.7	17.2	19.0	19.6	20.1	20.7	21.3	22.0	22.8
Other Revenue	34.5	34.0	37.8	39.0	39.3	39.7	40.2	40.7	41.4
Expenditures (a+b)	59.3	63.0	66.7	67.8	69.6	71.7	73.7	75.8	78.1
Expense (a)	57.5	57.7	61.6	62.5	64.2	66.1	68.0	69.9	71.9
Compensation of employees	18.5	19.8	21.1	21.8	22.4	23.1	23.8	24.6	25.5
Use of goods and services	16.8	17.0	19.1	18.7	19.3	19.9	20.5	21.2	22.0
Consumption of fixed capital	0.4	0.4	0.6	0.6	0.6	0.7	0.7	0.8	0.8
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	0.8	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Social Benefits	13.9	12.9	11.2	11.5	11.8	12.1	12.2	12.2	12.1
Other expenses	7.1	6.8	8.5	8.8	9.1	9.3	9.7	10.0	10.4
Net acquisition of nonfinancial assets (b)	1.9	5.4	5.1	5.3	5.4	5.6	5.8	6.0	6.2
Net operating balance (Revenue minus Expense)	5.1	4.1	5.0	5.9	5.3	6.2	6.1	6.3	6.5
Net lending(+)/borrowing(-) (Revenue minus expenditures)	3.3	-1.3	-0.1	0.6	-0.1	0.6	0.4	0.3	0.3
Net acquisition of financial assets	-28.1	-1.2	3.1	0.6	-0.1	0.6	0.4	0.3	0.3
Domestic	-37.5	-1.9	3.0	0.6	-0.1	0.6	0.4	0.3	0.3
Foreign	9.4	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-31.4	0.0	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-31.4	0.0	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
				(Percent of GDP)					
Total revenue	4.4	4.2	4.9	5.0	4.7	4.6	4.4	4.2	4.0
Taxes	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Social Contributions	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	1.2	1.2	1.4	1.4	1.3	1.3	1.3	1.2	1.2
Other Revenue	2.4	2.3	2.8	2.8	2.6	2.5	2.4	2.2	2.1
Expenditures (a+b)	4.2	4.3	4.9	4.9	4.7	4.5	4.4	4.2	4.0
Expense (a)	4.0	3.9	4.5	4.5	4.3	4.2	4.0	3.8	3.7
Compensation of employees	1.3	1.3	1.5	1.6	1.5	1.5	1.4	1.4	1.3
Purchase of goods and services	1.2	1.1	1.4	1.4	1.3	1.3	1.2	1.2	1.1
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	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social Benefits	1.0	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.6
Other expenses	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Net acquisition of nonfinancial assets (b)	0.1	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Net operating balance (Revenue minus Expense)	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Net lending(+)/borrowing(-) (Revenue minus expenditures)	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets	-2.0	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-2.6	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-2.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-2.2	0.0	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

Sources: Country authorities and IMF staff estimates.

Table 4b. United Arab Emirates: Abu Dhabi Government Finances, 2013–21

	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
	(Billions of UAE dirhams)								
Total revenue	473.8	432.8	264.3	234.8	270.2	292.9	317.7	339.0	363.2
Taxes	298.4	256.7	138.4	127.5	160.5	170.5	180.6	193.3	211.1
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/	175.4	176.0	125.8	107.3	109.6	122.4	137.1	145.6	152.0
Expenditures (a+b)	335.7	365.9	298.4	290.5	294.9	300.3	307.5	316.5	328.9
Expense (a)	311.8	340.3	278.5	270.0	271.7	275.2	280.3	286.9	296.7
Compensation of employees	8.2	10.3	22.7	23.5	24.1	24.9	25.7	26.6	27.5
Use of goods and services	14.2	18.8	22.0	22.7	23.3	24.0	24.8	25.7	26.6
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Interest	2.6	2.1	0.9	1.0	1.1	1.2	1.4	1.6	1.8
Subsidies	13.6	18.2	11.7	12.1	12.4	12.8	13.2	13.7	14.1
Grants	37.3	37.1	38.9	37.4	38.5	39.6	40.9	42.3	43.8
Social Benefits	22.5	28.0	28.3	29.2	30.0	30.9	31.9	33.0	34.2
Other expenses 2/	213.5	225.9	154.1	144.2	142.2	141.7	142.3	144.1	148.5
Net acquisition of nonfinancial assets (b)	23.9	25.6	19.9	20.5	23.2	25.1	27.2	29.6	32.2
Net operating balance (Revenue minus Expense)	162.0	92.5	-14.2	-35.2	-1.5	17.7	37.4	52.1	66.5
Net lending(+)/borrowing(-) (Revenue minus expenditures)	138.1	66.9	-34.1	-55.7	-24.7	-7.4	10.2	22.5	34.3
Net acquisition of financial assets 1/ 3/	137.0	56.0	-25.5	-29.3	-6.6	5.7	20.8	25.7	40.0
Domestic	-32.7	-102.9	-30.8	-5.0	-0.9	0.2	0.4	0.0	0.0
Foreign	169.7	158.9	5.3	-24.3	-5.7	5.5	20.4	25.7	40.0
Net incurrence of liabilities	-1.1	-10.9	8.6	26.4	18.1	13.1	10.6	3.2	5.7
Domestic	0.0	-3.0	10.6	10.0	15.0	10.0	7.5	5.0	2.5
Foreign	-1.1	-7.9	-2.0	16.4	3.1	3.1	3.1	-1.8	3.2
Memorandum Items:									
Hydrocarbon revenue	396.3	357.9	188.4	164.2	197.9	210.2	223.1	236.8	248.9
Profit transfers from the national oil company to SWF 4/	103.2	91.8	46.1	39.0	47.6	50.5	53.6	56.8	59.5
Non-hydrocarbon revenue	77.5	74.9	75.9	70.5	72.3	82.7	94.6	102.2	114.3
Investment income (from SWF) 4/	67.6	78.0	82.4	69.1	62.8	79.7	94.6	100.4	104.4
Abu Dhabi capital transfers	60.7	62.7	40.1	26.5	21.2	17.0	13.6	10.8	10.4
Adjusted non-hydrocarbon primary balance 5/	-323.2	-367.0	-304.1	-288.0	-284.3	-296.0	-306.1	-313.1	-317.1
In percent of Abu Dhabi non-hydrocarbon GDP	-76.8	-77.9	-59.3	-53.8	-51.0	-50.5	-49.3	-47.4	-45.3
	(Percent of Abu Dhabi GDP)								
Total revenue	50.9	45.1	32.1	29.1	30.7	31.6	32.4	32.5	33.0
Taxes	32.0	26.7	16.8	15.8	18.2	18.4	18.4	18.6	19.2
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/	18.8	18.3	15.3	13.3	12.5	13.2	14.0	14.0	13.8
Expenditures (a+b)	36.0	38.1	36.3	35.9	33.5	32.4	31.3	30.4	29.9
Expense (a)	33.5	35.4	33.9	33.4	30.9	29.7	28.6	27.6	27.0
Compensation of employees	0.9	1.1	2.8	2.9	2.7	2.7	2.6	2.6	2.5
Purchase of goods and services	1.5	2.0	2.7	2.8	2.6	2.6	2.5	2.5	2.4
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Interest	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Subsidies	1.5	1.9	1.4	1.5	1.4	1.4	1.3	1.3	1.3
Grants	4.0	3.9	4.7	4.6	4.4	4.3	4.2	4.1	4.0
Social Benefits	2.4	2.9	3.4	3.6	3.4	3.3	3.3	3.2	3.1
Other expenses 2/	22.9	23.5	18.7	17.8	16.2	15.3	14.5	13.8	13.5
Net acquisition of nonfinancial assets (b)	2.6	2.7	2.4	2.5	2.6	2.7	2.8	2.8	2.9
Net operating balance (Revenue minus Expense)	17.4	9.6	-1.7	-4.4	-0.2	1.9	3.8	5.0	6.0
Net lending(+)/borrowing(-) (Revenue minus expenditures)	14.8	7.0	-4.1	-6.9	-2.8	-0.8	1.0	2.2	3.1
Net acquisition of financial assets 1/ 3/	14.7	5.8	-3.1	-3.6	-0.7	0.6	2.1	2.5	3.6
Domestic	-3.5	-10.7	-3.7	-0.6	-0.1	0.0	0.0	0.0	0.0
Foreign	18.2	16.5	0.6	-3.0	-0.7	0.6	2.1	2.5	3.6
Net incurrence of liabilities	-0.1	-1.1	1.0	3.3	2.1	1.4	1.1	0.3	0.5
Domestic	0.0	-0.3	1.3	1.2	1.7	1.1	0.8	0.5	0.2
Foreign	-0.1	-0.8	-0.2	2.0	0.4	0.3	0.3	-0.2	0.3
Memorandum Items:									
Hydrocarbon revenue	42.5	37.3	22.9	20.3	22.5	22.7	22.7	22.7	22.6
Profit transfers from the national oil company to SWF 4/	11.1	9.6	5.6	4.8	5.4	5.4	5.5	5.4	5.4
Non-hydrocarbon revenue	8.3	7.8	9.2	8.7	8.2	8.9	9.6	9.8	10.4
Investment income (from SWF) 4/	7.3	8.1	10.0	8.5	7.1	8.6	9.6	9.6	9.5
Abu Dhabi capital transfers	6.5	6.5	4.9	3.3	2.4	1.8	1.4	1.0	0.9

Sources: 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 4c. United Arab Emirates: Dubai Government Finances, 2013–21

	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
	(Billions of UAE dirhams)								
Total revenue	55.7	59.1	61.1	65.4	67.9	75.3	79.0	83.3	87.7
Taxes	14.2	16.6	17.1	18.8	20.0	26.0	28.1	30.6	33.1
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	41.5	42.5	43.9	46.6	47.9	49.3	50.9	52.7	54.6
Expenditures (a+b)	48.1	51.5	54.7	58.6	61.5	65.0	69.2	74.0	78.3
Expense (a)	41.9	45.0	48.6	51.0	53.6	57.0	60.8	65.4	69.4
Compensation of employees	11.9	13.2	14.5	16.0	16.9	18.0	19.2	20.7	22.3
Use of goods and services	10.4	11.4	13.3	13.7	14.4	15.4	16.5	17.7	18.4
Consumption of fixed capital	2.9	3.3	3.7	3.9	4.1	4.4	4.7	5.1	5.4
Interest	3.3	2.0	2.5	2.9	3.3	3.7	4.2	4.8	5.4
Subsidies	9.8	11.3	9.2	8.3	8.5	8.7	9.0	9.3	9.7
Grants	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Social Benefits	2.1	2.1	3.8	4.5	4.7	5.0	5.4	5.8	6.2
Other expenses	0.2	0.6	0.5	0.5	0.6	0.6	0.6	0.7	0.8
Net acquisition of nonfinancial assets (b)	6.2	6.5	6.1	7.6	7.8	8.1	8.3	8.6	8.9
Net operating balance (Revenue minus Expense)	13.8	14.1	12.5	14.4	14.2	18.3	18.2	17.9	18.3
Net lending(+)/borrowing(-) (Revenue minus expenditures)	7.6	7.6	6.3	6.8	6.4	10.3	9.8	9.3	9.3
Net acquisition of financial assets	95.9	22.4	16.4	15.3	15.0	15.4	23.6	20.6	20.8
Domestic	95.9	22.4	16.4	15.3	15.0	15.4	23.6	20.6	20.8
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	88.3	14.8	10.1	8.5	8.6	5.1	13.8	11.3	11.4
Domestic	65.4	16.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Foreign	22.9	-2.2	5.1	3.5	3.6	0.1	8.8	6.3	6.4
	(Percent of Dubai GDP)								
Total revenue	15.1	15.4	15.3	15.4	15.0	15.4	14.9	14.5	14.0
Taxes	3.9	4.3	4.3	4.4	4.4	5.3	5.3	5.3	5.3
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	11.2	11.1	11.0	10.9	10.5	10.1	9.6	9.1	8.7
Expenditures (a+b)	13.0	13.4	13.7	13.8	13.5	13.3	13.1	12.8	12.5
Expense (a)	11.4	11.7	12.1	12.0	11.8	11.7	11.5	11.3	11.1
Compensation of employees	3.2	3.4	3.6	3.8	3.7	3.7	3.6	3.6	3.6
Purchase of goods and services	2.8	3.0	3.3	3.2	3.2	3.1	3.1	3.1	2.9
Consumption of fixed capital	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Interest	0.9	0.5	0.6	0.7	0.7	0.8	0.8	0.8	0.9
Subsidies	2.7	3.0	2.3	1.9	1.9	1.8	1.7	1.6	1.5
Grants	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Social Benefits	0.6	0.5	0.9	1.1	1.0	1.0	1.0	1.0	1.0
Other expenses	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net acquisition of nonfinancial assets (b)	1.7	1.7	1.5	1.8	1.7	1.6	1.6	1.5	1.4
Net operating balance (Revenue minus Expense)	3.7	3.7	3.1	3.4	3.1	3.8	3.4	3.1	2.9
Net lending(+)/borrowing(-) (Revenue minus expenditures)	2.1	2.0	1.6	1.6	1.4	2.1	1.9	1.6	1.5
Net acquisition of financial assets	26.0	5.8	4.1	3.6	3.3	3.2	4.5	3.6	3.3
Domestic	26.0	5.8	4.1	3.6	3.3	3.2	4.5	3.6	3.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	23.9	3.8	2.5	2.0	1.9	1.1	2.6	2.0	1.8
Domestic	17.7	4.4	1.2	1.2	1.1	1.0	0.9	0.9	0.8
Foreign	6.2	-0.6	1.3	0.8	0.8	0.0	1.7	1.1	1.0

Sources: Country authorities and IMF staff estimates.

Table 5. United Arab Emirates: Monetary Survey, 2013–21

	2013	2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
	(Billions of UAE dirhams)								
Net foreign assets	246	286	253	258	280	291	287	272	252
Foreign assets	663	786	845	854	878	892	890	879	861
Central Bank	251	288	345	349	371	382	378	364	344
Commercial banks	412	497	499	504	507	509	512	515	517
Foreign liabilities	417	500	592	595	598	600	603	606	609
Central bank	3	8	9	9	9	9	9	9	9
Commercial banks	413	492	583	586	589	592	595	598	600
Net domestic assets	811	855	951	1,014	1,073	1,149	1,256	1,391	1,536
Claims on government (net)	-45	-87	-51	-46	-40	-41	-52	-63	-76
Claims	135	123	129	145	165	180	193	203	211
Deposits	180	210	180	191	205	221	245	266	287
Claims on other sovereign	91	107	117	117	117	117	117	117	117
Claims on public sector enterprises	177	196	202	208	214	221	228	236	244
Claims on private sector	861	960	1,043	1,096	1,163	1,254	1,363	1,485	1,614
Claims on other financial institutions	92	42	49	52	55	59	64	69	75
Other items (net)	-365	-363	-409	-413	-437	-461	-464	-453	-439
Capital and reserves (-)	-299	-319	-343	-368	-384	-401	-419	-440	-464
Other assets (net)	-66	-44	-66	-45	-53	-60	-45	-13	25
Central Bank	-228	-250	-308	-312	-333	-344	-337	-319	-295
Commercial banks	162	206	242	267	281	283	292	306	320
Broad money (M2)	1,057	1,141	1,204	1,272	1,353	1,440	1,543	1,663	1,788
Money	380	436	457	483	513	546	585	631	678
Currency outside banks	50	59	58	62	66	70	75	81	87
Dirham demand deposits	329	377	399	421	448	477	511	550	592
Quasi-money	677	705	747	789	839	894	957	1,032	1,109
Foreign currency deposits	196	217	245	259	275	293	314	339	364
Dirham time and savings deposits	481	488	502	530	564	600	643	693	745
Memorandum items:									
Dh-denominated liquidity	861	924	959	1,013	1,077	1,147	1,229	1,324	1,424
Reserve money	282	309	365	410	410	411	441	475	511
Foreign currency deposits / total deposits (in percent)	19.5	20.1	21.4	21.4	21.4	21.4	21.4	21.4	21.4
NFA/ M2 (in percent)	23.3	25.0	21.0	20.3	20.7	20.2	18.6	16.4	14.1
CBU foreign assets/reserve money (in percent)	89.0	93.3	94.6	85.1	90.5	92.9	85.8	76.6	67.4
NFA of Central Bank	247.2	280.3	336.3	340.3	361.8	373.2	369.4	355.1	335.2
NFA of commercial banks	-1.2	5.4	-83.4	-81.9	-81.7	-82.1	-82.5	-82.9	-83.3
M2 velocity (nonhydrocarbon GDP)	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Claims on private sector (in percent of nonhydrocarbon GDP)	96.1	99.1	100.3	99.8	100.6	101.8	103.3	104.4	105.6
	(Changes in percent; unless otherwise indicated)								
Claims on private sector 1/	3.5	11.5	8.7	5.0	6.1	7.8	8.7	8.9	8.7
Broad money (M2) 1/	22.5	8.0	5.5	5.6	6.3	6.4	7.2	7.8	7.5
Money	26.9	14.9	4.8	5.6	6.3	6.4	7.2	7.8	7.5
Quasi Money	20.2	4.1	6.0	5.6	6.3	6.4	7.2	7.8	7.5
Velocity (non-oil GDP/M2)	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Base money	18.3	9.7	18.1	12.4	-0.1	0.4	7.2	7.8	7.5
Money multiplier (M2/base money)	3.8	3.7	3.3	3.1	3.3	3.5	3.5	3.5	3.5

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	2016	2017	2018	2019	2020	2021	2016-21	Beyond	Unallocated	Total
Government of Dubai 3/											
	Bonds	331	600	20,000	0	750	500	22,181	3,869		26,050
	Loans	223	599	40	40	40	294	1,236	120		1,356
	Total	554	1,199	20,040	40	790	794	23,417	3,989		27,406
Dubai, other sovereign 4/	Loans domestic									32,879	32,879
	Total									32,879	32,879
Investment Corporation of Dubai and subsidiaries 5/											
	Bonds	2,861	2,138	1,069	1,562	1,301	166	9,096	2,897	1,500	13,493
	Loans	886	150	4,330	47	272	0	5,686	3,103	425	9,214
	Total	3,747	2,288	5,399	1,609	1,573	166	14,782	6,000	1,925	22,707
Dubai World and subsidiaries											
	Bonds	0	1,500	0	650	500	0	2,650	3,108		5,758
	Loans	0	1,198	459	0	1,357	1,100	4,114	11,722		15,836
	Total	0	2,698	459	650	1,857	1,100	6,764	14,830		21,594
Nakheel											
	Bonds	1,195	0	0	0	0	0	1,195	0		1,195
	Loans	0	0	0	0	0	0	0	0		0
	Total	1,195	0	0	0	0	0	1,195	0		1,195
Dubai Holding and subsidiaries											
	Bonds	0	696	0	0	500	0	1,196	0		1,196
	Loans	6,555	2,150	0	1,400	0	0	10,105	5,089	120	15,314
	Total	6,555	2,846	0	1,400	500	0	11,301	5,089	120	16,510
Other Dubai Inc. 6/											
	Bonds	500	0	1,000	0	1,500	0	3,000	700		3,700
	Loans	0	0	0	728	0	126	854	1,537	450	2,840
	Total	500	0	1,000	728	1,500	126	3,854	2,237	450	6,540
Total Dubai Inc.		11,997	7,832	6,858	4,387	5,430	1,392	37,895	28,156	2,495	68,546
Total Dubai Debt		12,551	9,031	26,898	4,427	6,220	2,186	61,312	32,145	35,374	128,831
Dubai Inc. (less than 50% government ownership) 7/											
	Bonds	500	1,100	500	500	1,150	0	3,750	962	2,000	6,712
	Loans	450	0	23	231	3	1,250	1,956	0		1,956
	Total	950	1,100	523	731	1,153	1,250	5,706	962	2,000	8,668
Total, including GREs with minortity ownership		13,501	10,131	27,420	5,158	7,372	3,436	67,018	33,107	37,374	137,499
of which: in local currency		14	1,199	2,354	128	7	0	3,701	2,273		5,975
In percent of Dubai 2015 GDP		12.4	9.3	25.2	4.7	6.8	3.2	61.5	30.4	34.3	126.2
Memorandum items:											
Restructured debt of Dubai Inc.		7,195	4,148	0	0	0		11,343	13,000		24,343
Government guaranteed 8/		356	433	522	357	305	265	2,238	2,328		4,566
Total Government of Dubai including guarantees		910	1,632	20,562	397	1,095	1,059	25,655	6,317		31,972
Of total debt: bonds and loans by banks		2,397	2,388	832	1,419	0		7,036	4,667		11,704

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). It includes public banks' loans to GREs without netting assets and liabilities.

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	2016	2017	2018	2019	2020	2021	2016-21	Beyond	Total
Government of Abu Dhabi										
	Bonds	0	0	0	1,495	0	0	1,495	0	1,495
	Loans	335	320	320	312	303	63	1,653	188	1,842
	Guarantees	181	181	164	164	164	14	869	14	883
	Total	516	502	484	1,971	467	77	4,017	202	4,220
Abu Dhabi Water & Electricity Authority										
	Bonds	0	0	0	0	0	0	0	0	0
	Loans	535	523	358	176	103	46	1,741	0	1,741
	Total	535	523	358	176	103	46	1,741	0	1,741
TAQA	Bonds	997	1,246	1,246	499	0	748	4,735	3,318	8,052
	Loans	67	563	73	269	78	82	1,131	449	1,580
	Total	1,064	1,809	1,319	767	78	829	5,866	3,767	9,633
Etihad Airways										
	Bonds	0	0	0	0	0	0	0	0	0
	Loans	2,093	707	886	722	596	529	5,532	1,593	7,125
	Total	2,093	707	886	722	596	529	5,532	1,593	7,125
Etihad Rail										
	Bonds	0	0	0	0	0	0	0	0	0
	Loans	320	639	253	0	0	0	1,212	0	1,212
	Total	320	639	253	0	0	0	1,212	0	1,212
International Petroleum Investment Company										
	Bonds	1,507	1,495	964	0	1,495	1,507	6,969	7,609	14,578
	Loans	798	0	560	0	0	0	1,357	0	1,357
	Total	2,305	1,495	1,524	0	1,495	1,507	8,326	7,609	15,935
Mubadala Development Company 1/										
	Bonds	748	0	89	499	0	748	2,083	870	2,953
	Loans	24	26	66	290	366	37	809	160	969
	Total	772	26	155	789	366	784	2,892	1,030	3,922
Tourism and Development Investment Company										
	Bonds	0	0	0	0	0	0	0	997	997
	Loans	299	0	1,907	0	0	0	2,206	0	2,206
	Total	299	0	1,907	0	0	0	2,206	997	3,204
Other Abu Dhabi Inc. 2/										
	Bonds	0	0	0	0	0	0	0	0	0
	Loans	137	17	99	0	149	0	403	0	403
	Total	137	17	99	0	149	0	403	0	403
Total Abu Dhabi Inc.		7,524	5,215	6,502	2,454	2,786	3,696	28,178	14,997	43,175
Total Abu Dhabi debt		8,040	5,717	6,986	4,425	3,254	3,773	32,195	15,199	47,395
ADCB, NBAD, UNB, and Al Hilal										
	Bonds	1,195	1,911	2,102	2,645	1,884	0	9,736	2,146	11,882
	Loans	150	748	199	0	0	0	1,097	0	1,097
	Total	1,344	2,659	2,301	2,645	1,884	0	10,833	2,146	12,979
Total Abu Dhabi debt, including banks		9,385	8,376	9,287	7,070	5,138	3,773	43,028	17,345	60,374
Abu Dhabi Inc. (less than 50% government ownership) 3/										
	Bonds	1,529	1,150	0	825	21		3,525	1,219	4,744
	Loans	0	340	750	0	0		1,090	70	1,161
	Total	1,529	1,490	750	825	21		4,615	1,289	5,905
Total, including GREs with minortity ownership		10,914	9,866	10,037	7,894	5,158		43,870	18,635	66,278
In percent of Abu Dhabi 2015 GDP		5.2	4.7	4.8	3.7	2.4		21	8.8	29.6
Memorandum items:										
Of total debt: bonds and loans by banks		1,344	2,659	2,301	2,645	1,884		10,833	2,146	12,979

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

1/ Includes Dolphin, EMAL.

2/ Includes ADPC, GHC, ADNEC.

3/ Below 50 percent government-owned entities; includes Aldar, FGB, NCCC, Sorouh, ADIB.

Table 7. Financial Soundness Indicators

(In percentage)

	2013	2014	2015	2016q1	2016q1 *of which:* Conventional	Islamic
Regulatory Capital to Risk-Weighted Assets	19.3	18.1	18.3	18.0	18.7	15.4
Regulatory Tier 1 Capital to Risk-Weighted Assets	17.0	16.3	16.6	16.3	16.8	14.9
Non-performing Loans Net of Provisions to Capital	9.8	7.6	5.8	6.2	5.7	9.1
Non-performing Loans to Total Gross Loans 1/	6.7	5.6	5.2	5.3	5.0	6.8
Sectoral Distribution of Total Loans: Residents 1/	80.5	79.2	81.0	81.5	78.8	93.0
Sectoral Distribution of Total Loans: Deposit-takers	5.0	4.2	3.6	4.0	3.7	5.7
Sectoral Distribution of Total Loans: Other financial corporations	4.4	1.1	1.4	1.4	1.5	1.2
Sectoral Distribution of Total Loans: General government	9.2	9.0	9.4	9.4	11.0	2.6
Sectoral Distribution of Total Loans: Nonfinancial corporations	44.4	47.2	48.0	48.1	47.7	49.8
Sectoral Distribution of Total Loans: Other domestic sectors	17.6	17.6	18.5	18.5	15.0	33.7
Sectoral Distribution of Total Loans: Nonresidents	19.5	20.8	19.0	18.5	21.2	7.0
Return on Assets	1.6	1.7	1.5	1.5	1.6	1.5
Return on Equity	11.1	13.9	11.8	12.0	11.9	12.2
Interest Margin to Gross Income	70.2	68.2	69.6	67.6	64.7	79.0
Non-interest Expenses to Gross Income	37.8	36.4	38.0	38.3	37.5	41.3
Liquid Assets to Total Assets (Liquid Asset Ratio) 2/	19.4	22.9	21.5	20.7	21.2	18.7
Liquid Assets to Short Term Liabilities 2/	27.7	30.3	28.8	27.9	28.9	23.9
Net Open Position in Foreign Exchange to Capital	11.7	9.4	20.7	18.8	13.4	43.7

Source: Central Bank of the United Arab Emirates.

1/ Total gross loans include interbank loans. CBU FSIs available in other publications exclude them.

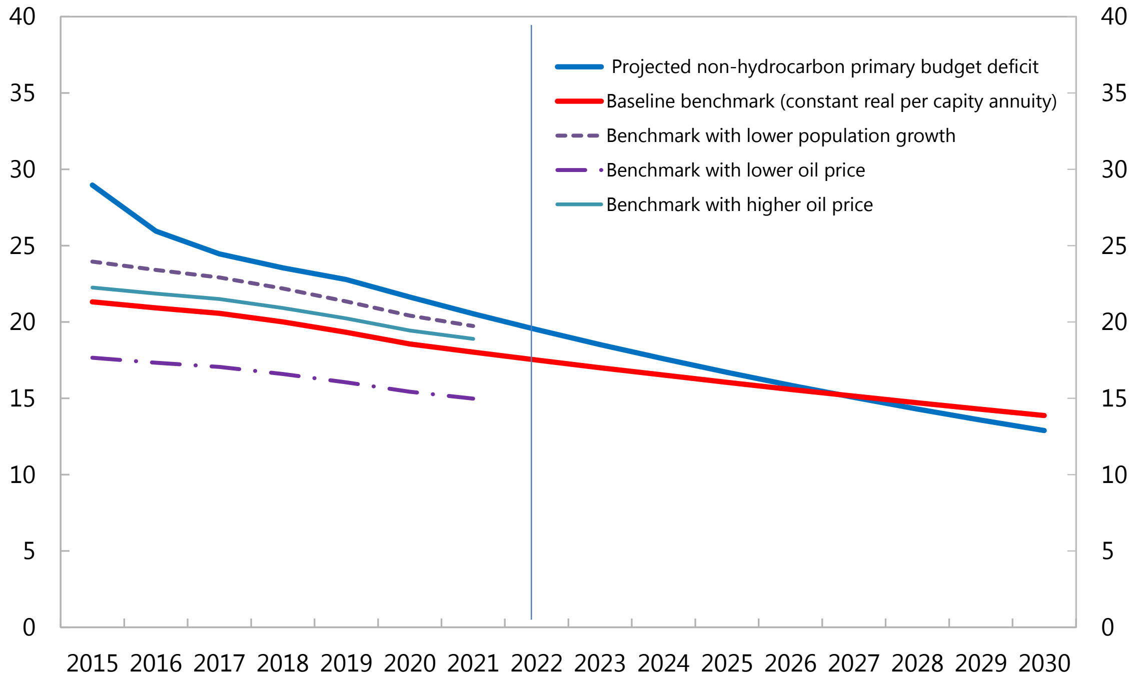
2/ Total liabilities include interbank/interbranch placements. CBU FSIs available in other publications exclude them.

Appendix I. Long-Term Fiscal Sustainability Analysis

Staff analysis based on the permanent income hypothesis suggests that under conservative baseline assumptions, the non-oil primary balance is lower than the level consistent with intergenerational equity, but favorable persistent shocks could imply a smaller gap.[4] The gap between the projected deficits and the deficits consistent with a constant real per capita annuity was about 7.6 percent of non-hydrocarbon GDP in 2015 (see chart). With the gradual fiscal consolidation assumed in the baseline, the gap is projected to shrink to about 2.5 percent of non-hydrocarbon GDP by 2021.

Fiscal Sustainability Analysis, 2015–30

(Percent of non-hydrocarbon GDP)



Source: IMF staff calculations.

[4] 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 2021 are based on staff's macro-framework, including the WEO assumptions about the oil price. After 2021, 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 2016-21 and to remain constant thereafter, and (iv) higher oil price by $10 in 2016-21 and to increase by 2 percent per annum in nominal terms thereafter.

Appendix II. Debt Sustainability Analysis

The UAE public debt is sustainable and its net financial assets are large when including sovereign wealth funds' assets. Gross debt-to-GDP is estimated at 16.6 percent in 2015, below the 2005-2013 average of 18.5 percent. This ratio is projected to pick up to 17.0 percent in 2016, and to decrease over the medium term as the primary balance turns to surplus and growth picks up. This ratio could double if a severe scenario with lower oil prices and higher defaults by GREs materializes. In Dubai, the debt ratio could triple if there is a severe shock to the real estate sector compounded with a global downturn. However, these risks can be mitigated by the large fiscal buffers.

The baseline scenario is underpinned by the following assumptions:

Growth. The oil sector growth is expected to remain broadly constant while non-oil GDP growth is projected to slow to 2.4 percent in 2016, before gradually increasing to 4 percent over the medium-term. This will be underpinned by the pickup in private investment in the run-up to the Expo 2020. Overall GDP growth is projected to range between 2.3 and 3.7 percent over the medium term.

Interest rates. Effective interest rates are projected to increase from 4.5 percent in 2016 to 6.2 percent in 2021, in line with the upward trend in global rates projected by the WEO.

Fiscal adjustment. The projected path of the cyclically adjusted primary balance (CAPB) reflects the fiscal measures adopted so far and the authorities' plans to contain current spending and diversify revenue over the medium term.

The projected decrease in debt reflects improving primary balances and decreasing interest rate-growth differential. The primary deficit is expected to widen in 2016, before improving and turn to a surplus by 2018. As a result, the gross financing needs are expected to increase to [7.8] percent of GDP and to decrease over the medium-term. Part of the financing needs in the first two years would be provided by the sovereign wealth funds. These trends, together with growth picking up above the interest rate, would help lower the debt to GDP ratios.

Debt is sensitive to a number of shocks:

Combined lower oil prices with GREs defaults. In a scenario which combines lower oil prices by $10 with 20 percent of GRE debt taken over by the government in 2017-21, total debt to GDP in the UAE will double to 31 percent by 2021.

Combined global downturn with a real estate shock. In a scenario which combines a sharp decline in GDP growth with a real estate shock and the government taking over 20 percent of total GREs debt in 2017-21, total debt in Dubai would increase by about 40 percentage points of its GDP.

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

Debt, Economic and Market Indicators

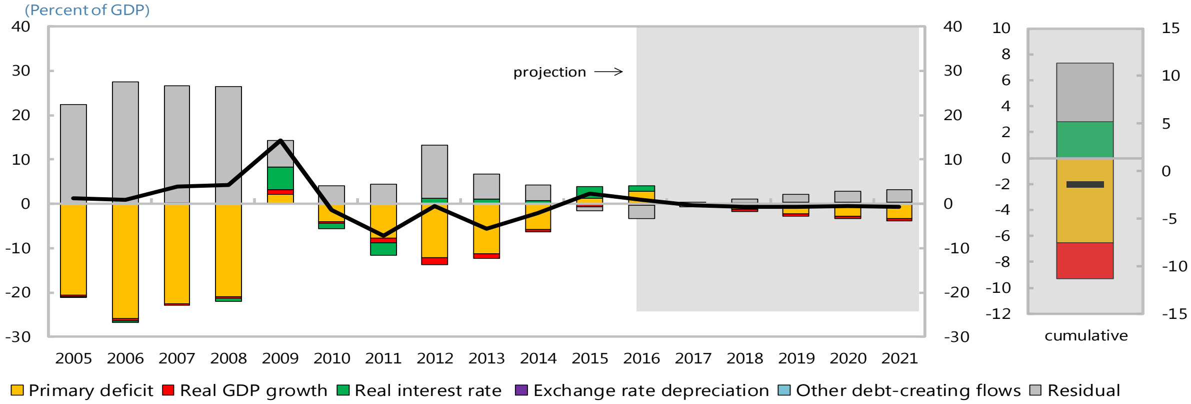
	Actual			Projections					
	2005-2013 [1/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross government debt	18.5	14.2	16.6	17.0	16.6	16.0	15.4	14.8	14.1
Government gross financing needs	-10.9	-2.1	4.0	7.8	3.7	6.5	1.4	0.5	0.0
Real GDP growth (in percent)	3.8	3.1	4.0	2.3	2.5	3.1	3.4	3.7	3.4
Inflation (GDP deflator, in percent)	6.9	0.3	-11.4	-0.8	5.4	3.1	3.3	3.5	3.4
Nominal GDP growth (in percent)	12.2	3.4	-7.9	1.4	8.0	6.3	6.8	7.3	7.0
Effective interest rate (in percent) 3/	7.8	5.2	5.0	4.5	5.6	4.9	6.1	6.2	6.2

As of May 01, 2016		
Sovereign Spreads		
EMBIG (bp) 2/		30
5Y CDS (bp)		114
Ratings	Foreign	Local
Moody's	Aa2	Aa2
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance 8/
Change in gross government sector debt	1.1	-2.1	2.3	0.4	-0.4	-0.6	-0.6	-0.6	-0.6	-2.4	
Identified debt-creating flows	-13.9	-5.5	3.3	3.3	-0.1	-1.4	-2.3	-2.9	-3.3	-6.8	
Primary deficit	-13.7	-5.8	1.3	2.8	0.2	-1.2	-2.2	-2.7	-3.2	-6.3	-0.1
Primary (noninterest) revenue and grants	38.0	37.3	28.5	26.4	27.0	27.5	27.5	27.2	27.0	162.6	
Primary (noninterest) expenditure	24.4	31.5	29.8	29.1	27.3	26.3	25.3	24.4	23.8	156.3	
Automatic debt dynamics 4/	-0.2	0.3	2.0	0.5	-0.4	-0.2	-0.1	-0.2	-0.1	-0.5	
Interest rate/growth differential 5/	-0.2	0.3	2.0	0.5	-0.4	-0.2	-0.1	-0.2	-0.1	-0.5	
Of which: real interest rate	0.3	0.8	2.6	0.9	0.0	0.3	0.4	0.4	0.4	2.3	
Of which: real GDP growth	-0.5	-0.5	-0.6	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-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/	15.0	3.4	-1.0	-2.8	-0.2	0.8	1.7	2.3	2.7	4.4	

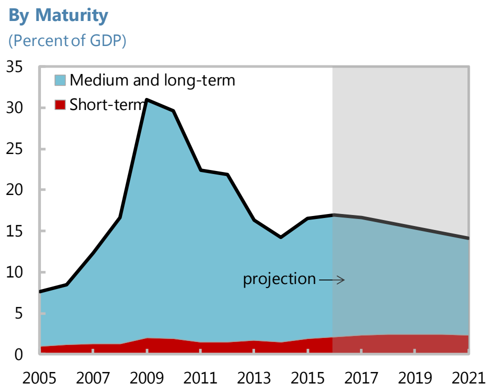
Debt-Creating Flows
(Percent of GDP)

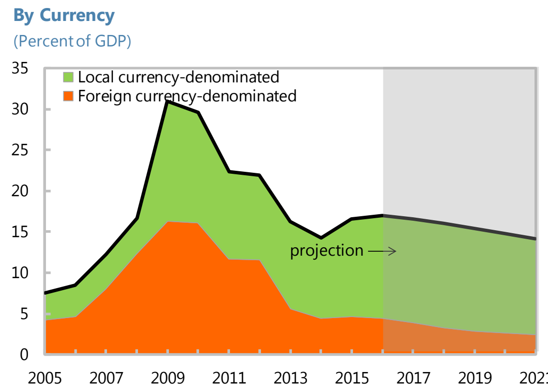


Source: IMF staff.
1/ Based on available data.
2/ Abu Dhabi's Long-term bond spread over U.S. bonds. 5Y CDS is also related to the Emirate of Abu Dhabi.
3/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
4/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ 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 $r - \pi (1+g)$ 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

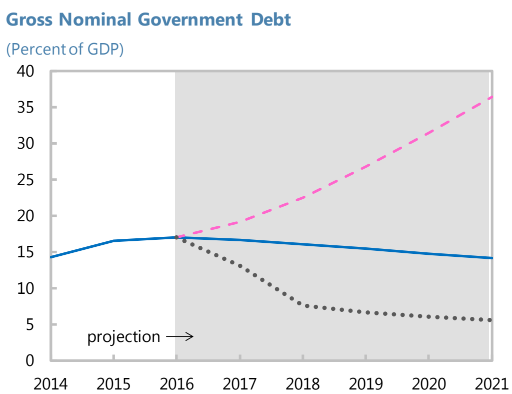
Composition of Government Debt

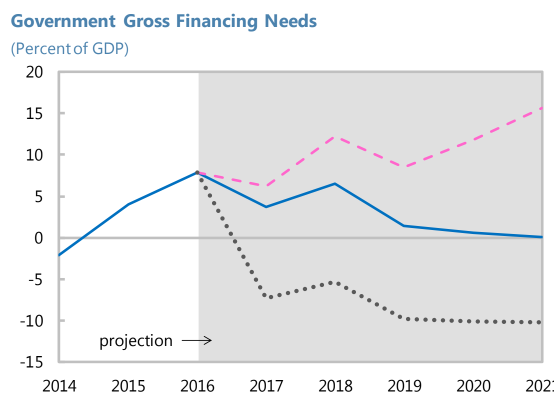




Alternative Scenarios

Baseline   Historical   Constant Primary Balance





Underlying Assumptions
(Percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	2.5	3.1	3.4	3.7	3.4
Inflation	-0.8	5.4	3.1	3.3	3.5	3.4
Primary Balance	-2.8	-0.2	1.2	2.2	2.7	3.2
Effective interest rate	4.5	5.6	4.9	6.1	6.2	6.2
Constant Primary Balance Scenario 1/						
Real GDP growth	2.3	2.5	3.1	3.4	3.7	3.4
Inflation	-0.8	5.4	3.1	3.3	3.5	3.4
Primary Balance	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Effective interest rate	4.5	5.6	4.8	5.9	5.6	5.3

Historical Scenario 1/	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	3.6	3.6	3.6	3.6	3.6
Inflation	-0.8	5.4	3.1	3.3	3.5	3.4
Primary Balance	-2.8	10.7	10.7	10.7	10.7	10.7
Effective interest rate	4.5	5.6	5.2	6.6	7.0	7.0

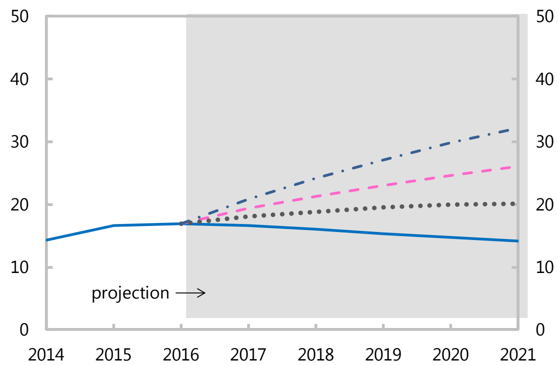
1/ The scenario assumes that no new debt is issued if the gross financing needs are negative.
Source: IMF staff.

United Arab Emirates Government DSA – Stress Test Scenarios

Baseline | Oil Price Shock | GRE Contingent Liability | Combined Shock

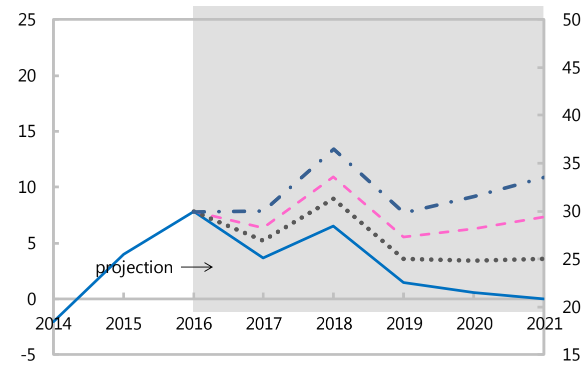
Gross Nominal Government Debt

(Percent of GDP)



Government Gross Financing Needs

(Percent of GDP)



Underlying Assumptions

(Percent)

Baseline Scenario

	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	2.5	3.1	3.4	3.7	3.4
Inflation	-0.8	5.4	3.1	3.3	3.5	3.4
Primary Balance	-2.8	-0.2	1.2	2.2	2.7	3.2
Effective interest rate	4.5	5.6	4.9	6.1	6.2	6.2

Oil Price Scenario 1/

	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	2.5	3.1	3.4	3.7	3.4
Inflation	-0.8	5.4	3.1	3.3	3.5	3.4
Primary Balance	-2.8	-2.9	-1.4	-0.3	0.4	0.9
Effective interest rate	4.5	5.6	4.8	6.0	5.8	5.6

GRE Contingent Liability Scenario 2/

	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	2.5	3.1	3.4	3.7	3.4
Inflation	-0.8	5.4	3.1	3.3	3.5	3.4
Primary Balance	-2.8	-1.8	-0.2	0.9	1.6	2.2
Effective interest rate	4.5	5.6	4.9	6.0	6.0	5.8

Combined Scenario 3/

	2016	2017	2018	2019	2020	2021
Real GDP growth	2.3	2.5	3.1	3.4	3.7	3.4
Inflation	-0.8	5.4	3.1	3.3	3.5	3.4
Primary Balance	-2.8	-4.5	-2.8	-1.5	-0.7	-0.1
Effective interest rate	4.5	5.6	4.8	5.9	5.7	5.5

1/ Oil price is lower by $10 in 2017-21.
2/ 20 percent of GRE debt is taken over by the government in 2017-21.
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 0.9 percent of GDP in 2021, with government debt and gross financing needs rising to 26.1 percent and 7.4 percent of GDP, respectively.

- GRE contingent liability. The scenario assumes that the government gradually takes over 20 percent of GRE debt (in 2017-21). The primary balance deteriorates to 2.2 percent of GDP in 2021, with government debt and gross financing needs increasing to 20.1 percent and 3.6 percent of GDP, respectively.

- Combined scenario. This scenario combines the oil price and GRE contingent liability scenarios. The primary balance would deteriorate to -0.1 percent of GDP in 2021, with debt and financing needs rising to 32.1 percent and 10.9 percent of GDP, respectively.

Dubai Government's Debt Sustainability

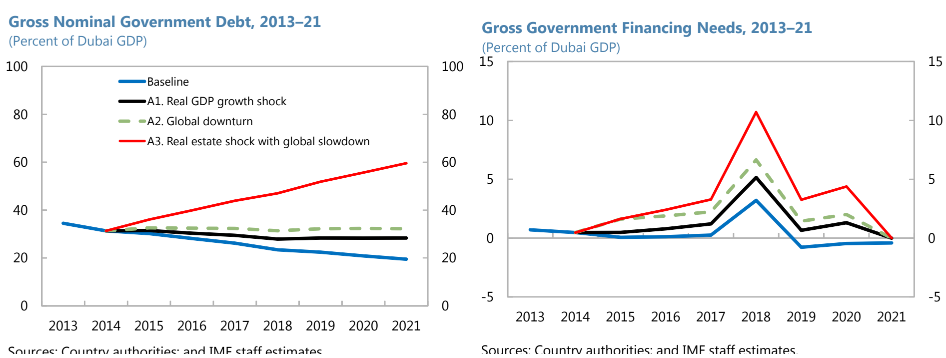
While Dubai's government debt sustainability has improved, it could still rise sharply under severe shocks:

- A sharp decline in GDP growth in 2016 (by ¾ standard deviation from the baseline) and a gradual recovery in 2017–21 would raise the debt-to-GDP ratio by about 8.8 percentage points in 2021 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 32.2 percent of GDP in 2021.

- 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 59.6 percent, three times as large as under the baseline.

Dubai – Government Debt Sustainability Analysis



Dubai Government Debt Sustainability, 2013–21
(In percent of Dubai GDP)

	Actual		Projections							Debt stabilizing
	2013	2014	2015	2016	2017	2018	2019	2020	2021	primary balance
Government debt 1/	34.5	31.3	30.2	28.2	26.2	23.4	22.4	20.9	19.5	-0.7
Alternative scenarios										
A1. Real GDP growth shock 2/			31.5	30.4	29.5	27.9	28.3	28.3	28.3	-0.6
A2. Global downturn scenario 3/			32.6	32.4	32.3	31.4	32.2	32.3	32.2	-0.2
A3. Real estate shock with global downturn 4/			36.0	39.9	43.9	47.0	51.8	55.7	59.6	3.4
Memorandum items										
Real GDP growth baseline		3.8	3.5	3.3	3.6	4.3	4.8	5.2	4.9	
Real GDP growth path in the global downturn scenario			0.8	1.9	2.2	3.0	3.5	3.9	3.9	

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 2016, 1/2 standard deviation in 2017 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 2016–21.
4/ Under the global downturn scenario, the government takes over 20 percent of total GREs debt in 2016-21.

Table 1. UAE: External Debt Sustainability Framework, 2011–20

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	39.6	38.7	44.3	48.8	60.2			**60.1**	**56.3**	**53.6**	**50.8**	**47.9**	**45.4**	**-1.1**
Change in external debt	-8.8	-1.0	5.6	4.6	11.4			-0.1	-3.8	-2.7	-2.8	-2.9	-2.6	
Identified external debt-creating flows (4+8+9)	-23.0	-22.9	-21.0	-12.3	0.1			-3.5	-5.2	-4.9	-4.5	-4.5	-4.4	
Current account deficit, excluding interest payments	-14.1	-21.2	-20.6	-11.7	-5.4			-3.8	-5.6	-5.5	-5.1	-5.0	-4.9	
Deficit in balance of goods and services	-19.0	-26.3	-25.8	-17.0	-10.9			-9.1	-10.6	-10.1	-9.4	-9.5	-9.6	
Exports	90.6	100.5	100.9	91.3	88.5			88.3	86.9	85.4	83.6	81.9	79.8	
Imports	71.6	74.3	75.2	74.3	77.6			79.2	76.3	75.4	74.2	72.4	70.1	
Net non-debt creating capital inflows (negative)	-1.6	-0.4	-0.5	-0.8	-0.8			-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	
Automatic debt dynamics 1/	-7.3	-1.2	0.0	0.2	6.3			1.0	1.2	1.4	1.5	1.3	1.4	
Contribution from nominal interest rate	1.4	1.4	1.5	1.6	2.1			2.4	2.6	3.0	3.2	3.1	2.9	
Contribution from real GDP growth	-1.9	-2.6	-1.8	-1.3	-2.1			-1.3	-1.4	-1.6	-1.7	-1.8	-1.5	
Contribution from price and exchange rate changes 2/	-6.7	0.0	0.2	-0.2	6.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	14.2	21.9	26.6	16.8	11.3			3.3	1.3	2.3	1.6	1.7	1.8	
External debt-to-exports ratio (in percent)	43.7	38.4	43.8	53.5	68.1			68.1	64.8	62.8	60.8	58.6	56.9	
Gross external financing need (in billions of US dollars) 4/	34.4	7.5	12.6	49.7	85.9			99.8	95.4	99.0	103.7	105.6	107.3	
in percent of GDP	9.9	2.0	3.3	12.4	23.2	10-Year	10-Year	26.6	23.5	23.0	22.5	21.4	20.3	
Scenario with key variables at their historical averages 5/								**60.1**	**49.1**	**37.7**	**25.9**	**14.3**	**2.9**	**-1.1**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	4.9	7.1	4.7	3.1	4.0	3.6	3.9	2.3	2.5	3.1	3.4	3.7	3.4	
GDP deflator in US dollars (change in percent)	16.1	0.0	-0.6	0.3	-11.4	3.8	11.1	-0.8	5.4	3.1	3.3	3.5	3.4	
Nominal external interest rate (in percent)	3.5	3.9	4.1	3.8	4.0	5.8	4.0	4.0	4.6	5.6	6.4	6.5	6.5	
Growth of exports (US dollar terms, in percent)	32.5	18.9	4.5	-6.5	-10.7	11.9	18.5	1.2	6.3	4.5	4.5	5.1	4.2	
Growth of imports (US dollar terms, in percent)	20.8	11.1	5.4	2.2	-3.8	13.1	17.9	3.6	4.1	5.0	5.1	4.7	3.7	
Current account balance, excluding interest payments	14.1	21.2	20.6	11.7	5.4	13.5	7.2	3.8	5.6	5.5	5.1	5.0	4.9	
Net non-debt creating capital inflows	1.6	0.4	0.5	0.8	0.8	1.0	0.8	0.7	0.8	0.8	0.8	0.9	0.9	

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.

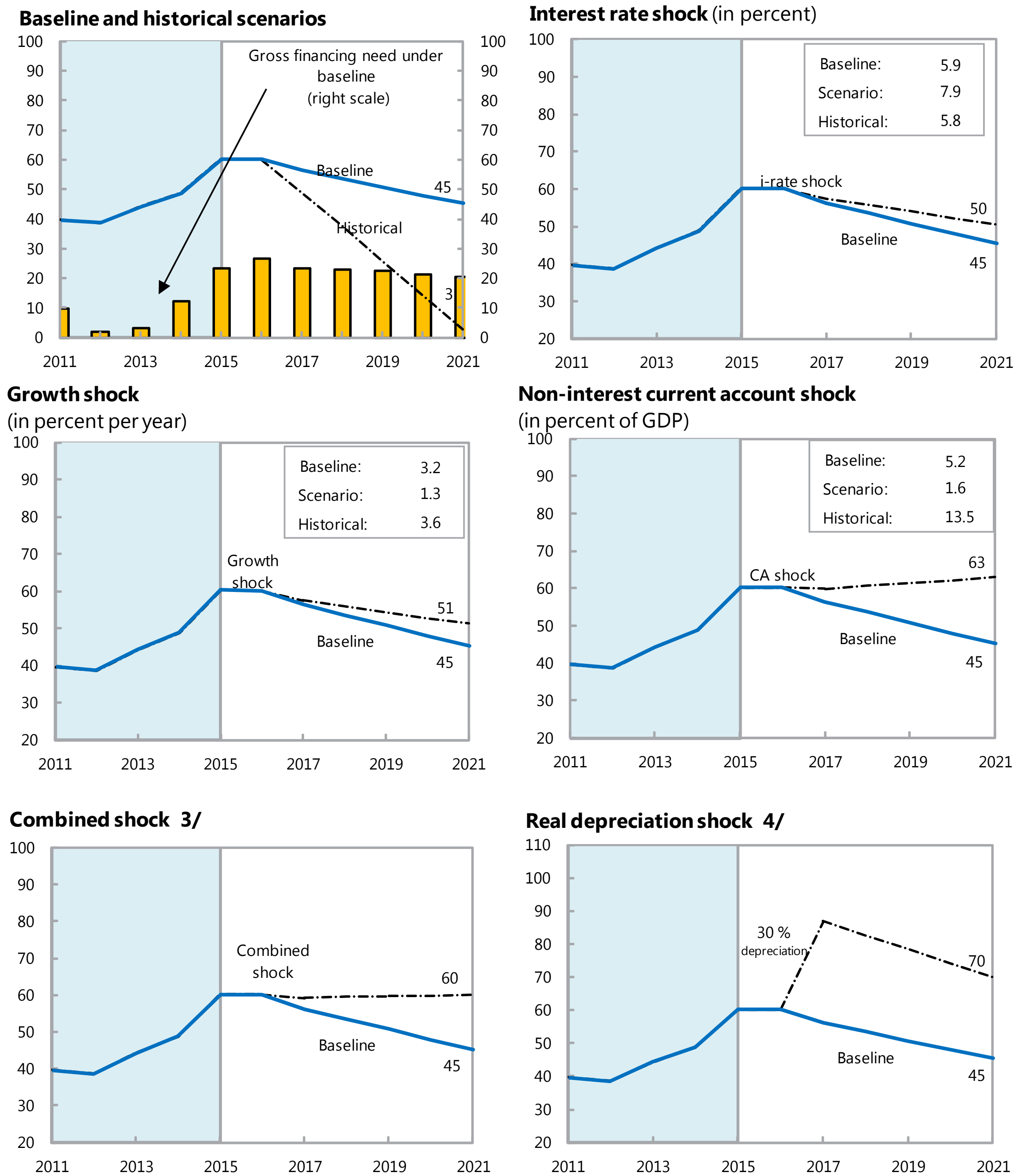
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
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 2010.

Appendix III. United Arab Emirates: External Sector Assessment

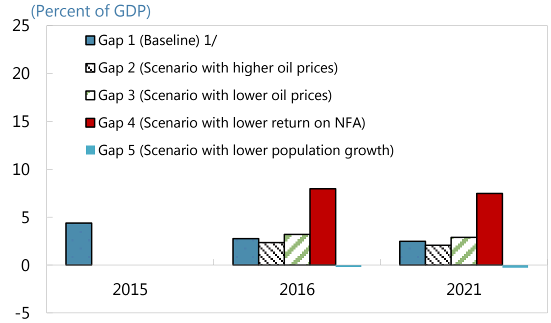
Overall Assessment: *The UAE's external position is moderately weaker than suggested by fundamentals. The peg to the US dollar continues to serve the UAE well. Projections over the medium term show a current account gap that could be closed with fiscal policy adjustment. The decline in the oil price reduced the current account surplus in 2015 and is expected to further reduce in 2016. The projected upward trend in oil prices will improve the current account over the medium term. While the EBA-lite approaches project a current account gap in 2016, the very strong external balance sheet and access to capital markets are mitigating factors. Given the structure of the UAE's economy and the high import content (labor as well intermediate inputs) of non-oil exports, exchange rate adjustment would have only a limited impact on external competitiveness and would instead affect the external position mainly through its impact on the fiscal balance. Thus, in view of the need to maintain the peg as a credible anchor for prices and financial stability, external adjustment should be driven by direct fiscal adjustment rather than fiscal adjustment via the exchange rate.*

I. FOREIGN ASSET AND LIABILITY POSITION AND TRAJECTORY

Background. The UAE's net international investment position (NIIP) is estimated at 181 percent of GDP at end-2015 and is mainly dominated by assets held in the Sovereign Wealth Funds (SWFs). Central bank international reserves are comfortable and estimated at 25 percent of GDP by end-2015 or 6.9 months of imports. External liabilities were 52 percent of GDP (portfolio 3% and debt 49%). Projections suggest that the NIIP over GDP ratio will remain broadly stable over the medium term.

Assessment. The UAE's external balance position is sustainable. The EBA-lite external sustainability (ES) approach shows that although results remain sensitive to assumptions, for 2015 there is a current account gap of 3.3 percent reflecting suboptimal savings to support future generations once the hydrocarbon resources are exhausted and to protect against vulnerabilities from oil price volatility. The macro balance approach shows that the current account balance that would be required to preserve income constant on a real per capita basis is 4.4 percent of GDP in 2015, implying a current account gap of 1.1 percent of GDP. Because the model allows consumption smoothing, the norm declines relative to 2014 in line with the oil price. Under the baseline, improvements in the current account balance are expected to marginally reduce some of the shortfall over the medium term, suggesting a need to save a bigger share of the oil wealth. However, these results are sensitive to assumptions and goals. With different scenarios, the CA gap varies between about 0.2 and 8 percent of GDP for 2016. Overall, this metric points to a moderate

External Sustainability Approach: Gap Between Current Account Norms and Projections, 2015–16 and 2021
(Percent of GDP)



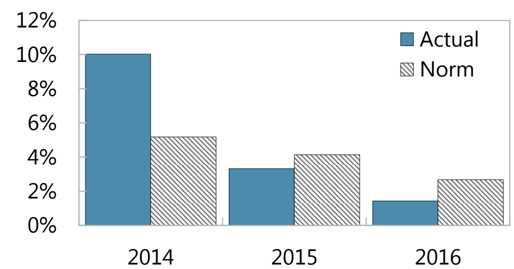
Sources: IMF staff estimates.
1/ Baseline and scenarios are based on the constant annuity real per capita rule.

current account gap and the need for higher fiscal savings. However, the substantial assets held under the SWFs represent both savings of the exhaustible resource revenues for future generations and protection against vulnerabilities from oil price volatility.

II. CURRENT ACCOUNT

Background. The UAE has managed to diversify partly away from the hydrocarbon activities with oil exports representing only 30 percent of exports of goods over 2013-15 (or 42 percent of exports excluding re-exports). However, the sharp decline in oil prices lowered hydrocarbon export revenues, and reduced the current account surplus from 10 percent of GDP in 2014 to 3.3 percent in 2015. Non-oil exports remained resilient. The projected moderate pick-up in oil price over the medium term is expected to help maintain a current account surplus.

CA Model: Estimates vs Norm
(In percent of GDP)



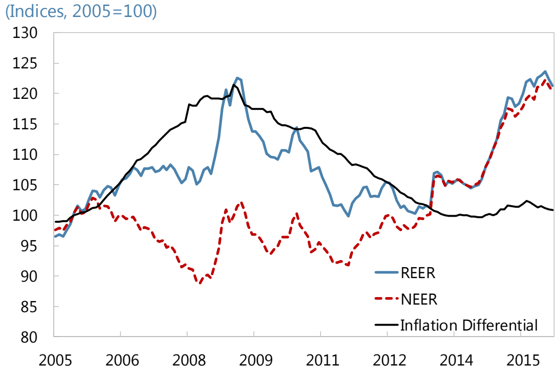
Source: IMF staff estimates.

Assessment. For 2015, the EBA-Lite CA model predicts a CAB of 4.1 percent of GDP based on actual policies, and estimates a cyclically adjusted CA gap of [0.8] percent of GDP. Similar to other large exporters of non-renewable resources affected by oil market volatility, the UAE's CA is subject to wide swings, and the assessment of its external position is subject to a high degree of uncertainty although the country's relatively diversified structure of exports provides a cushion to mitigate these risks. The current account gap in 2015 was mostly driven by fiscal policy. The 2015 cyclically-adjusted CA is broadly in line with the level implied by medium-term fundamentals and desirable policies (i.e., the gap would be removed if the desirable fiscal policy setting is achieved).

III. REAL EXCHANGE RATE

Background. The Dirham has been pegged to the U.S. dollar at a rate of 3.67 since November 1997. The real effective exchange rate (REER) has appreciated by 9.5 percent over 2015 and by about 20 percent compared to a decade ago. The recent REER appreciation is driven mostly by the U.S. dollar nominal appreciation vis-à-vis trading partners' exchange rate.

UAE: Effective Exchange Rate, Jan. 2005–Mar. 2016
(Indices, 2005=100)



Source: IMF database.

Assessment. Indirect estimates of the REER (relying on the CA and ES approaches) suggest an overvaluation of the Dirham within 1 to 7 percent. However, the REER index model suggests the exchange rate was overvalued by 26 percent in 2015, from 8 percent in 2014. Considering all estimates and the uncertainties around them, staff assesses the 2015 average REER as moderately overvalued, within a range of 2 to 10 percent, compared to the level implied by medium-term fundamentals and desirable policies. Similar to other oil exporting countries, exchange rate movements have limited impact on the current account. External current account adjustment will occur through further fiscal consolidation.

IV. CAPITAL AND FINANCIAL ACCOUNTS: FLOWS AND POLICY MEASURES

Background. Capital inflows are dominated by stable FDI, inflows to the banking sector, and external debt issuances, while outflows are largely trade credits and portfolio investment. Capital account is open and domestic capital markets are the most developed in the region with significant portfolio and investment inflows. Steps to further attract FDI inflows are ongoing. The overall external balance sheet remains very strong.

Assessment. There are no immediate risks or vulnerabilities associated with capital flows.

V. FX INTERVENTION AND RESERVES LEVEL

Background. The UAE's external assets are composed of the CBU's international reserves and of assets held under the SWFs. The SWFs' assets play a dual role for both precautionary motives and as savings for future generations.

Assessment. External assets are more than adequate for precautionary purposes (measured by the Fund's metrics). Nevertheless, a larger current account surplus and resulting NIIP accumulation would be needed to ensure that real per capita income can be maintained at a constant level even when the oil wealth is exhausted. To that end, a gradual fiscal adjustment over the medium term would help attain this objective.

Table 1. External Stability Results

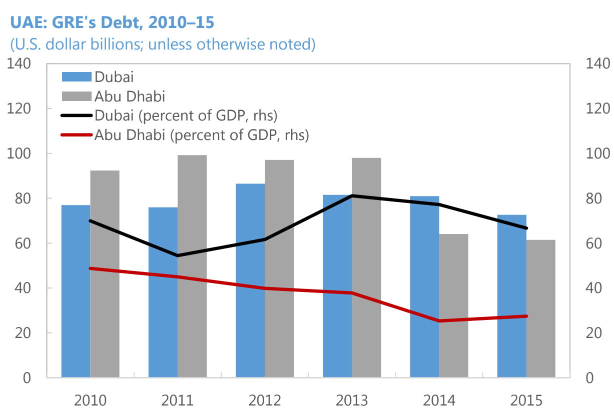
	CA gap	REER gap
ES Approach	-4%	7%
CA Approach	-1%	1%
REER Index Approach		26%

Appendix IV. Performance and Risks Posed by Government Related Entities (GREs)

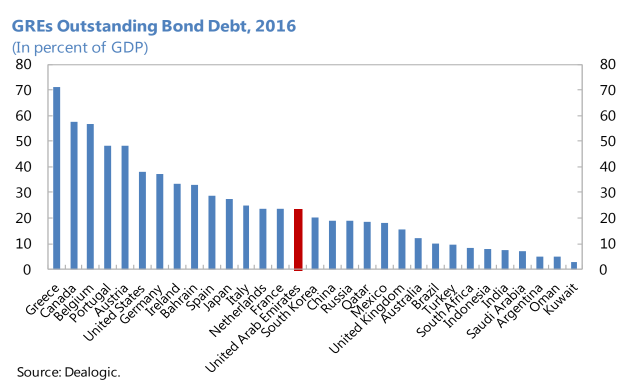
While UAE's balance sheet as a whole is strong, GREs continue to pose significant fiscal and financial stability risks. The size of UAE publicly-held government debt is small, while fiscal and external buffers are large. It is only when the debt of the GREs is accounted for that full scale of the risk faced by the sovereign balance sheet becomes visible, as well as its potential implications for the domestic banking sector and debt capital markets. Rollover risks have increased with large fiscal financing needs and the lift-off of the US interest rate. In addition, worsening domestic and external conditions might lead to increased leverage of GREs and higher default probability, ultimately putting further strains on the financial system and the fiscal accounts.

GREs have strengthened their overall finances, especially in Abu Dhabi. GREs have been a major source of growth and development for the UAE economy. Benefiting from government transfers and extensive borrowing, in 2004-2008, GREs funded a major push for Dubai's economy while major infrastructure projects were also developed in Abu Dhabi by GREs. In 2008-09, despite government support, the global financial crisis and the price correction in the local property market combined with the maturity mismatch between short-term liabilities and long-term cash flows forced several GREs to restructure their debt. Since the crisis episode, several GREs have actively managed their debt, making early repayments and lengthening their maturity profiles.

Leverage remains high while its composition has shifted from loans to bonds. GREs' debt, in relation to GDP has decreased in both Abu Dhabi and Dubai over the past six years. Total public debt (including GREs' debt) in Dubai remained relatively high at 126.2 percent of Dubai's GDP in 2015, with large maturities due by 2018. According to staff's estimates, Dubai GREs debt amounted to 66.6 percent of Dubai GDP in 2015. In 2015, in Abu Dhabi GRE debt reached 27.4 percent of Abu Dhabi GDP. Although loans are still the largest component of overall GRE debt, the share of bonds has been growing rapidly from 39 percent in 2010 to 46 percent in 2015. This increase has been particularly significant in Abu Dhabi, where bonds increased from 32 percent of total Abu Dhabi GREs' debt in 2010 to 67 percent in 2015.



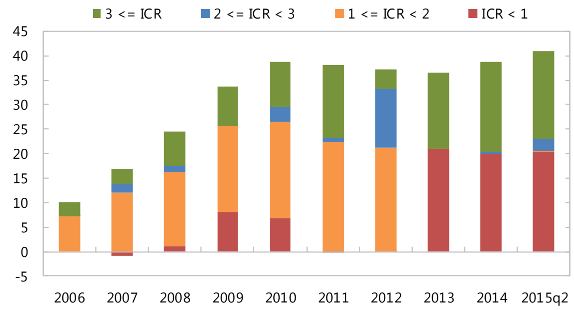
By international comparison, GREs' outstanding bond debt remains significant. For the UAE as a whole, outstanding bond debt is among the highest in the GCC region, but much



lower than in many developed European countries, which saw large increases following the global and European crises. Although bond finance tends to have longer maturities than bank finance, it exposes firms more to volatile financial conditions.

The debt servicing capacity is relatively low. Publicly available data suggest a very diverse and on average worse interest coverage ratio (ICR) for GREs (about 2 in 2014) than for the overall corporate sector in UAE (about 10.9 in 2014). Data in our sample show that "Debt-at-risk" (defined as debt with ICR of less than 1.5 times) has increased to about US$20.4 billion. High leverage and low return on assets (below 5 percent) seem to be the reasons underlying this reduced servicing capacity.

UAE: GREs Net Debt and Interest Coverage Ratio (ICR), 2006–2015q2
(Billions of USD corporate net debt by companies according to their ICR)



Sources: Orbis; and IMF staff calculations.

With about US$80.5 billion maturing in 2016-18, both Dubai and to a lesser extent Abu Dhabi face short-term rollover risks. Our estimates suggest that US$51.6 billion of Dubai's debt will come due in 2016-18 while over US$28.9 billion of Abu Dhabi's debt will also come due in 2016-18. These are large maturities in a context of tightening domestic liquidity, competition from local governments to finance deficits, and possible reversal of capital inflows. Short-term rollover risks may translate into higher cost of funding, which could put further strains on debt servicing capacity and ultimately on the financial system and the fiscal accounts. In addition, as most of the corporate debt is denominated in foreign currency (FX), rollover risks could be reflected in an increase in the forward exchange rate premium.

GREs pose contingent fiscal and financial risks. An adverse scenario could significantly worsen the government balance sheet, be transmitted to the financial sector and contribute to feedback loops**.** As public transfers have been made to support specific companies (financial and non-financial), the market perceives that governments implicitly guarantee GREs' debt. A scenario that combines a global downturn with a real estate shock under which the government would take over 20 percent of the GREs' debt would imply a substantial increase in the government debt-to-GDP ratio, to 32.1 percent, twice as large as under the baseline scenario (14.1 percent of GDP in 2016), which illustrates the significant fiscal risks. Regarding financial risks, loans to GREs have increased by 6 percent so far in 2016 and correspond to about 7.6 percent of the assets of the banking sector. Greater corporate leverage could render firms less able to withstand negative shocks to income or asset values and quickly spill over to the financial sector, generating a vicious cycle as banks curtail lending.

Panel regression analysis suggests that the evolution of GREs' leverage is expected to be closely associated not only with firm-specific factors, but also with macroeconomic and financial conditions. In this model, the change in the ratio of assets over equity of GREs depends on firm-specific measures of size (sales), profitability (return on assets), ICR, asset tangibility (to reflect collateral availability and asset quality) and ICR, and on contemporaneous macroeconomic factors including non-hydrocarbon primary government deficit, oil price, UAE interbank rate, US dollar index, an exchange market volatility index (VIX), and corporate spreads. Preliminary results suggest that individual firm factors, especially profitability, continue to play an important role in determining the change in leverage, but that the fiscal position of the government and financial and monetary conditions also have a significant impact.

Containing GRE borrowing is a pre-condition for fiscal sustainability and financial stability at the emirate level and requires a strong institutional framework. The functioning of the debt management office in Abu Dhabi is a good example that should be undertaken at the federal level. In order to contain further risk-taking, any borrowing at the emirate level should require the assent of the emirate finance department which would provide a strong signal of financial market stability and debt sustainability.

Improved corporate governance and transparency are also key for mitigating risks posed by GREs. In particular, it would be important to delineate clearly between the commercial and noncommercial operations carried out by GREs, clarify the government support strategy, and standardize the accounting, auditing, and financial reporting practices. Better information disclosure would help attract investors and ultimately will translate into lower funding costs. Improvements in corporate governance and risk management will also help investors to assess GRE risks.

Appendix V. The Effect of Lower Oil Prices and Higher Short-Term Interest Rates on the Default Risk of the Corporate and Banking Sectors and on the Banking System Liquidity Buffers

The default risk of the UAE corporate and banking sectors can be assessed by analyzing probabilities of default (PDs) under different macroeconomic scenarios. The National University of Singapore (NUS) forward intensity model is flexible enough to incorporate not only defaults but also exits of firms from mergers and acquisitions.

[1] In the model specification calibrated with UAE data, the PDs are a function of independent common and bank-specific risk factors such as the stock market index, short-term interest rate, distance-to-default (the expected difference between the asset value and the default barrier, adjusted and normalized by asset volatility), profitability, size, market-to-book value, and idiosyncratic volatility. Both common and firm-specific risk factors are then driven by macroeconomic risk factors such as oil price changes, real nonoil GDP growth, consumer price inflation, and changes in the three-month EIBOR interbank rate. The NUS model is calibrated with monthly data for the period January 1990-December 2015 for a total of 74 listed UAE firms, of which 17 firms are banks while the remaining 57 ones are either private firms (47) or GREs (10). Annual macroeconomic data are interpolated accordingly.

The projections for the PDs require defining scenarios for macroeconomic risk factors. The first scenario is a baseline consistent with the 2016-21 macroeconomic framework (see Tables 2-5). The oil shock scenario consists of a sudden but permanent $10 reduction in oil prices throughout 2021 and a cumulative 1.7 percent decline in nonoil GDP (relative to baseline) over the period 2016-21 associated with the gradual fiscal consolidation that would be needed to eliminate the additional fiscal deficit resulting from lower oil revenues.[2] The interest rate shock scenario consists of an increase of 100 bps in the EIBOR interbank rate both in 2016 and 2017.

The PDs for the 74 listed firms are low but rising and, under the adverse oil shock scenario in particular, the PDs for the corporate sector would increase to the highest levels since 2009. During the financial crisis, the average PD for the 17 UAE banks spiked to 100 bps while the average PD for other UAE firms peaked at 38 bps. After the financial crisis, UAE banks became safer than other UAE firms. While the average PD for UAE banks gradually declined to 7.2 bps in May 2013, it remained below the average PD for other UAE firms in the period September 2011-March 2015. Since then, the average PD for banks has been higher than the PD for other firms. Within the corporate sector, the GREs PDs have been substantially trending down on average, although these might understate risks posed by this group as the sample is small. Looking forward, under both the lower oil price and higher interest rate scenarios, PDs for UAE banks and other UAE firms are

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[1] The model was developed by staff of National University of Singapore (NUS) in collaboration with IMF staff. For further details, see Duan et al (2012), Duan and Fulop (2013) and Duan et al (2014).

[2] Fiscal multiplier of 0.5.

projected to significantly increase. Under the adverse oil shock scenario with economic slowdown, PDs are forecast to spike and reach their highest levels since the 2009 crisis.

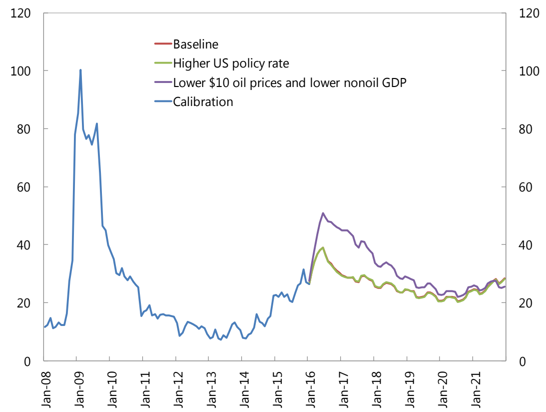
Even though the empirical literature on the determinants of bank liquidity is new, it can help shed light on the effect of lower oil prices and higher US interest rates on liquidity buffers. To assess the determinants of liquidity buffers in UAE domestic banks, a parsimonious specification should include not only bank-specific characteristics but also oil prices and interest rates as explanatory variables. Liquidity buffers are proxied by the inverse of loan-to-deposit ratio, the interbank assets-to-interbank deposits ratio, and the liquid assets-to-customer deposits and short-term funding ratio. Explanatory variables include total assets (in log), return on asset (ROA), Tier 1 capital ratio, cost-to-income ratio, the net loans-to-total assets ratio, net interest margin, the change in the Fed funds rate (in percentage points), and the percentage change in Brent oil prices, government deposits, and non-oil GDP to account for economic activity. These indicators are collected for a sample of 17 domestic banks for the period 2005:Q1-2015:Q4. However, not all indicators are available for the full period range. The estimation method is unbalanced panel data regression with fixed effects and clustered standard errors to account for autocorrelation within and across banks. Dummy variables are included to capture quarterly seasonality.

The results of the panel data estimation are consistent with previous literature where both bank-specific and macroeconomic factors play a role in determining liquidity buffers. The liquid assets-to-customer deposits and short-term debt ratio appears to be affected by oil price changes. As expected, higher oil prices in an oil exporting country can lead to higher customer deposits, helping banks fund their operations and increase their liquidity buffers. A possible explanation for the low statistical significance of macroeconomic factors in the dynamics of the loan-to-deposits ratio is that adverse and favorable macroeconomic factors affect simultaneously both deposits and loans as business confidence rises or deteriorates.

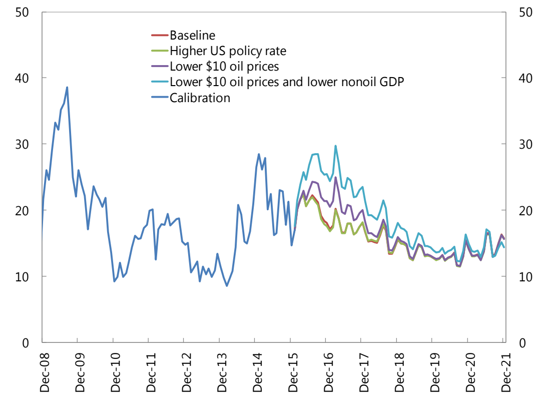
These results shed light on the importance of strengthening liquidity and capital requirements in line with Basel III standards, as well as banks' corporate governance. Increased PDs in the corporate sector call for adequate provisioning and strengthened capital requirements for banks, enforcing loan-concentration limits and tight control of related-party lending, and ensuring adequate provisioning of banks' portfolio. Regarding liquidity, supervisors should encourage banks to increase transparency on maturity mismatches in their market disclosures, diversify their funding sources, strengthen their treasury function, and maintain a cushion of high-quality liquid assets. For example, the limited information available on projected cash flows on a contractual basis published as part of annual reports and Basel II pillar III disclosures indicate that, overall, there is a short-term liquidity gap within the three-month maturity bucket in UAE banks and liquidity surpluses in the longer time horizon maturity buckets. It is also important to further develop safety nets and resolution frameworks, and to continue strengthening the AML/CFT framework.

Probabilities of Default for Banks and Corporates under Adverse Macroeconomic Scenarios

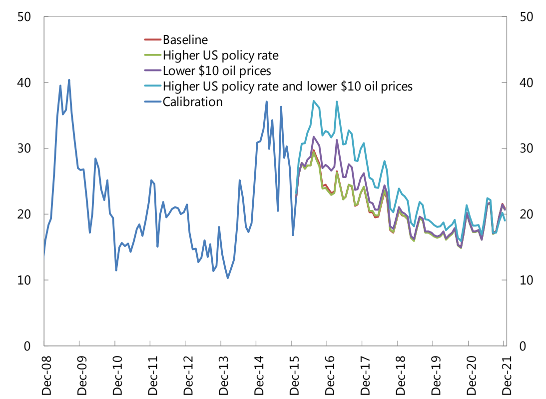
Banks' Probabilities of Default, Dec 2008–Dec 2021
(in basis points)



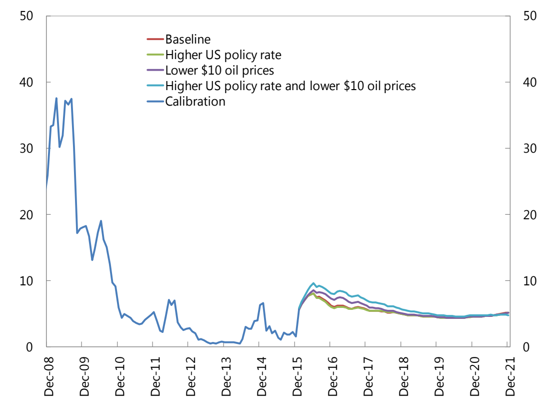
Corporates' Probabilities of Default, Dec 2008–Dec 2021
(in basis points)



Private Corporates' Probabilities of Default, Dec 2008–Dec 2021
(in basis points)



GREs' Probabilities of Default, Dec 2008–Dec 2021
(in basis points)

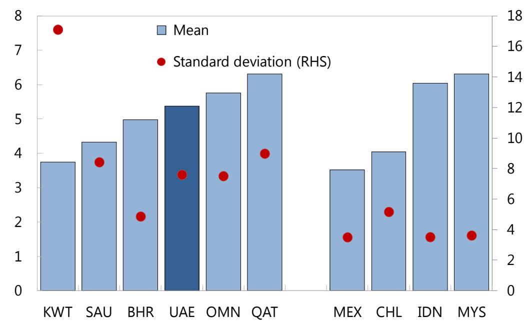


Appendix VI. Competitiveness and Economic Diversification in the Context of Fiscal Consolidation

The UAE has seen remarkable transformation already and its authorities have ambitious goals for further economic diversification to position the country so that it can celebrate its last barrel of exported oil. As the other countries' experience suggests, the road to economic diversification is long and challenging, but can be successfully travelled by promoting private sector-led, knowledge-driven, export-oriented growth.

Output growth volatility is still largely driven by oil. Within the GCC, the UAE is the third fastest growing economy and its output has been the least volatile after Bahrain. When compared to countries that managed to successfully diversify away from commodity exports such as Chile, Indonesia, Malaysia and Mexico (CIMM), the UAE's average growth was favorable, but output volatility was significantly higher.

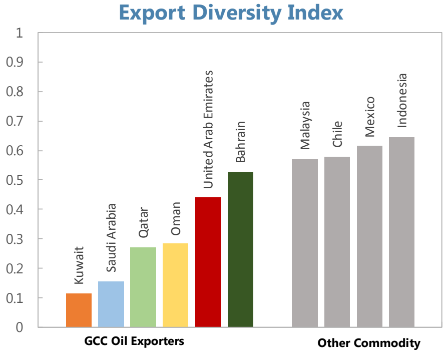
Real GDP Growth, 1970-2015
(In percent)



Sources: World Economic Outlook and staff estimates, IMF.

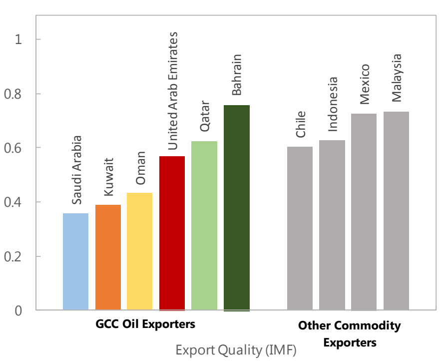
Status of economic diversification. Indicators of diversification show the UAE compare favorably with the GCC but lag behind when compared to CIMM on both diversity and level of sophistication of exported goods. In terms of export quality, the UAE compare favorably with the region, and Chile and Indonesia but has great strides to make when compared to Malaysia and Mexico. Overall export quality in the UAE has increased over time but the improvements have been uneven and concentrated in hydrocarbon and chemical products. The quality of other exported goods requiring higher labor skills such as the manufactured goods, machinery and transport equipment declined. In addition, the UAE produces very low levels of high technology goods when compared to CIMM.

Export Diversity Index



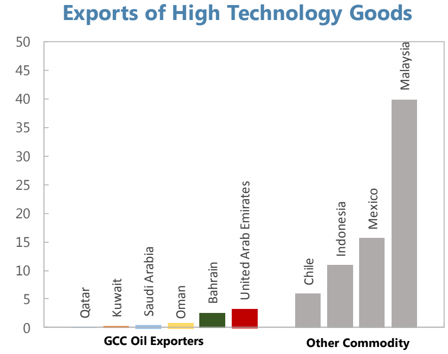
Export Diversity (IMF)
(1 = greater diversity)

Export Quality Index



Export Quality (IMF)
(1 = higher quality)

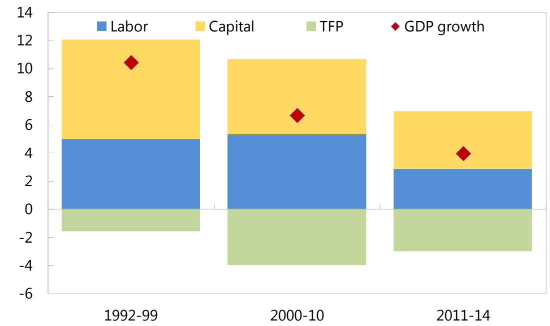
Exports of High Technology Goods



Percent share of total manufactured goods exports (WDI)

Where are the UAE's gaps? Low and declining productivity has been a drag on non-oil growth, which has been driven by capital accumulation, financed from oil receipts, and a rapid expansion of imported foreign labor. In terms of competitiveness, the UAE compares very favorably with advanced economies, especially in the areas of infrastructure and the quality of the macroeconomic environment. However, in other areas which are important for productivity such as innovation, financial market developments, higher education and training, and business sophistication, the UAE compares less favorably when compared to advanced economies, but favorably with its peers, including the CIMM. There are also a few bottlenecks to doing business that could limit diversification prospects such as the cost of starting a business or trading across borders.

Decomposition of Non Oil Real GDP
(period average, in percent)



Sources: Mitra et al 2015

Policies and reforms going forward. In line with the authorities' vision, reforms should focus on developing the private sector, transitioning toward a knowledge-driven economy and expanding export industries.

- ***Further developing the private sector***. Reforms aiming at strengthening competitiveness should be given a high priority to improve lagging areas of business environment while preserving macroeconomic and financial stability and maintaining a world-class infrastructure. Easing SMEs' and startups' access to finance and providing them with targeted public support to incubate businesses, access markets and raise productivity could help promote an entrepreneurship culture. Incentives to nationals should favor entrepreneurship instead of public employment or rent-seeking.

- ***Accelerating transition toward a knowledge-driven economy***. In this regard, it is important to facilitate technology transfer through further openness to foreign direct investment, trade and migration of highly skilled people. Fostering competition, including by lowering barriers to entry and reducing the public sector footprint, would also raise efficiency. Boosting innovation is key and could be supported through higher R&D spending, better linkages between firms and universities, improved framework for intellectual property rights, more integration to global supply chains and adequate financing. In the latter area, authorities' plans to set up an innovation fund are welcome and could be used to provide seed money for innovative ideas, and need to be accompanied by private sector funding through venture capital and crowd-funding. It is also essential to continue enhancing the quality and relevance of education and training, and promoting diffusion and use of new technologies of information and communication, including through electronic and mobile government services.

- ***Developing exporting industries***. Countries' experiences show that diversification policy often followed a mix of vertical diversification in existing export industries and horizontal diversification in suppliers' clusters for those industries into high-value-added and innovation sectors. Policies include better access to international markets, incentives to make exports sectors more attractive than non-tradables, tailored export promotion services such as marketing, standardization, financing and guarantees, and the creation of platforms for industrial clusters.

INTERNATIONAL MONETARY FUND

UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 5, 2016

Prepared By: Middle East and Central Asia

CONTENTS

FUND RELATIONS

(As of April 30, 2016)

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	749.41	99.59
Reserve tranche position	3.62	0.48

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	568.41	100.00
Holdings	542.53	95.45

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund

			Forthcoming		
	2016	**2017**	**2018**	**2019**	**2020**
Charges/interest	0.01	0.03	0.03	0.03	0.03
Total	**0.01**	**0.03**	**0.03**	**0.03**	**0.03**

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Arrangement

The UAE 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 UAE 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 UAE is on the annual consultation cycle. The previous consultation discussions were held during May 24—June 4, 2015. The Article IV consultation was concluded on July 29, 2105. The staff report was published on August 4, 2015, and is available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=43154.0 (Country Report No. 15/219).

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
STA	Monetary and Financial Statistics	November 2015
STA	Balance of Payments Statistics	November 2015
STA	National Account Statistics	April 2016

Resident Representative: None

RELATIONS WITH THE WORLD BANK GROUP

(As of May 2016)

Technical cooperation between the United Arab Emirates (UAE) and the Bank began in 1980, starting with a comprehensive national health assessment study. Cooperation focused on preparing select reports in areas such as water and environmental management, debt market development, and in labor market development. More recently, cooperation has significantly expanded under the auspices of the Ministry of Finance to help assess financial implications of various health insurance schemes and prepare Public Expenditure Reviews and action-plans in several sectors (health, education, higher education, public works). These have been inputs in the preparation of the new budget cycle, and in the upgrade of public financial management laws in line with best practice. In addition, discussions are underway to support fiscal coordination efforts among Emirates.

The Bank has also delivered technical assistance to individual Emirates including to: (i) the Abu Dhabi Judicial Department to improve performance and services; (ii) Dubai Knowledge Authority to enhance private education outcomes through governance mechanisms and (iii) Ajman and Ras Al Khaimah to enhance the business environment.

Dialogue is currently underway for possible cooperation with the Ministry of Community Development to consolidate and enhance the effectiveness of various social assistance schemes, with Abu Dhabi Department of Economic Development to update Vision 2030 with a focus on reducing reliance on oil exports, and with Emirate utilities to enhance their financial sustainability.

Cooperation with the authorities to support the World Government Summit would evolve to a long-term partnership focusing on innovation in government service delivery and on sharing lessons of country experience in achieving the Sustainable Development Goals.

STATISTICAL ISSUES

(As of June 2016)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. 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 their statistics, but more progress is needed. The adoption of the Federal Statistics Law in May 2009, and the establishment of an independent National Bureau of Statistics (NBS) were important steps in creating a statistical system at the federal level. The NBS has since been restructured with another federal agency to form the Federal Competitiveness and Statistics Authority (FCSA) in September 2015.
National Accounts: The methodology broadly conforms to the 1993 SNA. GDP is compiled annually with a lag of around 5 months. National accounts compilation is undertaken by the FCSA and regional (Emirati) statistical agencies of Abu Dhabi and Dubai. These regional statistical agencies are independent of the FCSA and function as the central agencies of the respective Emirates. They report directly to the Emirates governments. This creates problems of priorities and hinders the sharing of data by the regions to the FCSA. Although the FCSA is responsible for compiling the national estimates of GDP, in reality, it only compiles estimates for the Northern Emirates (the UAE, excluding emirates of Abu Dhabi and Dubai). These are then added to the regional estimates for Abu Dhabi and Dubai that are compiled by the Statistics Center of Abu Dhabi (SCAD) and the Dubai Statistics Center (DSC) respectively, to derive a national estimate. The process of summing the gross value added (GVA) compiled by the three agencies to arrive at national GDP is not advisable and should be discontinued. The compilation process is not consistent across the three agencies as they use different data sources and compilation techniques to estimate GVA for the same activities. The base year for the GDP estimates is 2007 and is therefore outdated.
Price statistics: Data are published with a delay of one month. Consumer price indexes 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. The coverage of these data now extends to the consolidated general government operations. It is anticipated that the remaining emirates should produce GFS data in 2016 and that the UAE will continue to build a time series for GFS data in relation to fiscal accounts. This will include improved balance sheet information.
Monetary statistics: The central bank has shifted the responsibility for compiling and disseminating monetary data to the Research and Statistics Department (RSD), in order to improve the timeliness of data to monthly frequency with less than a month lag. The CBUAE submitted monetary data for the central bank and deposit money banks using the old report forms that have some deviations from the recommended methodology. An STA mission visited the UAE in November 2015 to assist the authorities in compiling their monetary and financial statistics using the IMF's standardized report forms (SRFs). It is expected that the CBUAE will start disseminating SRF based monetary data in September 2016. A follow-

up STA mission will visit the UAE during FY2017 to assist the CBUAE in developing report forms for the other financial corporations (OFCs) that would be used for compiling monetary data for the OFCs.	
Financial sector surveillance: The central bank reports quarterly FSIs to the Fund, which are disseminated on the IMF's FSI website (fsi.imf.org). The reported FSIs at this stage only include the 12 core FSIs for deposit takers. The November 2015 TA mission from STA recommended the central bank to also compile and report encouraged FSIs for deposit takers and other sectors.	
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 central bank 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 follow-up mission will visit the UAE in January 2017 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 all updated in June 2013.	No Data ROSC is available.

UAE: Table of Common Indicators Required for Surveillance

(As of May 20, 2016)

	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]	03/16	05/16	M	M	M
Reserve/Base Money	03/16	05/16	M	M	M
Broad Money	03/16	05/16	M	M	M
Central Bank Balance Sheet	03/16	05/16	M	M	M
Consolidated Balance Sheet of the Banking System	03/16	05/16	M	M	M
Interest Rates[2]	Real time	Real time	D	D	D
Consumer Price Index	03/16	05/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/13	05/14	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[4]	12/13	05/14	A	A	NA
External Current Account Balance	2014	05/15	A	A	A

UAE: Table of Common Indicators Required for Surveillance (concluded)

(As of May 20, 2016)

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).

Statement by Hazem Beblawi Executive Director for the United Arab Emirates and Mira Merhi, Advisor
July 20, 2016

1. On behalf of the United Arab Emirates (UAE) authorities, we would like to thank staff for the candid and constructive policy discussions in Abu Dhabi and Dubai during the Article IV mission. The authorities appreciate staff's high quality report and broadly concur with staff's assessment of the current economic conditions as well as their policy recommendations.

Recent Economic Developments and Outlook

2. The UAE economy demonstrated remarkable resilience in the face of the oil price decline and continues to benefit from its safe-haven status in a turbulent regional environment. The non-oil economy grew by 3¾ percent in 2015 despite a contraction of public investment as a result of further fiscal consolidation in Abu Dhabi. The diversification of the economy has helped to mitigate the impact of the decline in oil prices, with non-oil activities contributing to more than two thirds of the country's gross domestic product (up from only 20 percent in the 1980s).

3. The growth outlook is expected to somewhat moderate in 2016 amid low oil prices and a slowdown in investments due to the continued commitment for fiscal consolidation. However, going forward, investments related to Expo 2020 such as the expansion of the national network of airports and rail network, air and maritime transport means, roads, tourism facilities, real estate as well as the knowledge based economy are expected to further support higher growth from 2017 onwards.

4. While the UAE's growth prospects are favorable, the authorities remain vigilant about external and domestic risks as elaborated in the staff report. However, these potential risks are mitigated by the country's substantial foreign assets and low level of debt which provide ample financial buffers and policy space. The authorities' plan is to further reduce the contribution of oil to GDP to less than 20 percent by 2021, as per the National Vision 2021. Implementation of this vision will help to sustain high growth and will protect the economy from the volatility of international oil prices. As the Prime Minister recently indicated, the authorities are preparing to launch a post- oil strategy and celebrate the country's last barrel of exported oil.

Fiscal Policy

5. The authorities have undertaken a significant fiscal adjustment in 2015, amounting to 8.5 percent of non-hydrocarbon GDP, in order to adjust to the sharp drop in oil revenues. They raised electricity and water tariffs and removed fuel subsidies by moving to a market-based pricing of gasoline and diesel. The Abu Dhabi government also scaled back capital transfers to Government-Related Entities (GREs) and reduced investment. Despite these measures, an overall fiscal deficit emerged in 2015, equivalent to 2.1 percent of GDP. The authorities' plan is to reach a balanced budget by 2018 using conservative assumptions on oil prices.

6. As future oil prices remain highly uncertain, the authorities are proceeding with further fiscal consolidation in 2016. A frontloaded adjustment is planned in the Emirate of Abu Dhabi, and a slight consolidation is planned in the Emirate of Dubai and at the federal level. The authorities aim to reduce the dependence of fiscal revenues on the hydrocarbon sector and to diversify non-oil revenues. Plans for a value-added tax in the context of a GCC-wide initiative at a rate of 5 percent are currently underway to be introduced in 2018, as well as an increase in excise taxes on tobacco and alcohol and a tax on soft drinks. On the spending side, the authorities plan to continue scaling back grants and capital transfers to GREs as well as to stabilize the wage bill as a share of non-oil GDP. With regards to the additional fiscal measures suggested by staff over the medium term, the authorities agree to gradually phase out electricity, water, and gas subsides. They have also initiated a study to analyze the impact of the introduction of a corporate income tax, which will be the basis for considering its introduction, and possible timeline and rate. The authorities agree with staff that financing of the fiscal deficit should include tapping the international capital markets or the sovereign wealth funds while limiting drawing down government deposits in domestic banks. Indeed, in April 2016, the Abu Dhabi government issued US$5 billion in Eurobonds to finance its deficit, its first issuance since 2009.

7. The authorities have made substantial progress in fiscal coordination and reporting and have developed a fiscal framework at the federal level. The authorities plan to continue strengthening fiscal coordination at the local level and to introduce a five- year federal fiscal framework. Recently, the Dubai's fiscal system has been electronically linked to that of the federal government, and the Government Financial Policy Coordination Council is keen to complete all electronic linking between federal and local systems. The Fiscal Coordination Council will also continue to improve statistics collection and publication, and ensure better policy coordination between different stakeholders. In addition, the Ministry of Finance (MoF) recently signed a cooperation agreement with the UAE Central Bank (CBUAE) to enhance cooperation in areas of monetary statistics and government financial, and banking information.

8. GREs have made considerable progress in restructuring and financing their debts by making early repayments and lengthening maturity profiles. Accordingly, GRE financial positions have strengthened due to its debt repayments ahead of schedule and are not cash constrained. Nevertheless, the authorities will continue to monitor their activities and aim to increase their transparency and disclosure policies. They have stepped up their oversight of GREs' investments and debt plans. It is worth noting in this regard the recent efforts by the Dubai's Supreme Fiscal Council and by the Abu Dhabi Debt Management Office to closely review GREs' debt issuance. In addition, bank exposure to GREs continues to be bound by concentration risk limits set by the central bank.

Monetary and Financial Stability

9. The exchange rate peg has served the UAE well and has been an important element of stability for decades. The authorities agreed with staff that planned fiscal consolidation would further bolster confidence in the stability of the exchange rate system.

10. The CBUAE has been effective in preserving financial stability. The financial sector continues to perform strongly, and the banking sector remains highly capitalized and profitable, with a capital adequacy ratio largely exceeding the minimum requirement of 12 percent. The CBUAE will continue its close monitoring of the liquidity situation in the banking system, which has been robust, and stands ready to provide liquidity support as necessary. The central bank has ensured that credit risks are well provisioned before any distribution of bank profits which contributed to strengthening capital buffers. It will continue to monitor real estate markets and mortgage lending and stand ready to calibrate macro-prudential measures if needed to strike the necessary balance between growth and financial stability.

11. The CBUAE regulatory and macro-prudential policies are aimed at preserving the soundness of the financial sector. The new central bank and banking law is under preparation. The revisions aim at enhancing central bank independence and governance, setting up a sound institutional framework for financial stability oversight, and addressing shortcomings of safety nets and resolution frameworks. The CBUAE is reviewing and updating existing regulations to strengthen the prudential framework in line with the requirements of Basel III. In this regard, they issued in 2015 a regulation on liquidity requirements and prepared a draft regulation to phase in Basel III capital standards from 2016 onwards, with the expectation to fully implement it by end-2018. In addition, new regulations have been developed covering risk management and are currently under discussion with the banking sector. Moreover, the authorities plan to review the regulatory framework for non-bank financial institutions and will engage with different stakeholders by end-2016. The recent approval of a centralized Shari'ah Board will provide the regulatory support to Islamic financial institutions by ensuring consistency and clarity on Shari'ah governance of Islamic banks.

12. Staff's analysis and the CBUAE's stress testing point to the resiliency of the banking sector to severe shocks. Indeed, the CBUAE conducted a top-down solvency stress test to assess the resilience of the banking system to a deterioration in credit quality. The results suggested that few medium and small banks would be adversely affected. Moreover, all banks would have liquidity coverage ratios above 100 percent in the liquidity risk stress testing. The CBUAE is also working on establishing a financial stability stress index to identify possible vulnerabilities and monitor risks in the banking system.

13. Due to limited interconnectedness between the UAE and the UK financial systems, the CBUAE does not expect to see a significant impact from the UK's decision to leave the European Union. Banks based in the UAE do not depend on foreign interbank markets to fund their balance sheets, and their consolidated net foreign interbank position is positive. Nevertheless, the CBUAE will continue to monitor unfolding developments from the Brexit vote, and their implications for the UAE economy.

14. The UAE authorities have continued to strengthen the AML/CFT framework and address de-risking issues. In addition to adopting the by-law, they have upgraded the regulatory requirements for banks and exchange houses, and improved the availability and use of beneficial ownership information of legal persons established in the UAE and enhanced the monitoring of cross-border financial flows. The Anti- Money Laundering and Suspicious Cases Unit at the central bank will continue to strengthen the effectiveness of the AML/CFT framework through capacity building and bolstering regional and international cooperation. These efforts will help maintain financial integrity and prepare for the next round of mutual evaluation of UAE's AML/CFT framework scheduled for 2022. The authorities have also taken concrete steps to conduct the AML/CFT national risk assessment and have asked for the Fund's technical assistance in this regard. On de-risking issues, the authorities are looking forward to the Fund's involvement to increase the awareness of concerned regulators and ease capacity constraints, especially given its relevance to the region.

National Vision 2021 and Other Economic Reforms

15. The UAE authorities have ambitious goals for further economic diversification and are working to launch their roadmap to celebrate their last barrel of exported oil. In 2014, they launched the national agenda to ensure the achievement of Vision 2021[1] by setting up measurable objectives and monitoring their progress. The vision aims to make the UAE among the best countries in the world in terms of global competitiveness and efficiency among other indicators, in time for the Golden Jubilee of the UAE's establishment. The vision focuses on the UAE becoming an important economic, touristic, and commercial center by transitioning to a knowledge-based economy that promotes innovation, research, and development. This will be based on further improvements in the country's business-friendly

[1] https://www.vision2021.ae/en

environment and its attractiveness to foreign investment. As of 2015, the country ranks in the first place in government efficiency and holds the 17th position for global competitiveness.

16. The authorities are also planning to launch an initiative to double the manufacturing sector's share of the economy from 11 percent to 20 percent by 2025, by improving innovation and promoting energy-efficient manufacturing. In addition, a number of clean and renewable energy projects will be launched to enhance the country's competitiveness and sustainability and preserve its environment for future generations. A Smart Government Initiative "24/7/365" was also launched successfully in 2015. Finally, a new regulation aims to increase women participation to 20 percent of members of the boards of listed companies, on a "comply or explain" basis.

17. The authorities will continue to support the small and medium enterprises (SMEs) which employ most of the labor force in the UAE. The central bank's decision to set up a work force for implementation of a strategy in support of SMEs, in coordination with the relevant stakeholders as established by Law 2 of 2014, is a clear indication of the authorities' commitment in this regard. In addition, the Ministerial Development Council has reviewed the executive regulations for SMEs in order to enhance the potential of the sector and support entrepreneurs in the country in line with the UAE Vision 2021. Following consultations, the central bank is planning to issue new regulations to mobilize credit to the SME sector. The new regulations will build on efforts to mitigate risks for entrepreneurs in the SME sector and increase the share of the sector in banks' lending, which will lead to further growth in the business sector and encourage research and innovation. Finally, labor policy will continue to focus on increasing the employment of nationals in the private sector.