



UNITED ARAB EMIRATES

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

February 2022

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 2021 Article IV consultation with 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 November 22, 2021 consideration of the staff report that concluded the Article IV consultation with United Arab Emirates.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 22, 2021, following discussions that ended on September 28, 2021, with the officials of United Arab Emirates on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 5, 2021.
- An **Informational Annex** prepared by the IMF staff.

The document listed below will be separately released.

Selected Issues

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Washington, D.C.



IMF Executive Board Concludes the 2021 Article IV Consultations with the United Arab Emirates

FOR IMMEDIATE RELEASE

Washington, DC – February 17, 2022: On November 22, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the 2021 Article IV consultation¹ with the United Arab Emirates.

The UAE moved quickly to address the health and economic effects of the pandemic. Widespread testing and containment measures helped limit the initial spread of the virus, while early vaccination efforts have resulted in vaccination rates among the highest globally. Fiscal and macro-financial support have provided relief to hard-hit sectors, SMEs, those in need, and the financial system over the past year and half, and some measures have been extended.

The economic recovery is gaining momentum, supported by the UAE's early and strong health response, continued supportive macroeconomic policies, and rebound in tourism and domestic activity related to the delayed Expo 2020. Overall GDP growth is projected at 2.2 percent in 2021, driven by non-oil growth of 3.2 percent. Real oil GDP growth is expected to be close to zero this year in line with the OPEC+ agreement. Banks remain adequately capitalized, though asset quality has decreased somewhat and further balance sheet vulnerabilities, including from the COVID-19 crisis, may still lie ahead. Over the medium-term, growth is expected to accelerate with the benefit of structural reform efforts, increased foreign investment, and rising oil production.

The overall fiscal deficit is projected to narrow to 0.7 percent of GDP in 2021 and shift into a small surplus by 2024. These improvements reflect revenue gains from current and expected higher oil prices and stronger economic growth alongside modest fiscal reform efforts. Higher oil prices will also benefit the current account balance, which is projected to increase to 10 percent of GDP in 2021, in line with pre-crisis levels, and remain positive at around 8.5 percent of GDP in the medium-term.

Strong reform efforts are underway with the ambitious UAE 2050 Strategy. Recent reforms to promote private sector growth and development are important to strengthen non-oil growth, boost productivity, and attract foreign investment. Going forward, careful prioritization and sequencing of reforms and enhancing collaboration across individual emirates are central to ensuring higher levels of future diversified, sustainable and inclusive economic growth.

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

Executive Board Assessment²

Executive Directors commended the authorities on a successful vaccination program and prompt policy response to combat the effects of the pandemic and welcomed the economic recovery underway. Noting that significant downside risks remain, they encouraged the authorities to pursue further efforts to maintain macro-financial stability, strengthen fiscal policy frameworks, foster economic diversification, and improve inter-generational equity and climate sustainability.

Directors agreed that accommodative policies should be maintained until the recovery is fully entrenched. Ensuring public health and supporting the most vulnerable remain top priorities. Once the recovery is established, Directors encouraged the authorities to implement a gradual, targeted, and growth-friendly fiscal consolidation, embedded in a credible medium-term framework. Such efforts would not only help ensure medium-term fiscal sustainability but also bolster inter-generational equity. In this context, they underscored the importance of careful coordination of emirate and federal fiscal anchors and enhanced dissemination of their data to improve transparency and governance. Strengthening collaboration, coordination and information sharing with government-related entities is also important.

Noting that the banking sector remains adequately capitalized, Directors called for continued monitoring of financial stability risks and digitalization challenges, including through strengthened macroprudential and regulatory frameworks. A Financial Sector Assessment Program update would be useful. Directors welcomed the progress made with the AML/CFT framework and encouraged the authorities to sustain the reform momentum.

Directors welcomed the new Dirham monetary policy framework which would help enhance monetary policy transmission. They also encouraged strong coordination between the government and the Central Bank of the United Arab Emirates to facilitate domestic capital market development.

Directors welcomed the UAE's ambitious structural reform agenda, including recent initiatives to support private sector development. They noted that prioritization and well-sequencing of reform efforts would be important to help lift productivity and potential growth and facilitate economic diversification. In particular, Directors emphasized the importance of continued labor market reforms, including to raise female participation, strengthening the economy's resilience to oil shocks, and accelerating climate change mitigation measures and adaptation plans. Enhanced collaboration across federal agencies and individual emirates as well as further improvements in coverage, timeliness, and availability of data and statistics, would improve transparency and governance and help the country achieve higher levels of inclusive, sustainable, and green growth.

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 the summing up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

United Arab Emirates: Selected Economic Indicators, 2019-22

Quota: SDR 2,311.2 million (September 2021)

Population: 9.28 million (2020)

Per capita GDP: \$38,661 (2020)

	2019	2020	Proj. 2021	Proj. 2022
Output and prices	(Annual percent change)			
Real GDP	3.4	-6.1	2.2	3.5
Real nonoil GDP	3.8	-6.2	3.2	3.4
CPI inflation (average)	-1.9	-2.1	0.6	2.2
Public finances	(Percent of GDP)			
Revenue	31.1	27.9	30.7	30.9
Expenditures	30.5	33.0	31.4	31.1
Net lending(+)/borrowing(-) (Revenue minus expenditures)	0.6	-5.1	-0.7	-0.2
Nonoil primary balance 1/	-23.7	-25.1	-26.7	-26.1
Gross general government debt	27.1	39.4	39.4	39.3
Monetary sector	(Annual percent change)			
Broad money	8.0	4.6	3.8	4.2
Credit to private sector	0.6	-2.6	1.2	4.6
External sector	(In percent of GDP, unless otherwise indicated)			
Current account balance	8.9	5.8	10.0	9.8
External debt	81.7	106.7	99.9	98.1
Gross official reserves (billions of U.S. dollars) 2/ In months of next year's imports of goods & services, net of re-exports	108.4	106.7	120.3	134.5
	8.9	7.6	7.9	8.3

Sources: Country authorities; and IMF staff estimates and projections.

1/ In percent of nonoil GDP. Excludes staff estimates of SWF investment income.

2/ Excludes staff estimates of foreign assets of sovereign wealth funds; includes the 2021 SDR allocation of SDR 2.2 billion.



UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

KEY ISSUES

Context. A swift policy response helped mitigate the economic impact of the twin COVID-19 and oil price shocks and contain the initial spread of the virus. A gradual recovery driven by the non-oil sector is underway, following a deep recession in 2020. Fiscal and external balances have improved with recent oil price increases. The UAE is among the world leaders in delivering vaccinations, with nearly 85 percent of the population fully vaccinated as of October 2021.

Outlook and risks: GDP growth is projected to gradually strengthen this year and next. Overall risks remain tilted to the downside, led by uncertainties related to the global pandemic. But strong UAE reform efforts present an upside risk to growth.

Main policy recommendations: Policies should focus on ensuring the recovery and protecting the most vulnerable, safeguarding financial stability, strengthening fiscal policy frameworks, and fostering economic diversification and higher productivity growth.

- **Near-term policies:** Ensure public health and support the most vulnerable. Maintain current near-term policies until the recovery is firm, but increasingly target support. Carefully calibrate future policy withdrawal and align with any new stimulus measures. Extend targeted policies if the recovery stalls.
- **Financial sector:** Ensure financial stability through enhanced risk assessment of asset quality and further strengthening of macroprudential and regulatory frameworks. Continue welcome progress to strengthen AML/CFT measures.
- **Fiscal policy:** Once the recovery is established, implement a gradual, but targeted, growth-friendly fiscal consolidation to ensure medium-term fiscal sustainability. Underpin efforts with a combination of fiscal restraint, targeted support, and reforms to boost non-oil revenue set in a medium-term fiscal framework. Enhance emirate-specific frameworks with credible fiscal anchors and coordinate these at the federal level to ensure a unified fiscal stance. Continue progress in fiscal transparency to strengthen governance.
- **Structural policy:** Carefully prioritize and sequence the ambitious structural reform agenda to help revive economic diversification, deliver higher productivity growth, and lift medium-term potential. Give greater prominence to improving the coverage, quality, timeliness, and availability of economic statistics.

Approved By
**Thanos Arvanitis and
 Andrea Schaechter**

Discussions took place virtually during September 14–28, 2021. The mission team comprised A. Al-Eyd (Head), H. Bukhari, Y. Korniyenko, C. Sandoz, Y. Yang (all MCD), and M. Miccoli (MCM). K. Kao (LEG) joined specific meetings. Messrs. Mohieldin and Alhosani attended part of the meetings, and Mmes. Choueiri and Fadhel participated in the discussions (all OED). The mission met with the Central Bank Governor; the Undersecretary of the Ministry of Finance; other senior officials; and representatives of the business community. Mmes. Abu Sharar and Bondar provided invaluable support to the mission.

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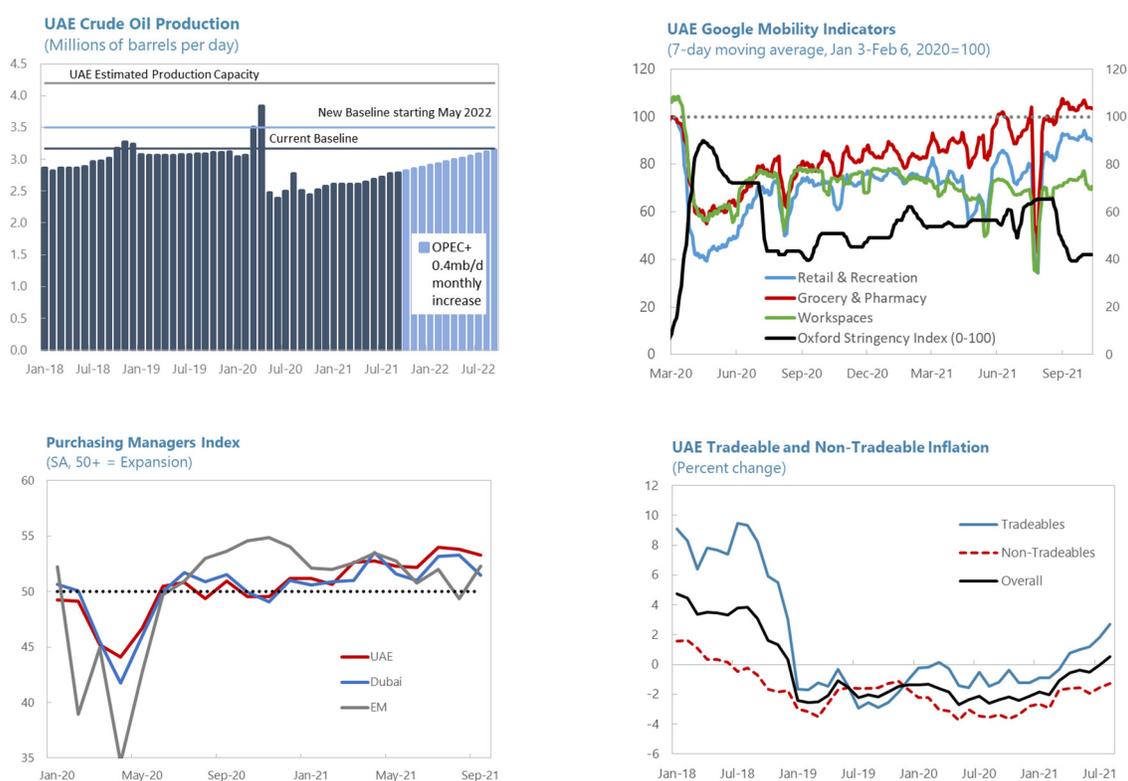
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RECENT MACROECONOMIC DEVELOPMENTS

1. The UAE took swift and substantial policy action in response to the COVID-19 crisis.

Widespread testing and containment measures helped limit the initial spread of the virus. Early and significant vaccination efforts have resulted in nearly 85 percent of the population being fully inoculated (as of October 2021). Daily infections have declined rapidly, and all containment measures and travel restrictions have been relaxed. Announced fiscal measures (2.5 percent of GDP) and large macro-financial support (19.5 percent of GDP) under the Targeted Economic Support Scheme (TESS) provided relief to hard-hit sectors, SMEs, and the financial system over the past year and a half. Some measures have been extended to 2022-23 (Annex I).

Text Figure 1. UAE: Economic Developments



Sources: OPEC, Haver Analytics, country authorities, and IMF calculations.

2. The economy experienced a deep but temporary recession. Growth is estimated to have contracted by 6.1 percent in 2020, reflecting declines of 6.0 percent in oil GDP¹ and 6.2 percent in non-oil GDP (Table 1). High-contact services sectors (travel, hospitality, retail trade) were the hardest

¹ Production cutbacks by OPEC+ members, initially of 9.7 million barrels per day (mb/d), or 12 percent of global crude supply, helped stabilize oil supply-demand balances and inventory levels in 2020.

hit. The UAE's population fell by 2.3 percent last year, with anecdotal evidence pointing to a crisis-induced temporary departure of expatriate workers, including a large share of females, underscoring the pandemic's impact on labor markets. Weak demand kept overall inflation in negative territory until recently (Text Figure 1).

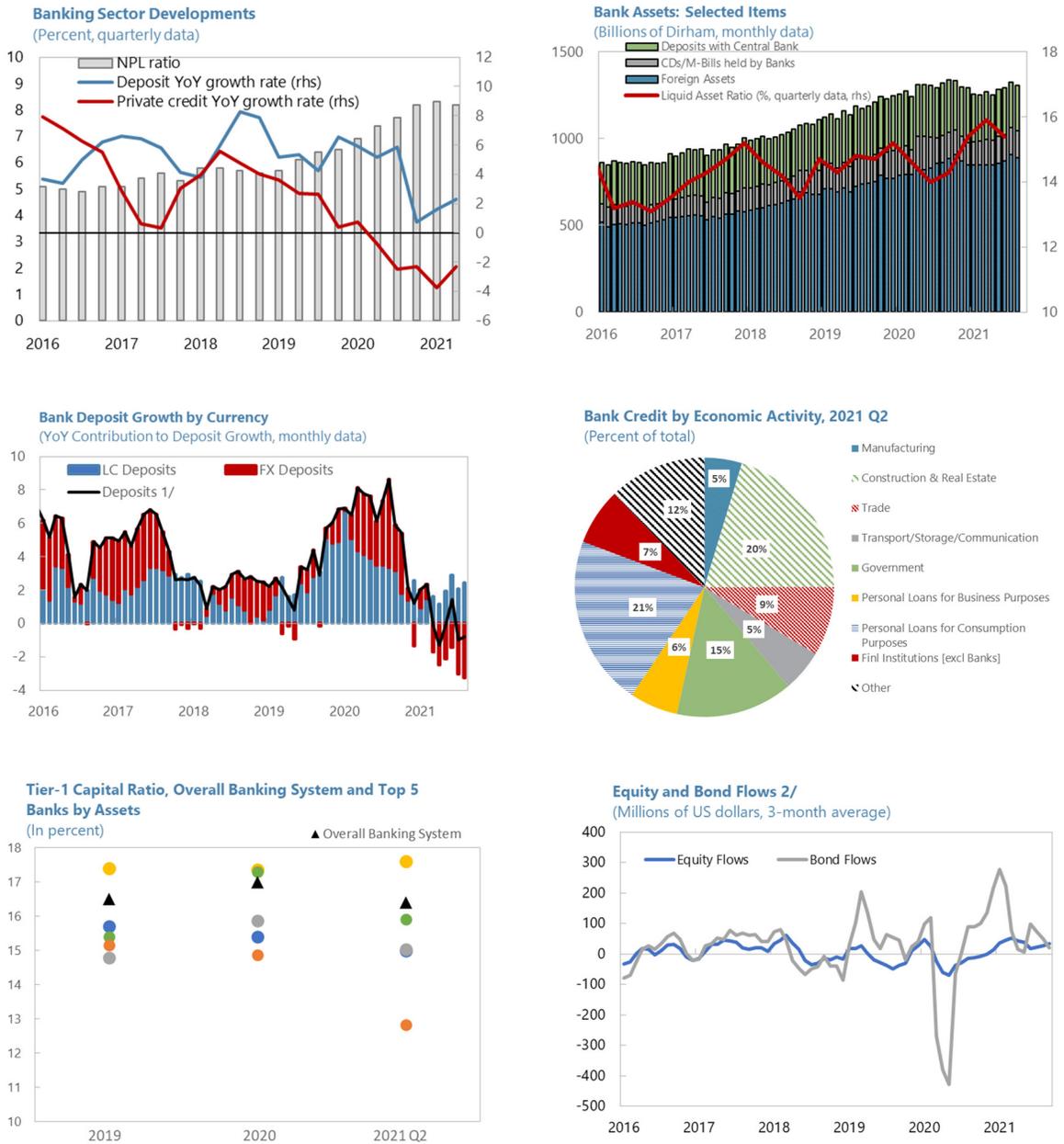
3. The fiscal balance deteriorated notably, and government debt increased. The general government (GG) fiscal balance turned from a surplus of 0.6 percent of GDP in 2019 to a deficit of 5.1 percent of GDP in 2020. Revenue declined sharply, primarily from lower oil prices, but also reflecting stimulus-based tax and fee relief measures. Expenditures also decreased (in nominal terms), though much less than the decline in revenue. Fiscal transfers from government related entities (GREs) and the sovereign wealth funds (SWF) helped finance the deficit, though GG debt is estimated to have increased by 12.3 percentage points to 39.4 percent of GDP in 2020, including due to increased financing needs. (Annex III).

4. The external surplus narrowed with weak oil market dynamics. The current account surplus declined by about 3 percentage points to 5.8 percent of GDP in 2020 in response to lower oil prices and reduced oil production under the OPEC+ agreement. Re-exports fell along with imports, reflecting weak global demand. External buffers remain adequate for external stability, especially given the large stock of SWF foreign assets. As of end-September 2021, the real effective exchange rate (REER) weakened by 7.5 percent on average, in line with the US dollar. The external position was broadly consistent with the level implied by medium-term fundamentals and desirable policies (Annex IV).

5. The UAE benefitted from supportive global financial conditions. In 2020, Abu Dhabi, Dubai, and Sharjah raised a combined \$19.25 billion. In 2021, Abu Dhabi and Sharjah issued \$5 billion and \$2 billion, respectively. Dubai's long-term spreads are around 220 bps, some 110 bps higher than Abu Dhabi, though still well below the emerging markets average of 330 bps. The federal government issued external debt for the first time, successfully borrowing \$4 billion in October 2021. The UAE has significantly lengthened its debt maturity profile since 2015 (from around 5 to 10 years) through active debt management.

6. The financial sector weathered the crisis, but vulnerabilities have increased. Banks remain relatively well capitalized, with a Tier 1 capital ratio of 16.4 percent in 2021Q2, in line with pre-crisis levels. The NPL ratio stood at about 8.2 percent between 2020Q4 and 2021Q2, higher than end-2019 values (6.5 percent) (Text Figure 2). Deposit growth slowed, as foreign currency withdrawals increased in late 2020, before recovering somewhat. Banks' net foreign assets increased as holdings of foreign securities (mostly High-Quality Liquid Assets (HQLA)) increased. Credit provision to the private retail segment has recovered from its decline in 2020, but corporate lending continues to contract. Banks' net income has weakened, with ROA declining to 1 percent in 2020 Q2 from 1.6 percent at end-2019, though larger banks have fared better.

Text Figure 2. UAE: Financial Developments



Sources: Country authorities, Haver Analytics, and IMF staff calculations.

¹ Excluding government deposits and commercial prepayments.

² Fund flows and allocations data as collected by Emerging Portfolio Fund Research (EPFR).

OUTLOOK AND RISKS

7. Vaccine-driven normalization and supportive policies are expected to boost the

near-term outlook.² The pace of recovery is likely to be gradual given the depth of the recession and uncertainties related to COVID-19. Non-oil growth is projected to reach 3.2 percent in 2021, largely reflecting increased spending and tourism related to the delayed Expo 2020 and a strong base effect. Some high-frequency indicators, including UAE Purchasing Managers' Index (PMI), point to modest signs of recovery. Oil GDP growth is expected to be close to zero in 2021, reflecting production cuts under the OPEC+ agreement. Real GDP growth is projected at 2.2 percent in 2021, before rising to 3.5 percent in 2022.

8. Achieving higher medium-term growth hinges on sustained reform efforts. Non-oil growth is expected to accelerate to 3.4 percent in 2022, boosted by Expo 2020 and reform momentum, and to improve further over the medium-term with increased foreign investment and the benefit of announced structural reforms.³ The non-oil output gap is expected to close by 2026. Oil GDP is expected to grow by 3.5 percent on average in the medium-term as production increases to meet the authorities' plans of producing 5.0 mb/d by 2030.⁴ Inflation is projected to remain muted in 2021 amid the gradual recovery and dampened passthrough from energy prices but accelerate to an average around 2 percent over the medium-term on improved domestic and global activity.

9. The rebound in oil prices is expected to improve fiscal and external balances. The overall fiscal deficit is projected to narrow to 0.7 percent of GDP in 2021 and shift into a modest surplus by 2024. The adjusted non-oil primary deficit is expected to improve, albeit gradually, to 22.1 percent of non-oil GDP in 2026 from 26.7 percent of non-oil GDP in 2021, with higher nominal GDP growth and modest fiscal consolidation efforts. The current account surplus is projected to increase to pre-crisis levels this year and to remain positive at around 8.5 percent of GDP in the medium-term. Gross reserves are projected to increase in 2021 by \$13.6 billion (3.4 percent of GDP), including from the UAE's SDR allocation of SDR 2.2 billion (0.8 percent of GDP). The authorities have yet to decide about the use of the SDR allocation.

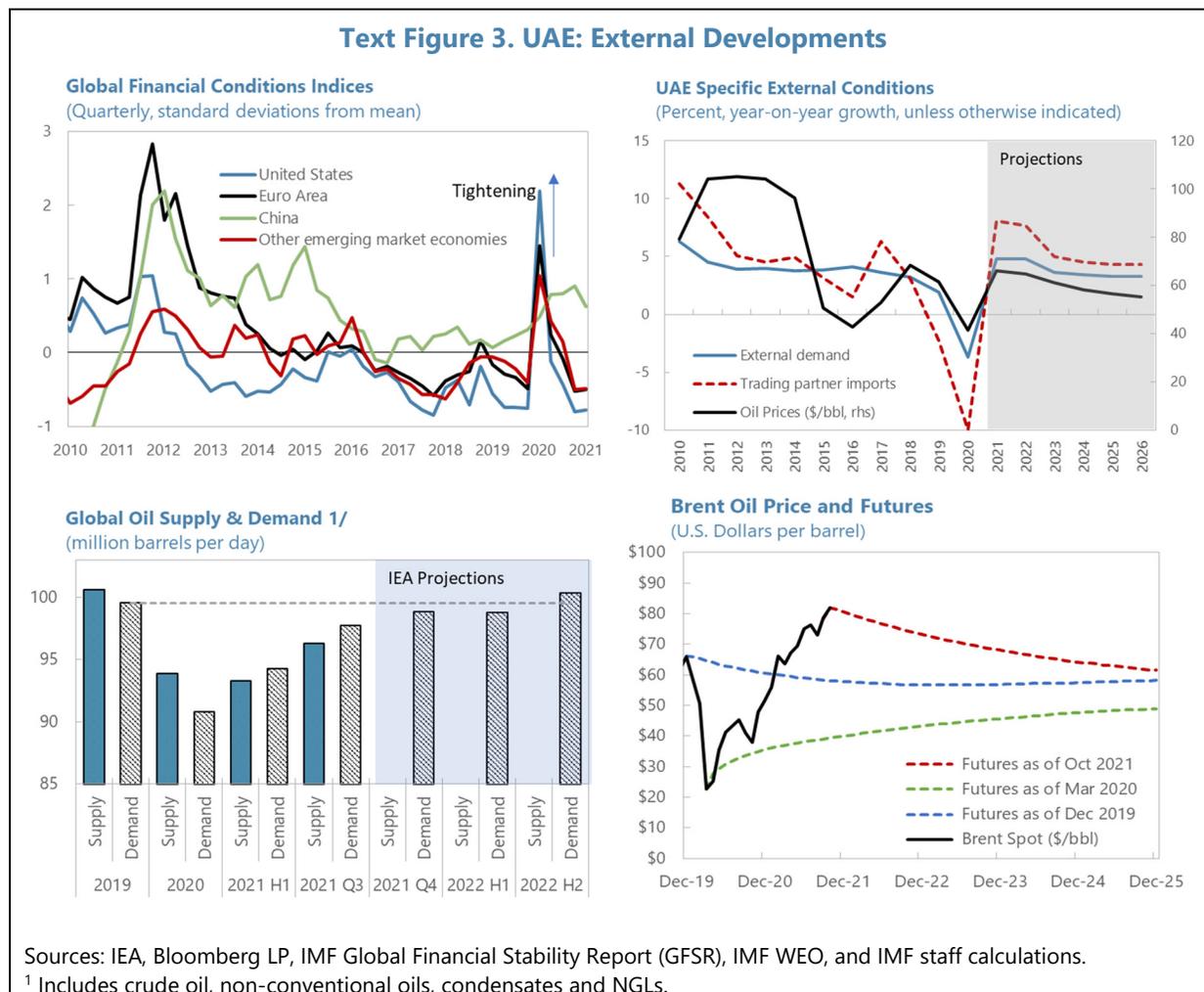
10. Downside risks to the outlook remain elevated, largely stemming from covid-related uncertainties (see RAM in Annex V). In the short run, a resurgence in the global pandemic would reduce global demand and oil prices, increase fiscal and corporate sector pressures, and tighten financial conditions (Box 1). In the medium term, there could be potential long-lasting effects in hard hit sectors, resulting in lower potential growth. However, the UAE's strong reform momentum provides an upside risk to growth.

² In line with the assumptions in the October 2021 World Economic Outlook (WEO), the baseline projections assume widespread vaccine availability in advanced economies and some emerging economies by 2021, and in most countries by end-2022.

³ See Selected Issues Paper "Fostering UAE productivity growth after COVID".

⁴ The UAE announced capital investments to boost oil production and storage capacity. Abu Dhabi National Oil (ADNOC) Company plans to spend \$122 billion (about 30 percent of 2019 GDP) over 5 years to increase crude oil production capacity to 5 mb/d by 2030, which is 80 percent higher than 2020 production levels.

Text Figure 3. UAE: External Developments



11. Long-term global oil market prospects point to substantial challenges for the UAE.

Technological change and strengthened global efforts to mitigate climate change could negatively affect oil demand and prices more quickly than anticipated pre-COVID-19, while raising non-oil revenue could prove challenging. This would put greater pressure on public finances and adversely impact economic diversification and productivity growth.

Authorities' Views

12. The authorities broadly shared staff's assessment of the macroeconomic outlook but expect a stronger near-term non-oil GDP recovery.

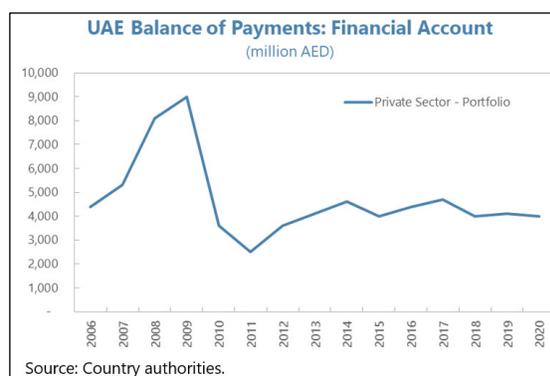
They too see a vaccine-driven recovery taking hold but expect a much stronger boost to non-oil growth this year and in the medium-term from tourism, continued fiscal and macro-financial support, and activity related to Expo 2020. The authorities project more modest 2021 oil GDP growth, but agree with staff that gradually increased production in line with the OPEC+ agreement will lift oil growth in 2022. They acknowledge elevated

downside risks to the growth outlook related to pandemic uncertainties but emphasized upside risks to growth from strong reform efforts.

Box 1. Changing Global Financial Conditions¹

As with other countries, the UAE is exposed to changes in global financial conditions. In particular, higher global interest rates, or their sudden increase, could have implications for capital flows, debt service, credit provision and banks' profitability, including by:

- Increasing the UAE's interest rate differential with other advanced or emerging economies.* Higher global interest rates driven by developments in advanced economies could lead to capital flow reversals and deteriorating domestic financial conditions for emerging economies, including the UAE. As in past episodes, such reversals tend to be associated with the prior inflow of "hot money". The UAE has recorded stable and moderate portfolio inflows in recent years, amounting to about AED 4 bn per year, about half of the pre-GFC flows (Figure). This could indicate a lower sensitivity of UAE flows to sudden large changes in its relative interest rate differentials compared with other emerging economies that have recently seen more sustained and volatile inflows.
- Increasing the costs of debt service, especially for GREs.* Although the UAE has extended the maturity structure of its foreign debt, about 30 percent of the debt stock of both Abu Dhabi and Dubai is set to mature over 2022-25 (Annex III). As global interest rates increase, maturing debt will be rolled over at higher rates, increasing the cost of debt service. This environment could prove particularly challenging for GREs which must roll over around 45 percent of their aggregate debt stock by 2025 (Annex III Box I). The recent increase in oil prices, if sustained, could help reduce government financing needs and may also contribute to lower borrowing costs for the public sector, including GREs.
- Impacting banks' balance sheets.* Although banks should benefit from higher interest margins, increased borrowing rates could dampen credit demand, limiting gains to banks' profitability. This combination could undermine the recovery, reinforce risks to asset quality, and increase strains on bank balance sheets.



The UAE authorities should remain vigilant to the challenges of tighter global financial conditions.

Although direct impacts through the interest rate could be muted, others relating to debt service and bank balance sheets could intensify.² This underscores the importance of continued close monitoring of financial stability risks and the authorities' readiness to address these if necessary.

¹ Prepared by Marcello Miccoli.

² Other channels of transmission might also operate, for example, the exchange rate channel.

POLICY DISCUSSIONS

13. Policy discussions focused on ensuring the recovery and leaving the UAE well-placed to meet the challenges of a low-carbon future. With uncertainty over the global outlook, the path of the pandemic, and oil markets it is crucial that near-term policies ensure public health, provide targeted policy support, and maintain financial stability. Further ahead, putting public financing on a

sustainable medium-term trajectory, while effectively leveraging the ambitious reform agenda, will help rebuild policy space, preserve financial wealth for future generations, and foster dynamic private-sector-led growth⁵

A. Near-Term Policies to Ensure Sustained Recovery

14. Ensuring public health and supporting the most vulnerable remain the top near-term priorities. Strong vaccination efforts should continue for all nationals and residents, and targeted support to those most in need should be maintained to mitigate the social impacts of the crisis. Policies should remain flexible to respond to potential recurrent virus outbreaks through health, economic, and fiscal contingency plans.

15. The current macroeconomic policy mix remains appropriate until the recovery is firmly entrenched. Broad-based support to SMEs, including relief on fees and utilities payments, credit support, and loan payment deferrals has been critical to support the recovery and indirectly both nationals and residents. Going forward, these measures should be increasingly targeted to viable firms and future engines of growth, while nonviable entities should be timely and transparently addressed through the bankruptcy framework, which should continue to be strengthened and its scope and powers communicated to the public. In this context, generous support to non-strategic GREs should be reassessed to promote dynamic private-sector-led growth and reduce fiscal burdens.

16. Recently announced fiscal stimulus and structural reforms should strengthen the recovery. A number of reform efforts launched under the UAE 2050 Strategy, including the first thirteen projects of the UAE Projects of the 50,⁶ aim to attract highly skilled professionals, enhance domestic human capital, boost the private sector workforce, encourage business dynamism, attract foreign investments, and support the adoption and creation of environmentally friendly advanced technology. Careful consideration to sequencing and prioritization of this reform agenda will ensure stronger growth outcomes and lift potential growth.

17. As the recovery gains momentum, COVID-19 measures should be gradually withdrawn and effectively communicated. Clear communication of CBUAE policies throughout the crisis and the move towards increased transparency of the policy framework has been welcome. Continued coordination between fiscal and monetary authorities underpinned by clear communication would ensure businesses have time to adjust and the most vulnerable in society remain protected. The unwinding of macro-financial support measures should be coordinated with new stimulus measures and calibrated so that banks and firms are fully capable of sustaining the economic recovery, avoiding cliff effects, and without prejudice to financial stability.

⁵ Progress with implementation of past Fund Article IV advice is presented in Annex II.

⁶ See Selected Issues Paper “Fostering UAE productivity growth after COVID”.

18. In the event that downside risks materialize and the recovery stalls, further extension of targeted fiscal and macro-financial support could be considered:

- Fiscal support measures, including those providing relief through fee and utilities payments, among other income support, should be extended to those most in need and targeted to viable and systemic firms and sectors expected to drive future productivity growth. Agreement on systemic enterprises, based on objective criteria—including the presence of robust governance structures and efficiency—may require difficult decisions and should be clearly communicated.
- Consideration could be given to front loading fiscal stimulus related to structural reforms underpinning the UAE Projects of the 50, including via larger public capital expenditure and additional stimulus in the digital, green, and ICT sectors to facilitate the production, import, export and re-export of renewables and green products and technologies.
- A further extension of the TESS program, particularly the Recovery program, would enhance the ability of the financial system to support the recovery. Continued close monitoring of the take-up and use of funds and vigilance regarding asset quality would be needed. A well calibrated macroprudential framework will aid the financial system in targeting support to viable sectors.

Authorities' Views

19. The authorities agreed with the thrust of the near-term recommendations. They emphasized their early and strong progress on protecting public health and their priority to maintain these efforts for all nationals and residents. The authorities agreed that supportive fiscal and macro-financial policies remain appropriate to ensure the recovery and should continue to be targeted to viable sectors, those most in need, and future engines of growth. They noted that additional targeted policy support would be warranted if the recovery stalls.

B. Safeguarding Financial Stability

20. Ensuring financial stability requires close monitoring of asset quality and supervisory vigilance. The COVID-19 pandemic could have long-lasting effects on borrowers' financial health, compounding asset quality risks from the withdrawal of loan payment deferral measures and any potential tightening in global financial conditions (Box 1). Overall, banks remain well capitalized but further close monitoring and forward-looking assessments of asset quality remain necessary, especially among smaller banks. Supervisory vigilance should continue to encourage prompt recognition of asset quality deterioration and adequate provisions. In addition, the CBUAE should consider encouraging banks to actively address pre-crisis legacy NPLs, including by writing off fully provisioned NPLs, to free up balance sheet space.

21. Efforts to further strengthen the macroprudential and regulatory frameworks should be maintained. Staff welcomes CBUAE efforts to further strengthen its stress-testing framework, including with the inclusion of climate change risks, but key vulnerabilities need close attention. The CBUAE is calibrating the new regulatory framework on real estate exposure. Implementation of this

framework should be swift as banks, particularly Islamic banks, remain highly exposed to the real estate sector. Although the ongoing implementation of the Basel III framework will further buttress financial stability, risks arising from high concentrations in loans should continue to be closely monitored. The drafting and implementation of the Resolution and Recovery Framework should be completed as soon as possible, and the Bankruptcy Framework aligned to it, if necessary. Similarly, reforms in the regulation and supervision of the insurance sector should be completed, ensuring capacity gaps are quickly closed. Finally, collaboration with free zone Financial Authorities should continue and be expanded to avoid potential spillovers and spillbacks with financial institutions operating in these zones.

22. The new Dirham Monetary Framework (DMF) and planned federal debt issuance will support domestic capital market development, but require strong coordination between the CBUAE and the federal government. The DMF, when fully implemented, will contribute to efficiency gains in liquidity management by banks and the CBUAE. The streamlining of standing facilities and open market operations represent a concrete step toward strengthening the implementation of monetary policy, including under different monetary policy objectives, were they to be considered in the future. Staff encourages the publication of the DMF online to increase transparency and build trust. Moreover, the DMF should support money market development and local currency debt through the creation of a risk-free short-term yield curve. The planned federal debt issuance in Dirham will complement the establishment of the yield curve at longer maturities. As the CBUAE will be the issuing agent, coordination between the CBUAE and the federal government will be needed to mitigate any monetary repercussions.⁷

23. Efforts to promote digital innovation in the banking sector and payments system should proceed cautiously to ensure a balance between opportunities and risks. The CBUAE is underpinning digital developments in the economy, including through increased regulatory clarity and strengthened supervision, as well as exploratory efforts with innovative settlement assets (Annex VII). While digital innovation promises to unlock potential benefits, for instance by lowering cost of access to financial services, continued effective supervision, including of new fintech actors, and close monitoring of potential side effects is critical to ensuring financial stability.

24. Major efforts have been undertaken to improve the AML/CFT regime and should be continued. To address some of the deficiencies identified by the Financial Action Task Force,⁸ the UAE created a Supranational Independent Federal body to oversee the implementation of the National AML/CFT strategy and action plan, and established a dedicated AML/CFT unit in the CBUAE to operationalize a new risk-based supervisory framework. New legislation was passed to require the submission of beneficial ownership information by all legal entities registered in the UAE. Ongoing monitoring of the implementation of this law is needed to ensure that accurate and up-to-date

⁷ See Selected Issues Paper “New Dirham Monetary Framework”.

⁸ The Financial Action Task Force (FATF) is the internationally recognized standard setting body for AML/CFT. It assessed the UAE’s AML/CFT framework and its effectiveness in 2019. It identified several deficiencies, including on the understanding of money laundering and terrorism financing (ML/TF) risks, AML/CFT risk-based supervision, transparency of legal entities, and money laundering investigations and prosecutions.

beneficial ownership information is available to competent authorities on a timely basis. Further efforts, including to improve understanding of the ML/TF risks arising from new technologies and non-resident flows, strengthen oversight over DNFBPs, and enhance law enforcement efforts will be critical.

Authorities' Views

25. The authorities agreed with recommendations to further enhance financial stability monitoring. They emphasized the robust levels of capital and liquidity for the overall banking system but agreed with the need for continued close monitoring of asset quality and supervisory vigilance. They concurred with the importance of further strengthening the macroprudential and regulatory frameworks, including to meet the needs of an increasingly digitalized financial system. On the New Dirham Framework, the authorities noted the importance of ensuring high coordination with the federal government to facilitate the development of the dirham yield curve.

C. Strengthen Fiscal Policy Frameworks

26. Once the recovery firms, public finances must be strengthened to adapt to lower eventual oil revenue and ensure intergenerational equity and medium-term sustainability. The pandemic has hastened the global move to a more sustainable future, including lower demand for hydrocarbon energy. This outlook increases the urgency of limiting the decline in the UAE's public net financial assets and stabilizing them over the long run. A gradual, but determined, fiscal consolidation in the context of a credible medium-term fiscal framework (MTFF) would help achieve this outcome.⁹ Staff estimates the medium-term fiscal path consistent with intergenerational equity could be achieved with an average annual consolidation of the non-oil primary fiscal balance deficit by 0.5-0.8 percent of non-oil GDP (0.4-0.6 percent of overall GDP), taking it to the benchmark balance by 2030-35.¹⁰ A combination of fiscal restraint and reforms is needed to ensure this outcome, including by:

- *Delivering a growth-friendly consolidation.* A combination of fiscal restraint and reforms could help deliver this outcome, including through (i) commitment to proceed with planned public wage and employment reform; (ii) strengthening non-oil tax revenue by broadening the tax base and increasing the VAT and excise taxes, and improving the efficiency of tax collection, including by strengthening tax administration; (iii) phasing out burdensome and regressive fees and gradually removing subsidies, including energy and water subsidies, alongside measures to shield the most vulnerable; and (iv) improving the efficiency of targeted spending. Consistent with past Fund advice, consideration could be given to exploring alternative revenue models,

⁹ Staff estimates that the non-oil primary deficit is some 7.6 percentage points of non-oil GDP above the benchmark needed to ensure sufficient saving for future generations.

¹⁰ The benchmark balance is obtained by calculating a constant real per capita government spending path (and related non-oil deficit) using a Permanent Income Hypothesis (PIH) model, that delivers a constant real per capita annuity to finance government spending after oil revenues are exhausted (Annex III). Here, there is no differentiation between the UAE citizens (about 15 percent of the population) and permanent residents (about 85 percent) for the PIH calculations, given current and future reliance of the UAE growth model on expatriate labor.

including introducing a progressive federal corporate income tax on non-oil companies, which would be easier to administer than the current system of fees and more conducive to SME development (Box 2).

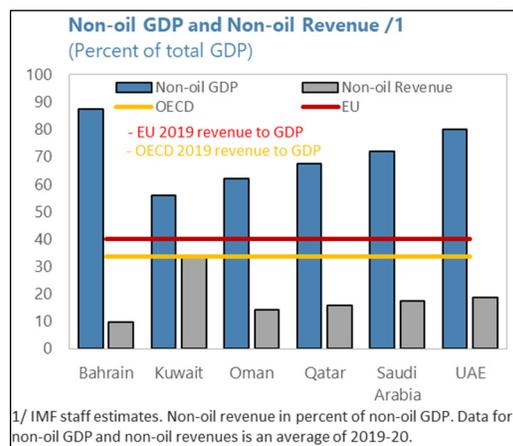
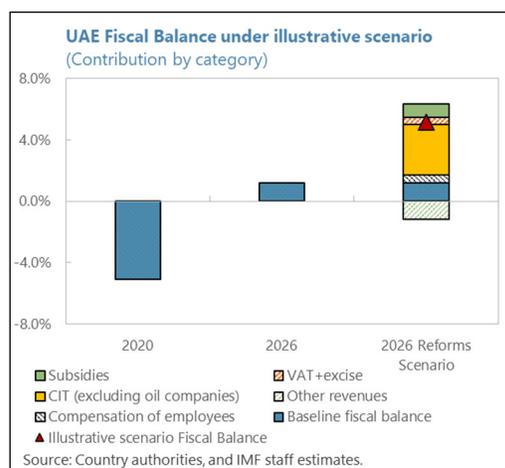
Box 2. Fiscal Sustainability and Reforms¹

While the UAE has substantial public sector assets that ease debt sustainability concerns, it still faces important near- and medium-term fiscal challenges that should be addressed in the coming years.

Assets of the sovereign wealth funds, government deposits, and central bank reserves after netting out public debt are substantial. However, these financial buffers represent intergenerational savings of oil revenue, and their sustainability is increasingly at risk as the global economy becomes less carbon intensive.² The global pandemic has added fiscal strains by increasing general government debt and gross financing needs.

A growth-friendly fiscal consolidation set in a medium-term fiscal framework would help address fiscal challenges and ensure sustainability. It would also foster progress toward achieving the Sustainable development Goals (SDGs) and meeting future investment and savings needs. Current policies assume gradual annual fiscal consolidation of 0.4-0.6 percent of GDP over the next 10-15 years, but more is needed in the near-term to fully rebuild fiscal buffers and bring them to pre-pandemic levels, especially given oil price volatility. An improving growth outlook and higher oil prices offer an opportune moment for the UAE to meet these needs. In particular:

- Additional fiscal adjustment of 4 percent of GDP (beyond the baseline) can be achieved by 2026 through a combination of accelerated revenue mobilization and fiscal expenditures reforms. Consistent with past staff advice, an illustrative scenario (Text Figure) assumes: an additional 0.6 percent of non-oil GDP gain from excise taxes on vehicles; the introduction of a federal CIT of 10 percent on all non-oil UAE resident companies; a reduction of subsidies of 1.1 percent of non-oil GDP; capping growth in public wage bill at nominal GDP growth rate; and a 10 percent reduction in incentives and fees in the long-term.³
- The bulk of additional fiscal gain would come from the introduction of the CIT. Extra savings could be achieved by broadening the tax base, including by enhancing tax administration. The reforms under the illustrative scenario are in line with the UAE new growth model as they would also help to bring non-oil revenue as a share of GDP closer to the OECD or EU average of 30-40 percent.



Box 2. Fiscal Sustainability and Reforms (concluded)

- Given uncertainty over the course of the pandemic and its impact on long-term growth, strengthened adherence to credible MTFs—underpinned by fiscal rules and sound fiscal institutions and reinforced by fiscal transparency and accountability with clear communication of policy priorities—would further ensure fiscal sustainability and favorable access to external borrowing.

¹ Prepared by Yevgeniya Korniyenko.

² IMF 2020, “The Future of Oil and Fiscal Sustainability in the GCC Region,” Middle East and Central Asia and Research Department, No 20/01.

³ See IMF AIV 2016, 2017 and IMF 2017 Selected Issues Paper No. 17/219. The current scenario assumes partial replacement of regressive incentives and fees with progressive CIT on firms.

- *Adopting a transparent, rules-based UAE-wide fiscal framework that aggregates emirate-specific frameworks with credible long-term fiscal anchors.* Given the UAE’s decentralized fiscal structure, emirate-specific frameworks should first be enhanced and then carefully coordinated to ensure a unified national stance. To this end, establishing and ensuring timely data sharing and harmonized statistics across emirates and publication of detailed annual budgets discussing short-term policy priorities and medium-term fiscal paths should become a priority. Emirate-specific considerations should guide the establishment and operationalization of transparent and effective fiscal anchors.¹¹ Consideration should be given to expanding the mandate of the Fiscal Coordination Council to include assessment of the UAE fiscal stance and recommending fiscal policy adjustment based on the fiscal anchors.
- *Ensuring effective policy coordination.* Improved coordination among fiscal authorities (federal and emirate governments, GREs, and SWFs) and the CBUAE would help consolidate the UAE’s overall policy stance, address possible impacts of increased federal debt issuance on CBUAE cash flow management, and strengthen risk management practices.

27. Further progress in fiscal data collection and publication is needed to improve policy analysis and strengthen governance. Data limitations on general government statistics, including on contingent liabilities, especially those stemming from government guarantees, GRE debt, and PPPs, hinder an accurate assessment of the underlying fiscal operations and effective policy making. Staff encourages regular and timely publication of consolidated general government budget plans, revenue and expenditure outcomes with sufficient details and reconciliation with budgeted amounts, and data on government sectoral spending and information by emirate. A greater focus on monitoring and reporting contingent liabilities in line with international best practice is also warranted (Annex III). The IMF stands ready to provide technical assistance in these areas.

¹¹ Operationalization would also include, among others: launching a UAE-wide MTF process with participation of all emirates’ fiscal units, agreeing on UAE medium-term fiscal targets and developing clear fiscal anchors based on emirates’ MTFs and for the UAE as a whole, and constructing a UAE-wide balance sheet to enable analysis of fiscal risks. Establishing frameworks will help manage fiscal risks, including those related to GREs (Annex III).

Authorities' Views

28. The authorities acknowledged the recommendations on enhancing medium-term fiscal frameworks, but felt current policies were sufficient to achieve any needed future consolidation. They noted the importance of further enhancing emirate-specific fiscal anchors and the benefits of ensuring their coordination at the emirate and federal levels. The authorities expect the non-oil revenue base to widen over time with dynamic private sector growth.

D. Reviving Economic Diversification and Fostering Higher Productivity Growth

29. The COVID-19 crisis has amplified pre-crisis constraints to growth and increased risks of long-lasting economic effects. UAE potential growth has been on a downward trend since the Global Financial Crisis (GFC).¹² Momentum from recent reform efforts and the ambitious UAE 2050 Strategy must be strengthened to reverse these trends, limit risks of long-term economic effects, and facilitate adjustment to a more sustainable economic future. Achieving this outcome requires careful prioritization and sequencing of reforms, greater integration of strategies and policies at different levels of government, and enhanced collaboration and cooperation across the individual emirates and at the federal level. Policies should also foster the reallocation of resources to more productive sectors and firms. In this context, three areas of structural reform should be prioritized:

Increasing Productivity

- *Continue improving the business environment and competitiveness.* Recently announced reforms to promote private sector growth and development—including allowing full foreign ownership of onshore companies,¹³ expanding residency permits, attracting talent, supporting private sector employment of nationals, increasing scope for personal choices, and encouraging growth of start-ups—should be fully implemented. Further progress can be achieved to reduce the costs to open a business and encourage business dynamism and start-ups. Amendments to the UAE Insolvency Law should be fully deployed to address nonviable firms quickly and transparently.
- *Ensure a level playing field for all companies.* In line with the authorities' reforms to boost diversification, competitiveness, and vibrant private sector growth, consideration should be given to commercializing nonstrategic GREs and bringing them within the scope of competition laws and regulations. Further ahead, fiscal costs from expansive incentives and tax exemptions (including in Special Economic Zones) should be re-assessed within upgraded fiscal frameworks to ensure their sustainability.

¹² See Selected Issues Paper "Fostering UAE productivity growth after COVID".

¹³ A foreign investment law in 2018 allows foreigners to own up to 100 percent of some businesses. Similarly, foreigners could own up to 100 percent of businesses registered in free zones.

- *Harness digital solutions and fintech.* The continued adoption of a new advanced technologies (including, cloud computing, Big Data and Machine Learning/Artificial Intelligence, and 5G) and further SMEs digitalization could enhance economic resilience, access to finance, and economic adaptability. Recent adoption of the UAE Data Law will support the move to higher digitalization by protecting the privacy of individuals and institutions and limiting entities' use of personal data for profit. Fintech will continue playing a catalytic role.
- *Advance technology creation and adoption.* Consideration should be given to welfare-improving government subsidies and funding of research and development in cutting edge technologies and to encourage higher growth of Information and Communication Technology (ICT) industries. To this end, the government's launch of the Fourth Industrial Revolution Network project,¹⁴ Tech Drive program, and "Project 5Bn", to promote the adoption of advanced technologies in the national industrial sector and entrepreneurship and innovation, are welcome and their implementation should be closely monitored to ensure efficiency.¹⁵

Modernizing the Labor Market

- *Ensure more flexible and equitable labor markets.* More efficient and inclusive investment in education and training in emerging fields would further enhance human capital. Modernization of visa and work permits will contribute to market flexibility and adaptability and help "up-skill" the labor force to meet future growth needs. Government initiatives to incentivize national employment in the private sector should help reduce fragmentation between national and expatriate labor markets. But further efforts are needed to reduce the size of the civil service, better align public and private wages, and incentivize active labor market policies, including for expatriate workers.
- *Adopt gender-positive recovery policies and practices.* Despite recent efforts in promoting female employment, including in wage equality and representation on publicly listed company boards, among others,¹⁶ female labor force participation declined. Policies, including more progress through gender budgeting, are needed to address potential crisis impacts on female employment and gender balance, in line with the UAE's progress under the SDGs (Annex VI).

Investing in Green Energy and Future Infrastructure

- *Strengthen sustainable and green infrastructure.* Progress under the UAE Green Agenda 2030, UAE Energy Strategy 2050 and SDGs relating to both clean energy and climate is welcome (Annex VI). But there is a need to speed up planned mitigation measures and actionable

¹⁴ The project aims to establish and grow 500 national companies equipped with the technologies of the Fourth Industrial Revolution and technologically advanced workforce.

¹⁵ An independent body or commission with a mandate to regularly assess the effectiveness and phase out of failed policies is important (Beason et al., 1996; Ohashi, 2005).

¹⁶ In 2020, the UAE also implemented parental leave in both public and private sectors and imposed gender quota on the Federal National Council.

adaptation plans to reach all the announced targets in carbon emission and clean energy. In addition, strengthening climate-risk disclosure frameworks is needed to ensure that institutions are well-positioned to manage transition risks that lie ahead. There is also a need to build further adaptive capacity across public and private sectors to enhance climate resilience, especially in sectors like utilities, construction, and transportation.

30. These efforts would maintain the UAE’s long-term competitiveness and resilience to shocks. In this regard, the exchange rate peg remains appropriate and provides a credible policy anchor and stability. A more flexible exchange rate could over the longer-term support the development of the non-oil tradable sector and would enable the CBUAE to follow an independent monetary policy. In the near term, however, a move away from the peg is not warranted as it would be destabilizing, remove a credible monetary anchor, and have limited benefits for competitiveness. Therefore, staff views the exchange rate regime as appropriate. International reserves and official foreign currency assets remain comfortable and are more than adequate to maintain the peg.

Authorities’ Views

31. The authorities noted the importance of prioritizing and sequencing the ambitious reform agenda. They agreed ensuring integration of strategies and policies at different levels of government, including to further improve the business environment, to focus on high value-added activities, harness the benefits of digitalization and advanced technology, and modernize labor markets will help deliver sustainable growth and lift medium-term potential. In this connection, the authorities also noted the importance of enhancing collaboration and cooperation across individual emirates. The authorities underscored their strong commitment to the exchange rate peg.

E. Data Issues

32. The coverage, timeliness and availability of statistics for policy making should be improved. The authorities are making significant data improvements in specific areas, including finalizing revisions to the CPI basket weights, developing a residential property price index, and completing the UAE Administrative Census 2020 Project. However, further efforts are needed to improve the scope, timeliness, and quality of statistics under the Enhanced Data Dissemination Systems (e-GDDS), including of external sector statistics. In addition, the production of quarterly GDP and annual national accounts on a timely basis should be improved. Despite progress on the compilation of outward Foreign Direct Investment (FDI) statistics, the development of a comprehensive Balance of Payments and International Investment Position (IIP) data requires the CBUAE, the Federal Competitiveness Statistics Centre (FCSC), and the Ministry of Economy to further strengthen their capacity and coordination, including with high-level government support. Similarly, significant room exists for completing the harmonization and dissemination of fiscal statistics. The authorities have requested IMF technical assistance (TA) to advance progress on external sector statistics. Staff encourages regular and timely publication of central government and consolidated general government finance statistics and stands ready to support the authorities’ progress in these areas through Capacity Development (CD).

Authorities' Views

33. The authorities underscored their commitment to making further progress on statistics, aided in part by Fund CD. The authorities remain fully committed to the e-GDDS, adopted in June 2018. The FCSC and CBUAE are working to enhance the coverage of external sector statistics, while the FCSC is developing plans to enhance national accounts and price statistics, demographic, and labor market data. The UAE continues to work toward subscribing to the Special Data Dissemination Standards (SDDS) in the coming years.

STAFF APPRAISAL

34. The authorities' strong actions to address the health and economic effects of the pandemic are proving effective. The economic recovery is gaining momentum, spurred by the successful vaccination program, accommodative policies, and increased activity related to the delayed Expo 2020. Continuing vaccination and testing efforts and maintaining supportive policies will help ensure the recovery firms, but policies should be increasingly targeted to viable sectors and firms and supporting those most in need. If the recovery stalls, additional targeted policy support would be warranted.

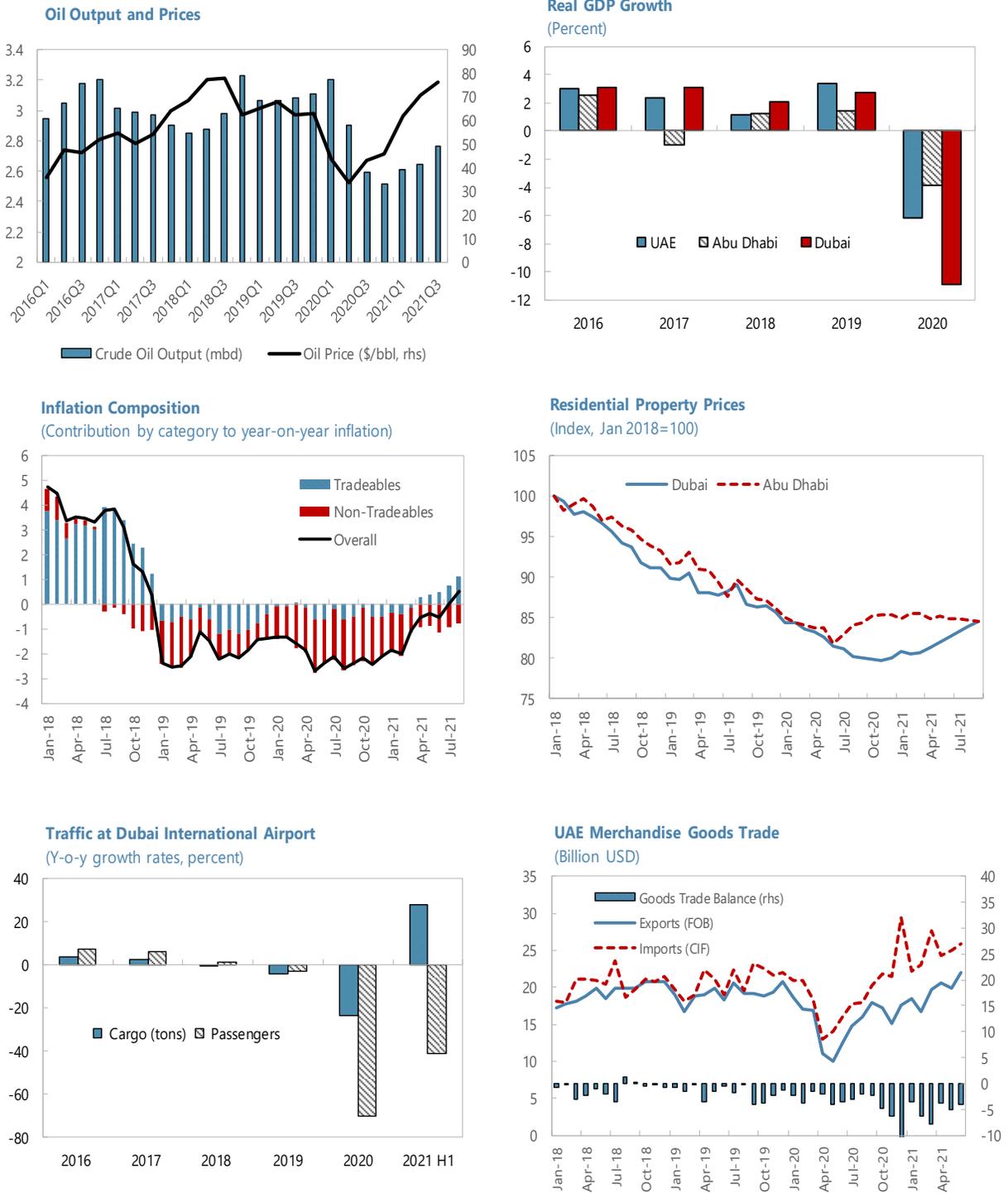
35. Ensuring the health and resilience of the financial system is critical to the recovery and medium-term growth. Although the overall banking system remains adequately capitalized and liquid, ongoing efforts by the authorities to monitor financial stability risks and strengthen macroprudential and regulatory frameworks should be maintained. Balance sheet risks from weaker asset quality and high exposure to the real estate sector could still emerge, further weighing on credit growth and limiting banks' ability to support economic growth. In this regard, the authorities are encouraged to request a Financial Sector Assessment Program (FSAP) update. Swiftly addressing nonviable entities under the enhanced bankruptcy framework, while continuing to enhance the AML/CFT framework, will further bolster financial system resilience and limit risks of lasting crisis effects on growth. Ensuring the DMF is transparent and well-coordinated with government issuance plans will enhance the control of domestic monetary conditions and facilitate domestic capital market development.

36. Fiscal reforms should be accelerated to ensure a smooth adjustment to a low-carbon future. Strains from the crisis and a need to ensure financial wealth for future generations call for a gradual, but determined, fiscal consolidation. These efforts should be underpinned by reforms to expand non-oil revenue and increase expenditure efficiency, credible medium-term fiscal frameworks, and careful coordination of emirate and federal fiscal anchors. In this regard, the mandate of the Fiscal Coordination Council should be expanded and the collection and dissemination of emirate- and federal-level fiscal data enhanced to improve transparency and governance. Generous support to non-strategic GREs should be assessed to promote private-sector-led growth and reduce fiscal burdens.

37. Prioritizing and sequencing the ambitious structural reform agenda would help lift productivity and potential growth. Extending reform efforts to further improve the business environment, ensure a level playing field for all companies, and harness the benefits of digital solutions and fintech, would help to attract high skilled talent and investment. The UAE's move to further open its economy to trade and investment is highly welcome against the retreat in globalization. Increased efforts to modernize labor markets will be needed, including to further boost female labor participation and deliver more efficient educational outcomes, particularly in science and technology. Achieving these outcomes will require enhanced integration of strategies and policies at different levels of government and collaboration across the individual emirates. Ensuring adequate coverage and quality of economic data, as well as the timely collection and dissemination of these data, will buttress these efforts.

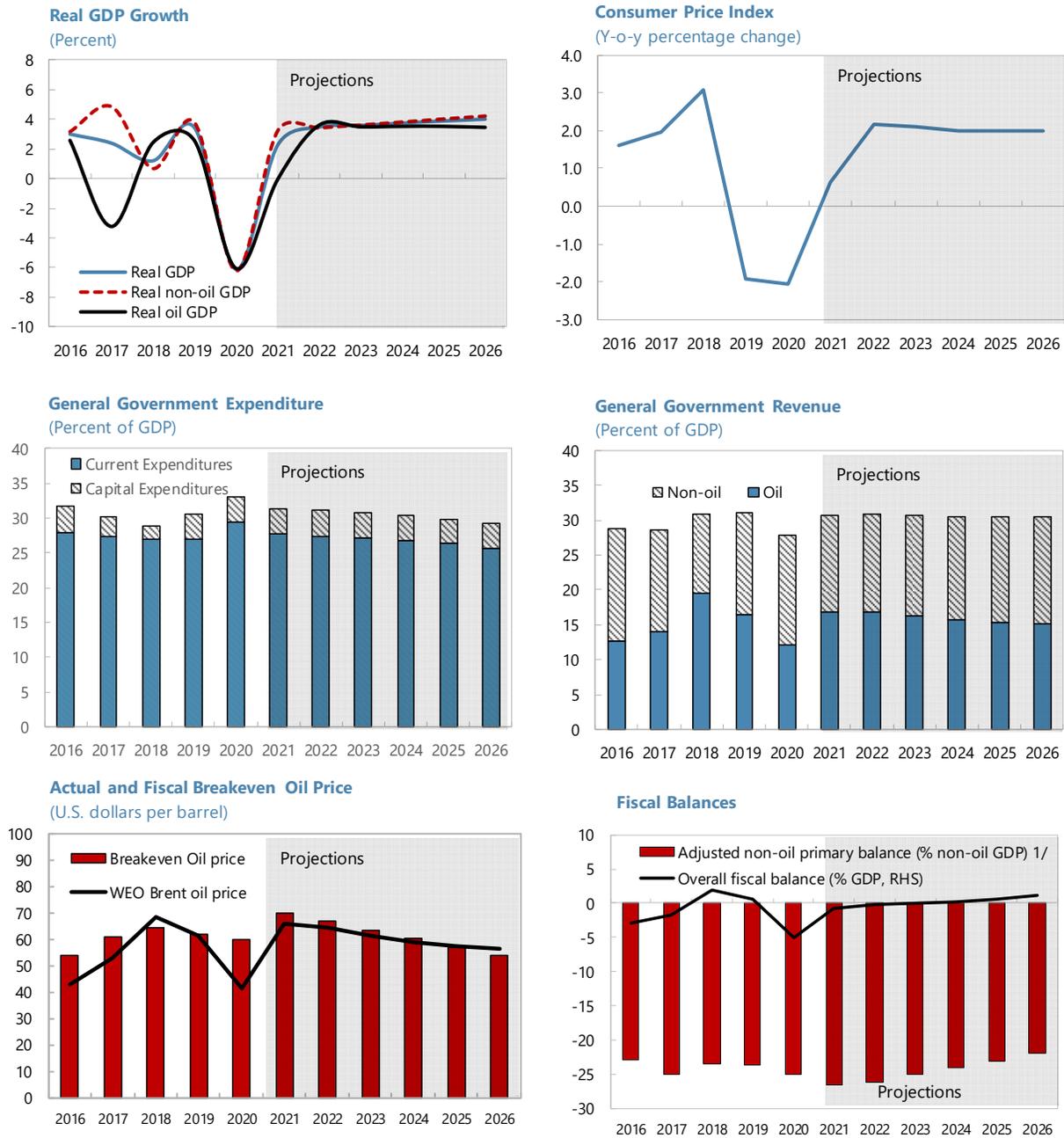
38. Staff recommend that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. UAE: Recent Economic Developments



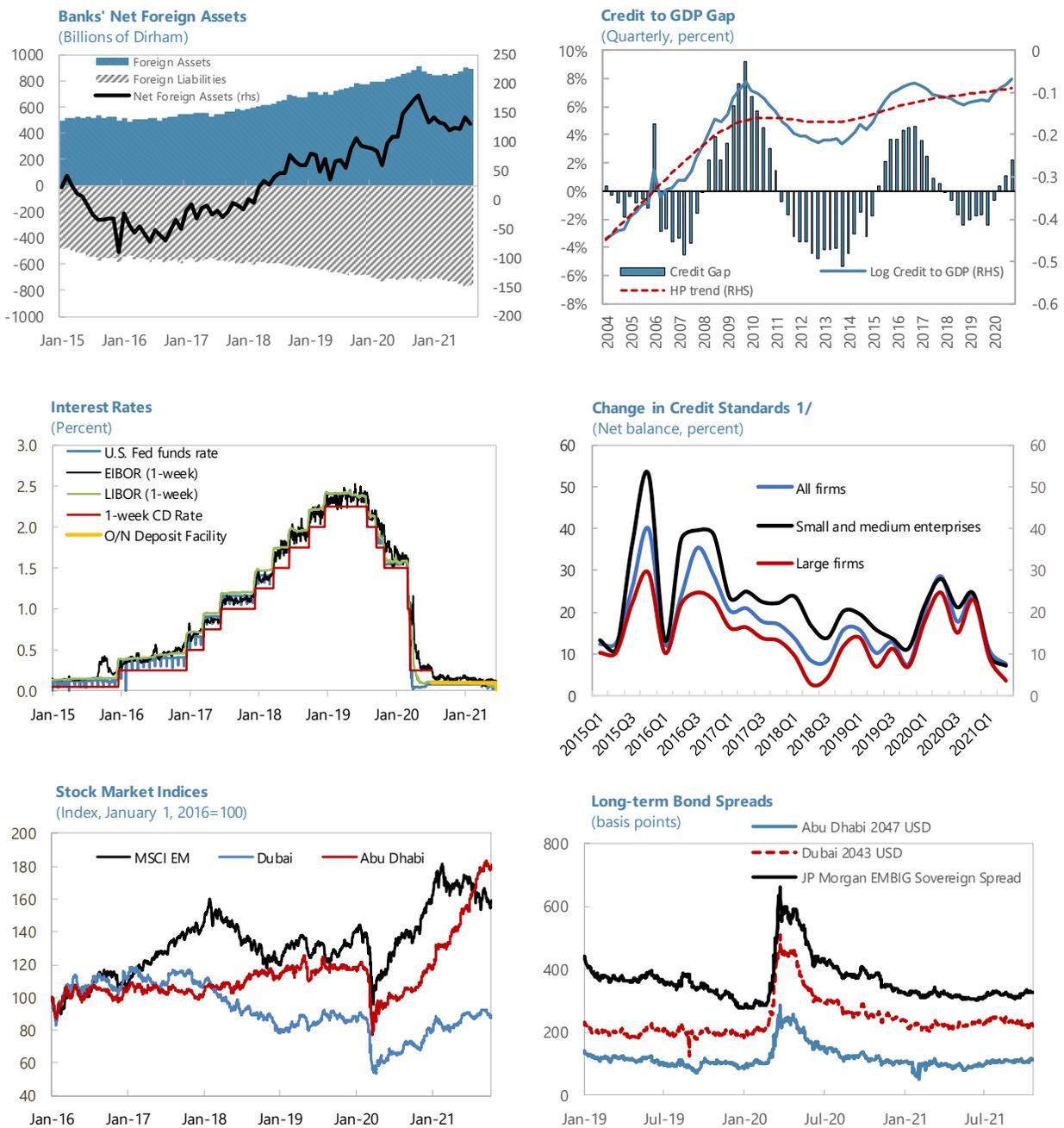
Sources: Country authorities; OPEC, Haver Analytics; IMF Direction of Trade Statistics, and IMF staff estimates.

Figure 2. UAE: Real and Fiscal Sector Developments and Outlook



Sources: Country authorities; Haver Analytics; and IMF staff estimates.
 1/ Excludes staff estimates of SWF investment income.

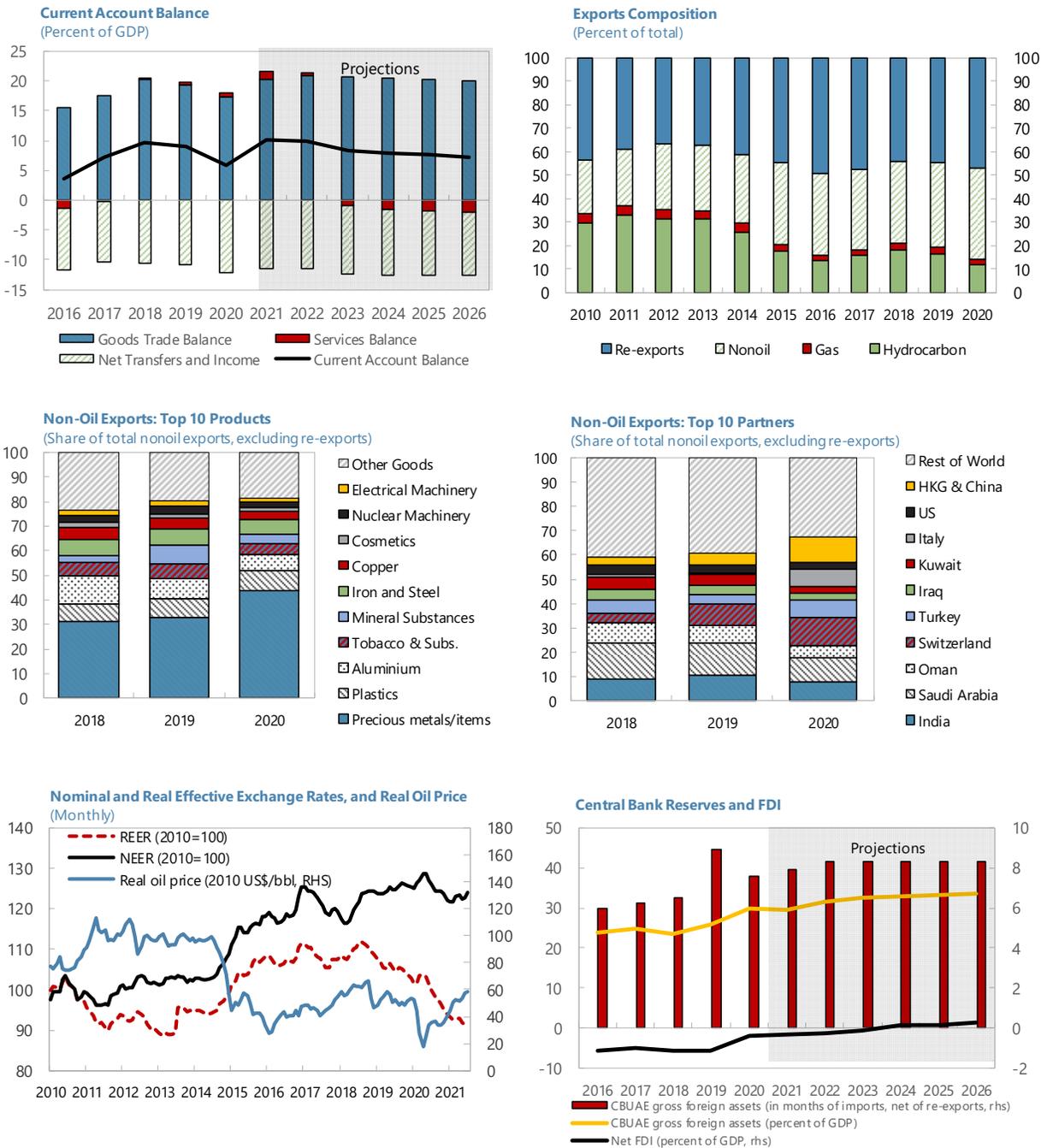
Figure 3. UAE: Monetary and Financial Sector Developments



Sources: Country authorities; Haver Analytics; Bloomberg LP; and IMF staff calculations.

1/ CBUAE's Credit Sentiment Survey collects information from banks and financial institutions. Net balance is calculated as the weighted percentage of respondents reporting an increase in demand for loans (or tightening of credit standards) minus the weighted percentage of respondents reporting a decrease in demand for loans (or easing of credit standards).

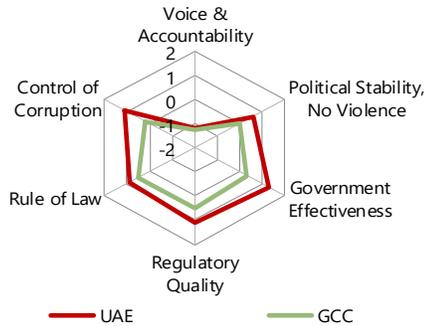
Figure 4. UAE: External Sector Developments



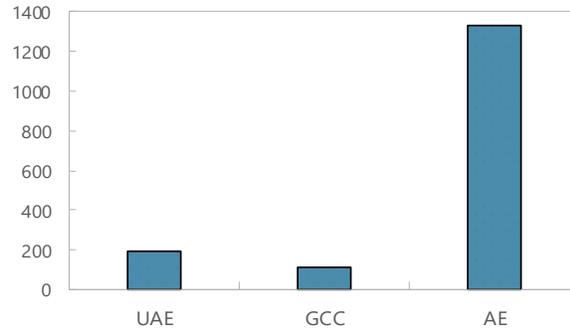
Sources: Country authorities; and IMF staff calculations and estimates.

Figure 5. UAE: Competitiveness and Governance Indicators

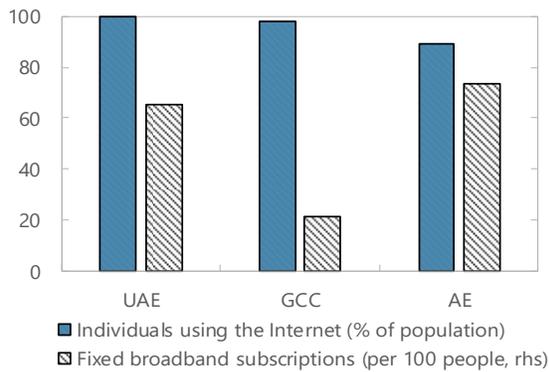
Worldwide Governance Indicators, 2020
(Scores, high values = better governance)



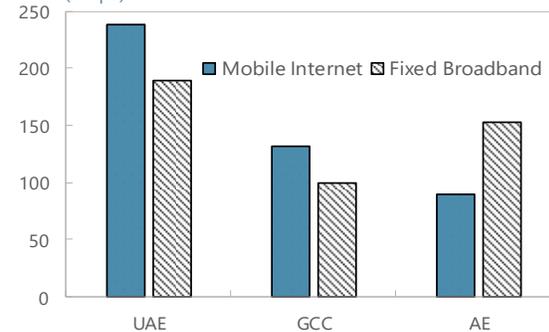
Patent applications per million population, 2019



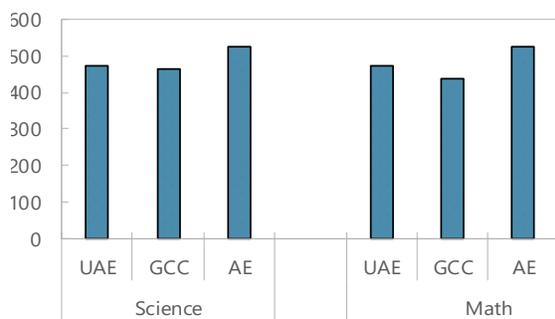
Fixed Broadband and Internet Usage, 2020 or latest



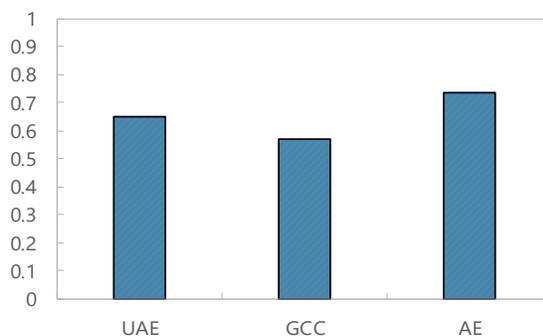
Internet Speeds, 2021
(Mbps)



TIMMS Student Performance Scores in Math and Science, 2019
(Scores)



Human Capital Index, 2020



Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); World Development Indicators; Speedtest Global Index (September 2021); World Bank Human Capital Project; TIMMS (2019), and IMF staff estimates.

Notes: Worldwide Governance Indicators rely on survey-based indicators to reflect perceptions of business environment and governance and can be biased by experts' views; quality of underlying data can vary across countries and data sources. Human Capital Index is a measure of human capital a child born today can expect to achieve by age 18 given health and education standards currently prevailing in the country of birth. The index ranges between 0 and 1, 1 only implying that a child born today can expect to achieve their full potential. The index is calculated using publicly available data on survival, education, and health indicators.

Table 1. UAE: Selected Economic Indicators, 2016-26

	2016	2017	2018	2019	Est. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
	(Annual percent change, unless otherwise indicated)										
Output and prices											
Nominal GDP (in billions of U.S. dollars)	357	386	422	417	359	406	426	443	464	487	513
Real GDP	3.0	2.4	1.2	3.4	-6.1	2.2	3.5	3.6	3.7	3.9	4.0
Real oil GDP	2.6	-3.2	2.5	2.6	-6.0	0.0	3.6	3.5	3.5	3.5	3.5
Real nonoil GDP	3.2	4.8	0.7	3.8	-6.2	3.2	3.4	3.6	3.8	4.0	4.2
CPI inflation (average)	1.6	2.0	3.1	-1.9	-2.1	0.6	2.2	2.1	2.0	2.0	2.0
Oil sector											
Exports of oil (incl. oil products and gas) (in billions of U.S. dollars)	46.5	58.1	67.3	60.1	38.4	61.1	65.1	65.7	66.9	68.7	71.0
Average crude oil export price (in U.S. dollar per barrel)	44.0	54.4	71.1	64.0	42.3	66.9	65.9	63.0	61.0	59.4	58.4
Crude oil production (in millions of barrels per day)	3.0	2.9	3.0	3.1	2.8	2.7	3.0	3.1	3.3	3.4	3.6
	(Percent of GDP, unless otherwise indicated)										
Saving and Investment											
Gross national saving	29.7	32.4	33.3	31.4	28.0	30.8	30.9	30.9	31.0	31.1	31.3
Public	2.2	3.1	5.8	6.0	0.7	4.8	5.3	5.3	5.4	5.8	6.3
Private	27.5	29.3	27.5	25.4	27.4	26.0	25.6	25.6	25.6	25.3	25.0
Gross domestic investment	26.0	25.3	23.5	22.5	22.2	20.8	21.1	22.5	23.1	23.5	24.0
Total fixed capital formation	24.5	19.0	17.3	18.4	19.7	19.0	19.5	20.1	20.5	20.8	21.4
Public	11.4	10.3	9.5	10.5	10.6	10.5	10.7	10.8	10.9	10.9	11.2
Private	13.0	8.7	7.8	7.9	8.3	8.5	8.8	9.2	9.6	9.9	10.2
Public finances											
Revenue	28.9	28.6	30.8	31.1	27.9	30.7	30.9	30.7	30.5	30.5	30.4
Taxes	8.9	11.8	15.5	14.9	11.5	14.5	14.7	14.4	14.3	14.1	14.1
Social Contributions /6	0.3	0.3	0.3	0.3	1.0	0.9	0.9	0.9	0.9	0.9	0.8
Other revenue 1/	19.6	16.5	15.0	15.9	15.5	15.3	15.3	15.4	15.4	15.5	15.5
Expenditures	31.7	30.2	28.9	30.5	33.0	31.4	31.1	30.7	30.4	29.8	29.2
Expense 2/	27.9	27.3	26.9	27.0	29.5	27.8	27.4	27.2	26.8	26.3	25.7
Net acquisition of nonfinancial assets	3.8	2.9	2.0	3.5	3.5	3.6	3.7	3.6	3.5	3.5	3.5
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-2.8	-1.7	1.9	0.6	-5.1	-0.7	-0.2	0.0	0.2	0.7	1.2
Adjusted nonoil primary balance 3/	-22.9	-25.0	-23.6	-23.7	-25.1	-26.7	-26.1	-25.1	-24.1	-23.0	-22.1
Gross general government debt 4/	19.4	21.6	20.9	27.1	39.4	39.4	39.3	40.4	40.1	39.3	38.1
	(Annual percent change)										
Monetary sector											
Net foreign assets	5.0	26.8	27.4	16.1	6.0	11.9	11.1	7.4	6.7	6.3	6.0
Net domestic assets	2.7	-1.8	-6.0	4.2	3.9	-0.6	0.2	2.1	3.0	4.5	5.8
Credit to private sector	5.8	0.7	4.0	0.6	-2.6	1.2	4.6	5.8	5.9	6.1	6.3
Broad money	3.3	4.1	2.5	8.0	4.6	3.8	4.2	4.2	4.5	5.2	5.9
	(Billions of U.S. dollars, unless otherwise indicated)										
External sector											
Exports and re-exports of goods	295	314	321	314	273	318	335	350	369	390	413
Oil	46	58	67	60	38	61	65	66	67	69	71
Nonoil, excluding re-exports	103	107	112	113	107	114	121	128	137	145	154
Re-exports	145	149	142	141	127	142	149	156	166	176	188
Imports of goods	240	246	235	233	211	235	246	258	274	291	311
Current account balance	13.2	27.5	41.2	37.3	21.0	40.8	41.7	37.2	36.5	37.0	37.1
Current account balance (in percent of GDP)	3.7	7.1	9.8	8.9	5.8	10.0	9.8	8.4	7.9	7.6	7.2
External debt (in percent of GDP)	70.8	73.2	70.5	81.7	106.7	99.9	98.1	100.4	98.5	96.0	92.9
Central bank gross foreign assets 5/	85.4	95.4	99.5	108.4	106.7	120.3	134.5	144.1	153.0	162.1	171.1
In months of next year's imports of goods & services, net of re-exports	5.9	6.2	6.5	8.9	7.6	7.9	8.3	8.3	8.3	8.3	8.3
Memorandum items:											
Nominal GDP (in billions of UAE dirhams)	1,311	1,416	1,551	1,532	1,318	1,491	1,563	1,628	1,703	1,787	1,883
Local currency per U.S. dollar (actual, period average)	3.67	3.67	3.67	3.67	3.67	...	...	...	...	...	...

Sources: Country authorities; and IMF staff estimates and projections.

1/ Includes staff estimates of 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 nonoil GDP. Excludes staff estimates of SWF investment income.

4/ Includes government-guaranteed debt.

5/ Excludes staff estimates of foreign assets of sovereign wealth funds; includes the SDR allocation of SDR 2.2 billion.

6/ Social contributions increased in 2020 due to increase in coverage (around 0.6 percent of GDP).

Table 2. UAE: Balance of Payments, 2016–26

	2016	2017	2018	2019	Est. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
	(Billions of U.S. dollars, unless otherwise specified)										
Current account balance	13.2	27.5	41.2	37.3	21.0	40.8	41.7	37.2	36.5	37.0	37.1
(In percent of GDP)	3.7	7.1	9.8	8.9	5.8	10.0	9.8	8.4	7.9	7.6	7.2
Trade balance	55.1	67.2	85.7	80.5	62.3	82.2	88.8	91.7	95.1	98.3	102.2
Exports	295.0	313.6	321.0	313.8	273.1	317.6	335.1	349.8	369.4	389.8	412.7
Oil and oil products	40.4	50.6	57.9	52.4	32.9	52.6	56.5	57.2	58.4	60.2	62.4
Natural gas	6.0	7.5	9.4	7.7	5.4	8.5	8.6	8.5	8.5	8.5	8.6
Nonoil	103.5	106.6	111.8	113.0	107.4	114.3	121.2	128.2	136.8	145.0	154.1
Re-exports	145.1	148.8	141.9	140.7	127.3	142.2	148.8	155.9	165.7	176.1	187.6
Imports (f.o.b.)	-239.9	-246.3	-235.4	-233.3	-210.8	-235.4	-246.3	-258.1	-274.3	-291.5	-310.6
Imports by emirates	-162.6	-160.9	-137.4	-136.3	-122.6	-136.1	-141.8	-147.8	-156.8	-167.6	-179.0
Free zones	-74.6	-82.3	-94.5	-93.5	-85.5	-94.8	-99.8	-105.5	-112.6	-118.7	-126.1
Natural gas	-2.8	-3.1	-3.5	-3.5	-2.7	-4.5	-4.7	-4.8	-5.0	-5.2	-5.4
Income, net	2.1	2.8	1.4	2.1	-0.5	-1.4	-1.2	0.1	1.9	4.3	5.8
Banking system (net)	-1.9	-1.9	-1.9	-1.4	-0.8	-1.7	-1.4	-0.5	0.6	2.2	3.3
Private non-banks (net)	-1.3	-1.4	-1.3	-1.6	-0.8	-0.8	-0.9	-1.1	-1.4	-1.8	-1.9
Government	8.5	9.4	9.6	9.7	4.3	5.7	6.1	7.1	8.3	9.9	10.8
Official debt service (interest)	-1.4	-1.5	-1.8	-1.8	-0.9	-1.1	-1.2	-1.3	-1.6	-1.9	-2.0
Foreign partners - oil	-1.8	-1.9	-3.2	-2.8	-2.3	-3.7	-3.9	-4.0	-4.1	-4.2	-4.3
Foreign partners - gas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Services, net	-4.9	-1.3	0.3	2.1	2.6	5.1	1.7	-4.2	-7.1	-9.0	-10.6
Credits	65.6	70.5	87.5	90.3	62.1	76.8	81.7	82.5	87.0	91.6	94.8
Debits	-70.5	-71.8	-87.2	-88.2	-59.5	-71.7	-80.0	-86.7	-94.0	-100.5	-105.5
Transfers, net	-39.1	-41.2	-46.1	-47.3	-43.5	-45.1	-47.7	-50.4	-53.4	-56.6	-60.2
Private (incl. remittances)	-33.1	-35.2	-38.3	-38.0	-34.8	-36.1	-38.1	-40.3	-42.7	-45.3	-48.1
Official	-6.0	-6.0	-7.8	-9.3	-8.7	-9.0	-9.6	-10.1	-10.7	-11.3	-12.1
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-19.3	-17.0	-34.5	-22.9	-23.6	-27.2	-27.5	-27.6	-27.5	-28.0	-28.1
Private capital	-18.5	-16.2	-31.8	-20.1	-21.9	-14.4	-14.6	-14.4	-14.1	-14.3	-14.1
Direct investment, net	-4.0	-3.7	-4.7	-4.7	-1.5	-1.3	-1.1	-0.5	0.6	0.7	1.5
Outward	-13.6	-14.1	-15.1	-18.5	-6.9	-7.8	-8.9	-10.1	-11.5	-12.7	-14.0
Inward	9.6	10.3	10.4	13.8	5.4	6.5	7.8	9.7	12.1	13.4	15.6
Portfolio flows, net	1.2	1.3	1.1	1.1	1.2	1.4	1.5	1.5	1.6	1.7	1.8
Commercial banks	-10.8	-9.0	-21.8	-8.6	-17.6	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
Private nonbanks and other 1/	-4.9	-4.8	-6.4	-8.0	-4.1	-4.5	-4.9	-5.5	-6.3	-6.7	-7.4
Official capital 2/	-0.8	-0.8	-2.7	-2.8	-1.7	-12.8	-12.9	-13.2	-13.5	-13.7	-14.0
Errors and omissions	-0.9	-0.5	-3.2	-4.8	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-7.1	9.9	3.5	9.6	-3.7	13.6	14.2	9.6	9.0	9.0	9.0
Change in central bank reserves	7.1	-9.9	-3.5	-9.6	3.7	-13.6	-14.2	-9.6	-9.0	-9.0	-9.0
Memorandum items:											
GDP (billions of U.S. dollars)	357.0	385.6	422.2	417.2	358.9	406.1	425.6	443.3	463.6	486.7	512.7
Gross reserves of central bank (billions of U.S. dollars) 3/	85.4	95.4	99.5	108.4	106.7	120.3	134.5	144.1	153.0	162.1	171.1
in months of next year's imports, net of re-exports	5.9	6.2	6.5	8.9	7.6	7.9	8.3	8.3	8.3	8.3	8.3

Sources: Country authorities; and IMF staff estimates and projections.

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

2/ Including estimated changes in SWF net external assets.

3/ Including the SDR allocation of SDR 2.2 billion.

Table 3a. UAE: Government Finances, 2016–26

	2016	2017	2018	2019	Est. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
Consolidated Government											
(Billions of UAE dirhams)											
Total revenue	378.5	404.4	477.6	476.5	367.9	457.8	482.5	499.8	520.0	544.6	572.3
Taxes	116.8	166.6	240.6	228.3	151.2	216.8	229.2	234.7	242.8	252.7	265.0
Other Revenue	261.7	237.8	236.9	248.1	216.7	241.0	253.3	265.1	277.2	291.9	307.3
Expenditures	415.4	428.2	448.1	467.4	434.8	468.1	486.0	500.3	517.0	533.0	550.0
Expense	365.8	387.2	417.9	413.7	388.2	414.3	428.7	442.0	456.9	470.2	483.8
Net acquisition of nonfinancial assets	49.6	41.0	30.2	53.7	46.5	53.9	57.3	58.3	60.1	62.8	66.2
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-37.0	-23.8	29.5	9.1	-66.9	-10.3	-3.5	-0.6	3.0	11.6	22.3
(Percent of GDP)											
Total revenue	28.9	28.6	30.8	31.1	27.9	30.7	30.9	30.7	30.5	30.5	30.4
Expenditures	31.7	30.2	28.9	30.5	33.0	31.4	31.1	30.7	30.4	29.8	29.2
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-2.8	-1.7	1.9	0.6	-5.1	-0.7	-0.2	0.0	0.2	0.7	1.2
Central Government											
(Billions of UAE dirhams)											
Total revenue	63.6	69.5	79.8	85.1	68.1	69.8	71.5	73.3	75.6	78.2	81.0
Taxes	5.3	5.6	10.1	14.9	8.8	9.5	10.5	11.6	12.8	14.1	15.6
Other Revenue	58.3	63.9	69.7	70.2	59.4	60.2	61.0	61.7	62.9	64.1	65.4
Expenditures	69.4	64.7	65.6	69.0	64.4	65.1	68.1	70.5	73.0	75.4	77.8
Expense	61.4	57.3	61.4	65.4	59.2	58.4	61.0	62.9	64.9	66.7	68.4
Net acquisition of nonfinancial assets	8.0	7.3	4.2	3.6	5.2	6.7	7.1	7.6	8.2	8.7	9.4
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-5.8	4.8	14.2	16.1	3.7	4.7	3.4	2.8	2.6	2.8	3.2
(Percent of GDP)											
Total revenue	4.8	4.9	5.1	5.6	5.2	4.7	4.6	4.5	4.4	4.4	4.3
Expenditures	5.3	4.6	4.2	4.5	4.9	4.4	4.4	4.3	4.3	4.2	4.1
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-0.4	0.3	0.9	1.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Abu Dhabi Government 1/											
(Billions of UAE dirhams)											
Total revenue	251.7	280.1	327.8	317.4	242.3	325.4	344.4	355.6	368.8	385.7	405.0
Taxes	89.9	142.4	199.5	181.2	117.6	178.0	187.8	190.5	195.4	201.8	210.0
Other Revenue	161.8	137.7	128.3	136.2	124.6	147.3	156.6	165.1	173.4	183.9	194.9
Expenditures	278.4	304.4	321.8	324.1	282.1	317.0	330.4	340.4	352.5	364.6	377.4
Expense	256.4	284.2	304.3	287.2	258.6	284.7	294.7	304.0	314.6	324.4	334.3
Net acquisition of nonfinancial assets	22.1	20.2	17.6	36.9	23.5	32.3	35.7	36.4	37.9	40.2	43.0
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-26.7	-24.3	5.9	-6.7	-39.8	8.3	14.0	15.2	16.3	21.1	27.6
(Percent of Abu Dhabi GDP)											
Total revenue	33.1	34.4	35.2	34.7	32.5	36.1	36.6	36.7	36.7	36.9	37.1
Expenditures	36.6	37.4	34.5	35.4	37.8	35.2	35.2	35.2	35.1	34.9	34.6
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-3.5	-3.0	0.6	-0.7	-5.3	0.9	1.5	1.6	1.6	2.0	2.5
Dubai Government											
(Billions of UAE dirhams)											
Total revenue	63.3	57.9	69.4	67.1	51.3	56.5	59.5	62.8	66.4	70.4	74.7
Taxes	17.4	17.3	27.0	26.5	21.1	25.1	26.4	27.8	29.3	31.0	32.8
Other Revenue	46.0	40.7	42.4	40.6	30.2	31.4	33.1	35.0	37.1	39.4	41.9
Expenditures	68.2	60.9	59.1	64.2	81.6	77.0	77.8	78.8	79.9	80.4	81.0
Expense	52.1	49.1	53.4	56.2	66.6	66.0	67.3	68.9	70.5	71.3	72.3
Net acquisition of nonfinancial assets	16.2	11.7	5.7	8.0	15.1	11.0	10.4	9.9	9.4	9.0	8.6
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-4.9	-2.9	10.3	2.9	-30.3	-20.5	-18.2	-16.0	-13.5	-10.0	-6.3
(Percent of Dubai GDP)											
Total revenue	16.0	14.1	16.5	15.5	13.3	14.1	14.0	14.0	14.0	14.0	13.9
Expenditures	17.2	14.8	14.0	14.9	21.1	19.1	18.3	17.6	16.8	15.9	15.1
Net lending (+) / borrowing (-) (Revenue minus expenditures)	-1.2	-0.7	2.4	0.7	-7.8	-5.1	-4.3	-3.6	-2.8	-2.0	-1.2
Sources: Country authorities; and IMF staff estimates and projections.											
1/ Abu Dhabi data are estimates starting from 2018.											

Table 3b. UAE: General Government Finances, 2016-26

	2016	2017	2018	2019	Est. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
(Billions of UAE dirhams, unless otherwise specified)											
Total revenue	378.5	404.4	477.6	476.5	367.9	457.8	482.5	499.8	520.0	544.6	572.3
Taxes	116.8	166.6	240.6	228.3	151.2	216.8	229.2	234.7	242.8	252.7	265.0
Social Contributions	4.4	4.6	4.8	4.6	12.9	13.3	13.8	14.3	14.8	15.4	16.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	257.3	233.2	232.1	243.5	203.8	227.7	239.6	250.8	262.4	276.5	291.4
Expenditures (a+b)	415.4	428.2	448.1	467.4	434.8	468.1	486.0	500.3	517.0	533.0	550.0
Expense (a)	365.8	387.2	417.9	413.7	388.2	414.3	428.7	442.0	456.9	470.2	483.8
Compensation of employees	64.1	76.1	83.2	107.7	110.0	114.6	119.1	123.4	130.0	135.3	142.1
Use of goods and services	47.3	90.9	86.6	119.4	105.2	115.4	121.9	126.2	129.7	132.3	134.9
Consumption of fixed capital	5.5	5.0	4.6	5.3	6.5	7.7	8.0	8.5	8.9	9.4	9.9
Interest	2.0	1.9	3.7	4.5	3.8	4.6	5.7	7.9	10.7	14.2	16.4
Subsidies	18.5	21.9	29.7	26.9	36.4	35.3	34.3	33.2	32.2	30.9	29.7
Grants	17.1	11.1	13.3	16.3	4.0	13.4	13.5	13.8	14.1	14.3	14.6
Social Benefits	53.2	41.2	65.8	74.6	64.9	65.6	67.6	69.7	72.0	74.4	76.9
Other expenses 2/	158.0	139.2	131.0	58.9	57.4	57.7	58.6	59.4	59.3	59.3	59.3
Net acquisition of nonfinancial assets (b)	49.6	41.0	30.2	53.7	46.5	53.9	57.3	58.3	60.1	62.8	66.2
Net operating balance (Revenue minus expense)	12.7	17.2	59.7	62.8	-20.4	43.5	53.8	57.7	63.1	74.4	88.5
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-37.0	-23.8	29.5	9.1	-66.9	-10.3	-3.5	-0.6	3.0	11.6	22.3
Net acquisition of financial assets 1/ 3/	-1.7	27.9	56.6	76.9	16.4	25.8	23.8	18.0	18.1	23.0	30.5
Domestic	-1.5	22.0	54.7	27.8	6.1	-25.4	-10.6	-11.2	-7.8	-4.6	-1.3
Foreign	-0.2	5.9	1.9	49.0	8.7	51.2	34.4	29.4	26.1	27.9	32.3
Net incurrence of liabilities	35.2	51.7	27.1	67.8	83.3	36.1	27.3	18.6	15.1	11.3	8.2
Domestic	14.5	10.8	17.5	4.7	2.1	3.0	2.7	2.4	2.2	2.0	1.7
Foreign	20.7	40.9	9.5	63.0	81.2	33.2	24.6	16.2	12.9	9.4	6.5
<i>Memorandum Items:</i>											
Oil revenue	165.3	198.7	303.4	253.4	159.6	251.1	264.0	266.2	268.2	275.0	284.4
Profit transfers from the national oil company to SWF 4/	42.4	53.2	74.3	67.6	38.3	66.4	68.0	66.5	66.2	66.4	67.5
Nonoil revenue	213.2	205.8	174.2	223.1	208.2	206.7	218.5	233.6	251.8	269.7	287.9
Investment income (from SWF) 4/	41.9	60.7	0.0	40.7	51.2	45.3	50.9	58.3	68.9	78.3	87.2
Abu Dhabi capital transfers	16.1	26.8	29.7	29.6	29.0	28.2	28.8	29.2	29.6	30.0	30.4
Adjusted nonoil primary balance 5/	-242.1	-281.2	-270.3	-280.5	-274.0	-302.0	-312.7	-317.2	-323.4	-327.4	-332.9
In percent of nonoil GDP	-22.9	-25.0	-23.6	-23.7	-25.1	-26.7	-26.1	-25.1	-24.1	-23.0	-22.1
Fiscal breakeven oil price (US \$ per barrel)	53.9	60.9	64.2	61.7	60.0	69.7	66.8	63.2	60.3	56.9	53.8
(Percent of GDP)											
Total revenue	28.9	28.6	30.8	31.1	27.9	30.7	30.9	30.7	30.5	30.5	30.4
Taxes	8.9	11.8	15.5	14.9	11.5	14.5	14.7	14.4	14.3	14.1	14.1
Social Contributions	0.3	0.3	0.3	0.3	1.0	0.9	0.9	0.9	0.9	0.9	0.8
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	19.6	16.5	15.0	15.9	15.5	15.3	15.3	15.4	15.4	15.5	15.5
Expenditures	31.7	30.2	28.9	30.5	33.0	31.4	31.1	30.7	30.4	29.8	29.2
Expense	27.9	27.3	26.9	27.0	29.5	27.8	27.4	27.2	26.8	26.3	25.7
Compensation of employees	4.9	5.4	5.4	7.0	8.3	7.7	7.6	7.6	7.6	7.6	7.5
Use of goods and services	3.6	6.4	5.6	7.8	8.0	7.7	7.8	7.7	7.6	7.4	7.2
Consumption of fixed capital	0.4	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Interest	0.2	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.6	0.8	0.9
Subsidies	1.4	1.5	1.9	1.8	2.8	2.4	2.2	2.0	1.9	1.7	1.6
Grants	1.3	0.8	0.9	1.1	0.3	0.9	0.9	0.8	0.8	0.8	0.8
Social Benefits	4.1	2.9	4.2	4.9	4.9	4.4	4.3	4.3	4.2	4.2	4.1
Other expenses 2/	12.1	9.8	8.5	3.8	4.4	3.9	3.8	3.6	3.5	3.3	3.2
Net acquisition of nonfinancial assets	3.8	2.9	2.0	3.5	3.5	3.6	3.7	3.6	3.5	3.5	3.5
Net operating balance (Revenue minus Expense)	1.0	1.2	3.9	4.1	-1.5	2.9	3.4	3.5	3.7	4.2	4.7
Net lending(+)/borrowing(-)	-2.8	-1.7	1.9	0.6	-5.1	-0.7	-0.2	0.0	0.2	0.7	1.2
Net acquisition of financial assets 1/ 3/	-0.1	2.0	3.6	5.0	1.2	1.7	1.5	1.1	1.1	1.3	1.6
Domestic	-0.1	1.6	3.5	1.8	0.5	-1.7	-0.7	-0.7	-0.5	-0.3	-0.1
Foreign	0.0	0.4	0.1	3.2	0.7	3.4	2.2	1.8	1.5	1.6	1.7
Net incurrence of liabilities	2.7	3.7	1.7	4.4	6.3	2.4	1.7	1.1	0.9	0.6	0.4
Domestic	1.1	0.8	1.1	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Foreign	1.6	2.9	0.6	4.1	6.2	2.2	1.6	1.0	0.8	0.5	0.3
<i>Memorandum Items:</i>											
Oil revenue	12.6	14.0	19.6	16.5	12.1	16.8	16.9	16.4	15.8	15.4	15.1
Profit transfers from the national oil company to SWF 4/	3.2	3.8	4.8	4.4	2.9	4.5	4.4	4.1	3.9	3.7	3.6
Nonoil revenue	16.3	14.5	11.2	14.6	15.8	13.9	14.0	14.3	14.8	15.1	15.3
Investment income (from SWF) 4/	3.2	4.3	0.0	2.7	3.9	3.0	3.3	3.6	4.0	4.4	4.6
Abu Dhabi capital transfers	1.2	1.9	1.9	1.9	2.2	1.9	1.8	1.8	1.7	1.7	1.6

Sources: Country authorities and IMF staff estimates and projections.

1/ Includes staff estimates of 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 of SWF investment income.

Table 3c. UAE: Central Government Finance, 2016–26

	2016	2017	2018	2019	Est. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
(Billions of UAE dirhams)											
Total revenue	63.6	69.5	79.8	85.1	68.1	69.8	71.5	73.3	75.6	78.2	81.0
Taxes	5.3	5.6	10.1	14.9	8.8	9.5	10.5	11.6	12.8	14.1	15.6
Social Contributions	4.3	4.6	4.8	4.6	4.8	4.8	4.9	5.0	5.1	5.2	5.3
Grants	16.7	18.0	18.0	13.4	11.0	12.0	12.1	12.3	12.5	12.7	12.9
Other Revenue	37.2	41.3	46.8	52.2	43.6	43.4	43.9	44.4	45.3	46.2	47.1
Expenditures (a+b)	69.4	64.7	65.6	69.0	64.4	65.1	68.1	70.5	73.0	75.4	77.8
Expense (a)	61.4	57.3	61.4	65.4	59.2	58.4	61.0	62.9	64.9	66.7	68.4
Compensation of employees	21.0	21.5	21.8	22.5	22.9	23.1	23.6	24.1	24.5	25.0	25.5
Use of goods and services	19.0	21.1	22.5	26.2	24.7	23.6	24.9	25.5	26.2	26.7	27.0
Consumption of fixed capital	0.7	0.7	0.7	0.9	0.9	0.9	0.9	1.0	1.1	1.1	1.2
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.7	0.6	1.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Social Benefits	10.9	12.0	12.0	12.3	8.9	9.0	9.7	10.4	11.1	11.9	12.7
Other expenses	8.6	1.5	3.2	2.8	1.3	1.3	1.3	1.3	1.4	1.4	1.4
Net acquisition of nonfinancial assets (b)	8.0	7.3	4.2	3.6	5.2	6.7	7.1	7.6	8.2	8.7	9.4
Net operating balance (Revenue minus expense)	2.2	12.1	18.4	19.7	8.9	11.4	10.5	10.4	10.8	11.5	12.6
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-5.8	4.8	14.2	16.1	3.7	4.7	3.4	2.8	2.6	2.8	3.2
Net acquisition of financial assets	-5.8	6.5	14.2	16.1	3.7	19.4	3.4	2.8	2.6	2.8	3.2
Domestic	-5.8	6.5	14.2	16.1	3.7	4.7	3.4	2.8	2.6	2.8	3.2
Foreign	0.0	0.0	0.0	0.0	0.0	14.7	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.0	1.7	0.0	0.0	0.0	14.7	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	1.7	0.0	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	14.7	0.0	0.0	0.0	0.0	0.0
(Percent of GDP)											
Total revenue	4.8	4.9	5.1	5.6	5.2	4.7	4.6	4.5	4.4	4.4	4.3
Taxes	0.4	0.4	0.7	1.0	0.7	0.6	0.7	0.7	0.7	0.8	0.8
Social Contributions	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Grants	1.3	1.3	1.2	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Other Revenue	2.8	2.9	3.0	3.4	3.3	2.9	2.8	2.7	2.7	2.6	2.5
Expenditures (a+b)	5.3	4.6	4.2	4.5	4.9	4.4	4.4	4.3	4.3	4.2	4.1
Expense (a)	4.7	4.0	4.0	4.3	4.5	3.9	3.9	3.9	3.8	3.7	3.6
Compensation of employees	1.6	1.5	1.4	1.5	1.7	1.5	1.5	1.5	1.4	1.4	1.4
Purchase of goods and services	1.4	1.5	1.5	1.7	1.9	1.6	1.6	1.6	1.5	1.5	1.4
Consumption of fixed capital	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest	0.0	0.0	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	0.0	0.0
Grants	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Benefits	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.7	0.7	0.7
Other expenses	0.7	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net acquisition of nonfinancial assets (b)	0.6	0.5	0.3	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Net operating balance (Revenue minus Expense)	0.2	0.9	1.2	1.3	0.7	0.8	0.7	0.6	0.6	0.6	0.7
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-0.4	0.3	0.9	1.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Net acquisition of financial assets	-0.4	0.5	0.9	1.1	0.3	1.3	0.2	0.2	0.2	0.2	0.2
Domestic	-0.4	0.5	0.9	1.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Foreign	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.0	0.1	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.1	0.0	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	1.0	0.0	0.0	0.0	0.0	0.0
Sources: Country authorities and IMF staff estimates and projections.											

Table 4. UAE: Monetary Survey, 2016–26

	2016	2017	2018	2019	Est. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
(Billions of UAE dirhams)											
Net foreign assets	259	328	418	485	515	576	639	687	732	779	825
Foreign assets	861	929	1,045	1,169	1,241	1,316	1,395	1,457	1,518	1,580	1,642
Central Bank 1/	314	350	365	398	392	442	494	529	562	595	628
Commercial banks	547	579	680	771	849	875	901	928	956	984	1,014
Foreign liabilities	602	601	627	684	726	741	755	770	785	801	817
Central bank	5	5	7	4	11	11	11	11	11	11	11
Commercial banks	597	596	620	680	716	730	745	759	775	790	806
Net domestic assets	967	948	890	928	964	958	960	980	1,009	1,054	1,115
Claims on government (net)	-50	-53	-122	-66	-30	-2	11	25	35	41	44
Claims	158	160	174	239	261	264	267	269	271	273	275
Deposits	209	213	296	306	292	266	256	244	237	232	231
Claims on other sovereign	107	117	117	117	117	117	117	117	117	117	117
Claims on public sector enterprises	225	212	209	224	262	263	269	275	280	286	292
Claims on private sector	1,100	1,108	1,152	1,159	1,128	1,142	1,194	1,263	1,337	1,418	1,507
Claims on other financial institutions	30	31	32	26	28	29	31	33	35	37	39
Other items (net)	-444	-468	-498	-532	-541	-591	-663	-733	-795	-845	-885
Capital and reserves (-)	-329	-359	-378	-418	-419	-433	-425	-437	-448	-460	-474
Other assets (net)	-115	-109	-120	-114	-122	-158	-238	-296	-347	-386	-411
Central Bank	-261	-288	-295	-317	-285	-302	-379	-410	-438	-464	-490
Commercial banks	146	180	176	203	163	144	142	114	91	79	79
Broad money (M2)	1,225	1,276	1,308	1,413	1,479	1,534	1,599	1,667	1,742	1,833	1,940
Money	475	493	486	516	601	653	650	677	707	744	788
Currency outside banks	62	68	71	78	95	129	103	107	112	118	125
Dirham demand deposits	412	425	416	437	506	524	547	570	595	626	663
Quasi-money	751	783	822	897	878	881	950	990	1,034	1,088	1,152
Foreign currency deposits	271	271	304	323	331	336	358	373	390	411	435
Dirham time and savings deposits	480	513	518	575	547	545	591	616	644	678	718
<i>Memorandum items:</i>											
Dirham denominated liquidity	955	1,005	1,004	1,091	1,147	1,198	1,241	1,293	1,352	1,422	1,506
Reserve money	338	377	380	410	427	426	457	471	492	518	548
Foreign currency deposits/total deposits (in percent)	23.3	22.4	24.6	24.2	23.9	23.9	23.9	23.9	23.9	23.9	23.9
NFA/M2 (in percent) 1/	21.1	25.7	32.0	34.3	34.8	37.5	40.0	41.2	42.0	42.5	42.5
CBU foreign assets/reserve money (in percent) 1/	92.8	92.8	96.3	97.2	91.7	103.7	108.1	112.4	114.2	115.0	114.6
NFA of Central Bank 1/	308.9	345.1	358.4	394.2	381.0	431.0	483.0	518.2	551.2	584.4	617.5
NFA of commercial banks	-50.1	-16.8	59.7	91.1	133.5	144.6	156.3	168.4	181.0	194.2	208.0
M2 velocity (in percent of nonoil GDP)	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Private sector credit (in percent of nonoil GDP)	104.0	98.4	100.4	97.8	103.4	100.9	99.9	99.9	99.9	99.9	99.9
(Changes in percent; unless otherwise indicated)											
Claims on private sector	5.8	0.7	4.0	0.6	-2.6	1.2	4.6	5.8	5.9	6.1	6.3
Broad money (M2)	3.3	4.1	2.5	8.0	4.6	3.8	4.2	4.2	4.5	5.2	5.9
Money	3.8	3.9	-1.4	6.1	16.5	8.7	-0.5	4.2	4.5	5.2	5.9
Quasi Money	2.9	4.3	5.0	9.2	-2.2	0.4	7.8	4.2	4.5	5.2	5.9
Velocity (nonoil GDP/M2)	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Base money	-7.4	11.6	0.6	7.9	4.4	-0.3	7.2	3.0	4.5	5.2	5.9
Money multiplier (M2/base money)	3.6	3.4	3.4	3.5	3.5	3.6	3.5	3.5	3.5	3.5	3.5

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

1/ Including the SDR allocation of SDR 2.2 billion.

Table 5. UAE: Maturing Bonds, Syndicated and Bilateral Loans in the Non-Financial Public Sector (as of October 15, 2021) 1/ 2/

(In millions of U.S. dollars)

	Debt Type	2020	2021	2022	2023	2024	2025	Beyond	Total
Abu Dhabi									
Government									
Government	Bonds	0	2,500	3,000	2,000	3,000	3,000	31,500	45,000
	Loans	67	67	67	67	67	67	0	405
	Guarantees	275	127	127	101	101	-	1,201	1,931
	Total	343	2,694	3,195	2,168	3,168	3,067	32,701	47,336
In percent of Abu Dhabi GDP		0.2	1.1	1.2	0.8	1.2	1.1		
Government Related Enterprises (GREs)									
Non-bank GREs with >50% government ownership, including subsidiaries debt guaranteed by parent GRE	Bonds	0	4,300	215	1,250	1,849	2,650	24,846	35,110
	Loans	11,874	9,200	8,587	6,033	4,232	2,866	9,147	51,938
	Total	11,874	13,500	8,802	7,283	6,080	5,516	33,993	87,048
Government plus non-bank GREs (>50% gov't ownership)		12,216	16,194	11,997	9,451	9,249	8,583	66,694	134,384
In percent of Abu Dhabi GDP		6.0	6.6	4.7	3.6	3.4	3.0		
<i>Memorandum items:</i>									
All Abu Dhabi GREs: bonds and loans		14,679	15,148	11,443	10,458	10,425	8,327	44,197	114,677
Government-owned banks: bonds and loans		2,805	1,648	2,641	3,175	4,345	2,811	10,204	27,629
Dubai									
Government									
Government	Bonds	750	500	0	11,000	10,400	0	3,250	25,900
	Loans	731	731	731	411	411	411	1,259	4,683
	Guarantees 3/	275	375	212	3,111	65	-	14,795	18,833
	Total	1,756	1,606	943	14,522	10,876	411	19,304	49,416
Government Related Enterprises (GREs)									
Non-bank GREs with >50% government ownership, including subsidiaries debt guaranteed by parent GRE	Bonds	2,700	1,050	535	1,700	2,000	2,312	11,978	22,274
	Loans	9,548	8,419	7,034	3,652	2,380	1,815	6,589	39,437
	Total	12,248	9,469	7,569	5,352	4,380	4,127	18,566	61,711
Government, other sovereign, and non-bank GREs with >50% government ownership 4/		14,004	11,074	8,512	19,874	15,256	4,537	79,796	153,053
In percent of Dubai GDP		13.3	10.1	7.4	16.3	11.8	3.3		
<i>Memorandum items:</i>									
All Dubai GREs: bonds and loans		16,414	11,568	11,390	8,825	5,628	6,991	27,060	87,876
Government owned banks: bonds and loans		4,166	2,100	3,820	3,473	1,248	2,864	8,493	26,165
Federal									
Government									
Government	All sovereign	0	0	0	0	0	0	4,000	4,000
Government Related Enterprises (GREs)									
GREs with >50% government ownership 5/	Bonds	0	1,628	0	0	500	0	2,829	4,957
	Loans	383	14	191	191	191	191	441	1,603
	Total	383	1,642	191	191	691	191	3,270	6,560
Northern Emirates									
Ras Al Khaimah	All sovereign	0	0	0	0	0	1,000	0	1,000
Sharjah	All sovereign	56	874	56	56	0	0	7,000	8,043
GREs with >50% government ownership	Bonds & Loans	467	388	319	266	181	181	1,029	2,832

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

1/ Excluding bilateral bank loans and accounts payable, except for the sovereign.

2/ Regardless of residency of debt holders.

3/ Includes estimated payment undertaking.

4/ Includes sovereign exposure to a majority state-owned bank.

5/ Emirates Investment Authority and companies in its holding.

Table 6. UAE: Financial Soundness Indicators of the Banking Sector

(Percent)

	2016	2017	2018	2019	2020	2021Q2
Regulatory Capital to Risk-Weighted Assets	18.9	18.1	17.5	17.7	18.1	17.5
Regulatory Tier 1 Capital to Risk-Weighted Assets	17.3	16.6	16.2	16.5	17.0	16.4
Non-performing Loans to Total Gross Loans	5.1	5.3	5.6	6.5	8.2	8.2
Return on Assets	1.5	1.5	1.6	1.6	0.7	1.0
Return on Equity	10.7	10.8	11.0	11.2	4.8	7.2
Interest Margin to Gross Income	68.9	66.5	71.5	67.9	68.5	64.5
Non-interest Expenses to Gross Income	38.0	39.1	35.9	33.8	37.0	37.4
Liquid Assets to Total Assets (Liquid Asset Ratio)	13.5	15.2	14.7	15.2	15.4	15.4
Net Open Position in Foreign Exchange to Capital	9.4	14.5	8.7	-2.3	24.8	27.4

Source: Central Bank of the United Arab Emirates.

Annex I. Policy Measures Adopted and Announced in 2020–21

Fiscal	Monetary and Financial	Structural
<p>UAE wide:</p> <ul style="list-style-type: none"> (2020) UAE Cabinet launched economic stimulus package of AED 16bn (1.2 percent of UAE GDP) including exemptions, fee reductions, payment deferrals, subsidies, equity spending, and extended tax deadlines and payments; some <i>measures extended until end-2021</i>. <p>Abu Dhabi:</p> <ul style="list-style-type: none"> (2020) launched economic stimulus package of AED 9bn (0.7 percent of UAE GDP). <p>Dubai:</p> <ul style="list-style-type: none"> (2020) launched four economic stimulus packages of AED 6.8bn (0.5 percent of UAE GDP) to support the education and tourism sectors; reimburse of customs; (2021) a fifth stimulus package of AED 315mn (0.02 percent of UAE GDP); rent relief for 1,500 businesses totaling AED 200mn; extended a three-year freeze on fees charged for certain government services <i>until 2023</i>; <i>rolled out new</i> measures in 2021 to support entrepreneurs. <p>Ras Al Khaimah introduced an economic relief package of AED 50mn for SMEs and industrial companies; reduced trade license renewal fees by up to 50 percent (2020).</p> <p>Sharjah approved a stimulus package of AED 1bn (0.08 percent of UAE GDP) in 2020.</p>	<p>UAE wide:</p> <ul style="list-style-type: none"> (2020) CBUAE announced the AED 256bn (19.5 percent of UAE GDP) Targeted Economic Support Scheme (TESS), providing a number of measures, including: zero-interest rate loans to banks, for deferrals (Deferral program: <i>extended till end-2021</i>) and new loans (Recovery program: <i>extended till June 2022</i>); TESS Deferral program provided support up to AED 56bn, of which about 20 percent for individuals and SMEs; capital, liquidity and stable funding relief <i>through end-2021</i>; reduced reserve requirements, Loan-To-Value ratio increase for first time home buyers (<i>end date to be defined</i>); CBUAE reduced policy rate twice, by 125 basis points (2020). The policy rate was increased by 5 basis points in June 2021. <p>Sharjah established a framework of AED 4 bn (4 percent of Sharjah GDP) to enhance liquidity for the emirate’s banking system and to provide additional financial assistance to all impacted businesses.</p>	<p>UAE wide:</p> <ul style="list-style-type: none"> Announced “Projects of the 50” agenda (2021) to boost trade and attract FDI, expand employment of nationals in the private sector, incentivize advance technology creation and adoption; modernized visa regulations and work permits: expanded “Golden Visa” for high-skilled, “Green Visa” for expats to sponsor themselves, freelancers visa, remote work visa, multiple-entry tourist visa, and others; grant citizenship to investors and professionals; allowed full foreign ownership of onshore firms; launched the national program to support the stability of the labor market; regulator requires listed companies to have at least one female on board. <p>Abu Dhabi:</p> <ul style="list-style-type: none"> AFD pledged AED 1 bn to support Emirati-owned businesses; permitted commercial and industrial licensees to renew their investment activities’ licenses for a period of 3 years; reduces business setup fees by 94 percent; plans to invest AED 22 bn in its cultural and creative industries. <p>Dubai:</p> <ul style="list-style-type: none"> announced measures to improve business conditions. <p>Ras Al Khaimah plans to invest USD 136mn in tourism sector and launches e-gaming business package.</p>

Annex II. Implementation of Past Fund Article IV Advice

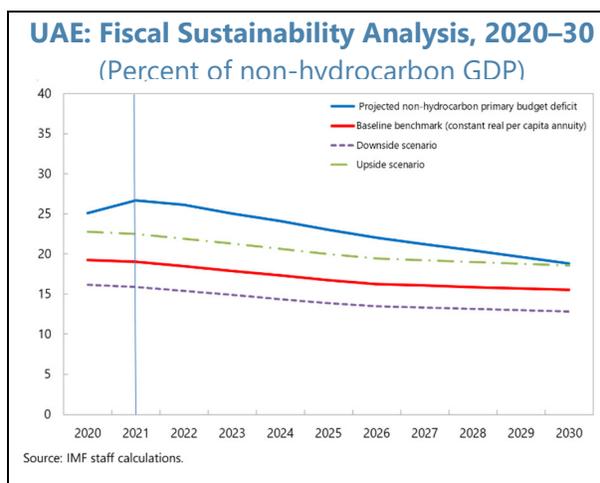
Recommendation	Status
Fiscal	
Develop a consolidated fiscal framework for the UAE.	In progress. Issuance of the first foreign currency federal bonds in October 2021.
Conduct a study assessing economic distortions from government fees and exploring alternative revenue models more conducive to SME development.	Not implemented.
Improve fiscal risk management: strengthen GREs' reporting requirements; create a database of their financial indicators and public sector balance sheet.	Not implemented.
Monetary/Financial	
Design stringent stress testing scenarios, including for GREs.	In progress. Progress has been made to strengthen stress testing, including through a TA mission in July 2021. Further enhancements are planned.
Maintain prudential limits on bank lending to real estate.	In progress. Calibration of the new Framework for Bank's Real Estate Exposure is ongoing.
Continue to strengthen AML/CFT regime.	In progress. The UAE has delivered several important legislative and institutional reforms. Further efforts are needed.
Develop domestic debt markets.	In progress. The implementation of the new Dirham Monetary Framework in 2021 provided initial support. Further development will arise from the planned issuance of domestic federal debt.
Structural	
Liberalize foreign investment outside of free zones.	Implemented. UAE allowed 100 percent foreign ownership of onshore companies in June 2021.
Bring GREs within the scope of competition laws.	Not implemented.
Bring government wages and allowances in line with those in the private sector to facilitate Emiratization.	In progress. In mid-2021, the authorities announced salary top-ups, training grants, pension subsidies and child allowances for Emiratis working in the private sector.
Strengthen the important role of SMEs by reducing costs to open a business.	In progress. Business setup fees in Abu Dhabi have been reduced by 90 percent since July 2021, and Dubai issued directives to reduce government procedures for doing business by 30 percent.
Building human capital.	In progress. New visa regulations have been launched to attract high-skill workers. Programs to develop domestic human capital have been announced.
Statistics	
Produce and publish external statistics.	In progress. TA has been requested.
Produce and publish quarterly GDP data.	In progress. An issue of timeliness needs to be addressed.

Annex III. Fiscal and Debt Sustainability Assessments

Current saving of exhaustible oil revenue is below the level needed to ensure intergenerational equity, implied by the Permanent Income Hypothesis (PIH), indicating that financial wealth is being eroded. Overall, general government debt increased in 2020 but is expected to decline in percent of GDP with improved oil revenue from higher oil prices and growth. Fiscal risks remain elevated in Dubai.

A. Long-term Fiscal Sustainability

1. Government saving of exhaustible oil revenue remains below the benchmark implied by the PIH. The gap between the non-oil primary budget deficit and the benchmark consistent with a constant real per capita annuity shrunk to 5.8 percent in 2020 but is expected to widen to about 7.6 percent in 2021. On current policies, notably crisis induced short-term fiscal relaxation followed by gradual consolidation over the medium term, this gap is expected to gradually narrow to 5.8 percent of non-oil GDP in the medium term (Figure). More positive (negative) underlying assumptions/scenarios would imply a smaller (larger) gap.¹

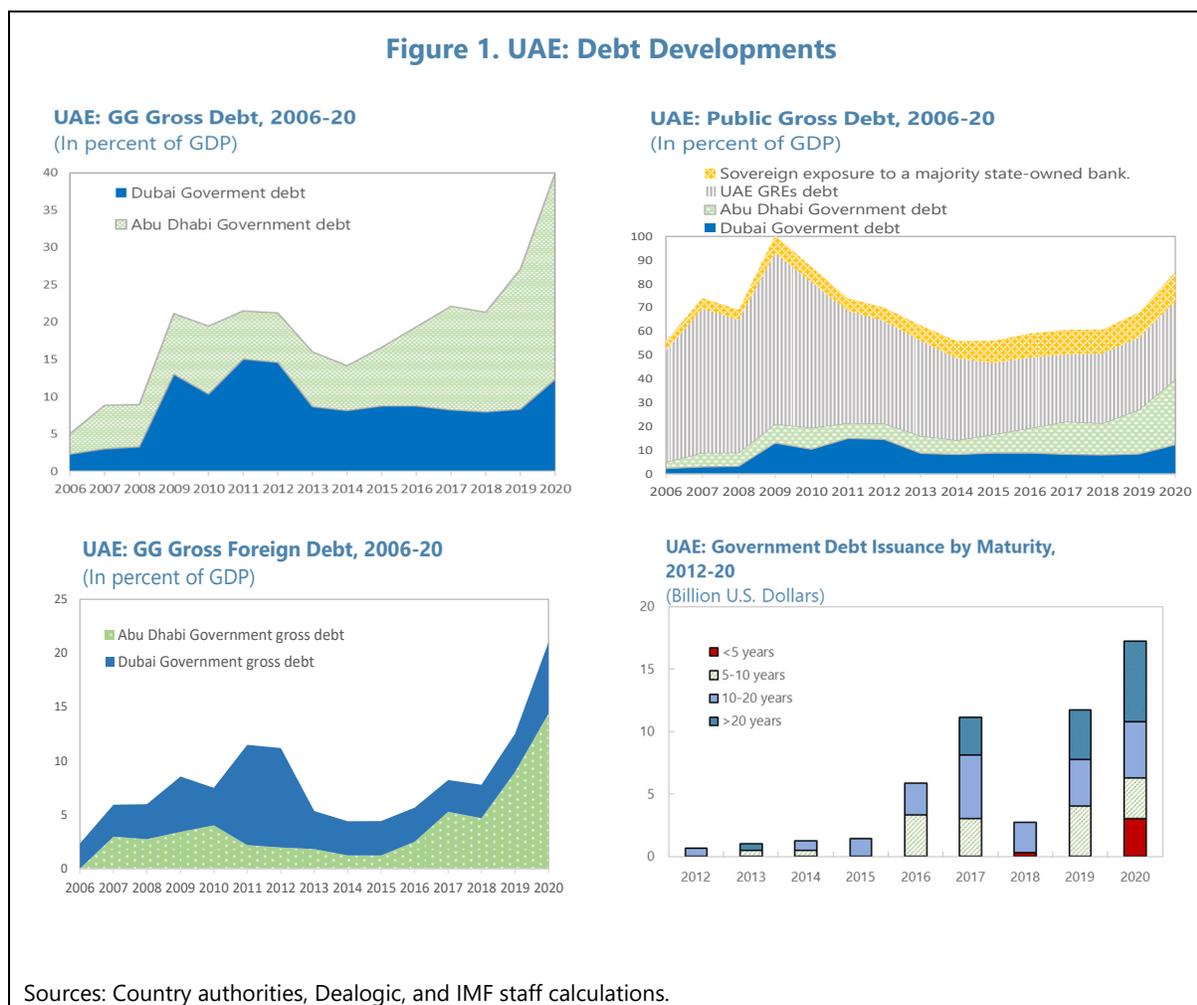


B. UAE Debt Sustainability Assessment

2. General government debt-to-GDP increased sharply in 2020 to 39.4 percent of GDP, as financing needs increased while GDP contracted. Both Abu Dhabi and Dubai debt increased in 2020 by 8.5 and 3.8 percent of UAE GDP to 27.3 and 12.1 percent of UAE GDP, respectively. Some of the general government debt increase in 2019–2020 is also attributable to the decline in nominal GDP due to negative inflation in 2019–2020 and real GDP contraction in 2020, as well as increased reliance on foreign borrowing by Abu Dhabi since 2015. The share of Abu Dhabi foreign debt increased from about 16 percent of total Abu Dhabi debt in 2015 to about 50 percent in 2019–2020. At the same time, both Abu Dhabi and Dubai managed to extend the maturity of their overall respective debt profiles from about 5 years (median) in 2018 to above 10 years in 2020.

¹ The baseline PIH benchmark is obtained by calculating a constant real per capita government spending path (and related non-oil deficit) that delivers a constant real per capita annuity to finance government spending after oil revenues are exhausted. Projections until 2026 are based on staff's macroeconomic framework, including WEO oil price assumptions. After 2026, the baseline assumes flat oil production, oil price growth and inflation of 2 percent, population growth based on UN population prospects projection (2019), and real return on assets of 4 percent. Upside (downside) scenarios assume permanently higher (lower) oil price by \$5/barrel, lower (higher) population growth by 0.25 percent, and higher (lower) return on assets by 50 basis points.

Figure 1. UAE: Debt Developments



3. The debt burden in Dubai has increased. The fiscal expansion owing to preparations for Expo 2020, fiscal stimulus in 2020, and the base effect from lower nominal GDP, have pushed Dubai government debt (including guarantees) to 12.1 percent of the UAE GDP in 2020 from 10.5 percent of GDP in 2019. In the medium-term, there are large financing needs resulting from the expected repayment of \$20 billion by the Dubai Financial Support Fund (DFSF)¹.

4. Contingent liabilities boost sovereign debt burdens, particularly in Dubai. In assessing debt sustainability for the UAE more broadly, consideration should be given to the debt of majority state-owned non-bank GREs, estimated at 32.3 percent of GDP in 2020 (a detailed discussion of GREs' contingent liabilities risks is presented in Annex III Box I). Including GREs' debt exposures brings UAE gross government debt to 71.7 percent of GDP in 2020, of which, Abu Dhabi's debt is

¹ The DFSF was previously capitalized by the government of Abu Dhabi and the CBUAE. This \$20 billion in DFSF financing was refinanced in 2014, and in 2018-19.

about 45.2 percent of UAE GDP, and Dubai's debt is 26.5 percent of UAE GDP. For Dubai, once a contingent liability from a majority state-owned bank is taken into consideration, its debt ratio increases to 38.7 percent of UAE GDP. The UAE's substantial sovereign foreign assets mitigate risks and should also be considered; however, these data are unavailable for a more comprehensive debt sustainability analysis.

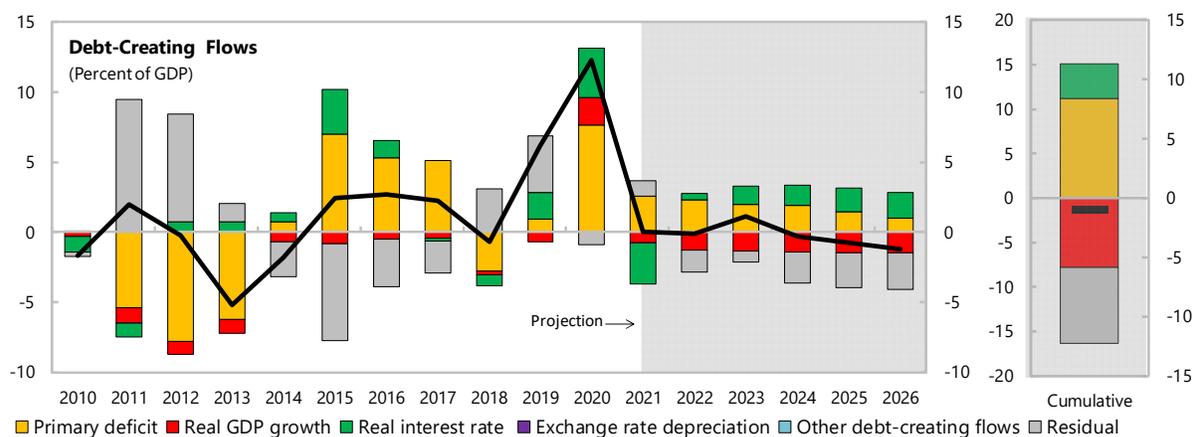
5. General government debt is expected to decline modestly over the medium-term with improved fiscal prospects from higher oil prices and oil production. This is largely driven by Abu Dhabi, which is assumed to save a large part of the projected oil windfall. Dubai, however, is expected to continue borrowing, in part to roll-over debt amassed prior to 2020 as well as to finance ongoing diversification of its growth model. The increased borrowing will only be partly offset by higher growth starting from 2021, as medium-term growth is projected to remain moderate.

6. Lower oil prices and contingent liabilities from GREs are the main sources of vulnerability. Although the UAE's substantial fiscal buffers are expected to be sufficient against these risks, the urgency of strengthening risk monitoring and management has intensified with the significant deterioration in GREs' financials during the crisis (Annex III Box I). Priority should be given to collecting regular and timely information for fiscal risk analysis—with formal reporting requirements for GREs—and enhancing mechanisms to improve control over contingent liabilities by requiring approval of GREs' annual borrowing and investment plans by finance authorities; setting up predictable dividend payout rules; establishing clear criteria (based on credit risk assessments) for issuance of guarantees; and putting in place guidelines for allocation of risks in private-public partnerships (PPPs). In the medium-term, consideration should be given to incorporating GREs in overall fiscal targets as this would promote greater fiscal discipline and transparency.

Figure 2. UAE: General Government Debt Sustainability Analysis (DSA) – Baseline Scenario
(Percent of GDP unless otherwise indicated)

	Actual			Projections						As of October 15, 2021	
	2010-2018 ^{1/}	2019	2020	2021	2022	2023	2024	2025	2026		
Nominal gross government debt	19.0	27.1	39.4	39.4	39.3	40.4	40.1	39.3	38.1	Sovereign Spreads	
Government gross financing needs	0.1	2.8	9.4	6.7	6.9	8.4	6.5	3.1	2.2	EMBIG (bp) 2/ 64	
Real GDP growth (in percent)	3.8	3.4	-6.1	2.2	3.5	3.6	3.7	3.9	4.0	5Y CDS (bp) 43	
Inflation (GDP deflator, in percent)	2.3	-4.4	-8.4	11.2	1.8	0.9	1.1	1.3	1.5	Ratings Foreign Local	
Nominal GDP growth (in percent)	6.2	-1.2	-14.0	13.2	4.8	4.2	4.6	5.0	5.3	Moody's Aa2 Aa2	
Effective interest rate (in percent) 3/	4.9	4.1	3.4	3.2	3.3	4.6	5.6	6.4	7.1	S&Ps AA AA	
										Fitch AA AA	

	Actual			Projections						Cumulative	Debt-stabilizing primary balance 8/
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026		
Change in gross government sector debt	0.0	6.2	12.3	0.0	-0.1	1.1	-0.3	-0.8	-1.2	-1.3	
Identified debt-creating flows	-0.7	2.1	13.2	-1.1	1.5	1.9	1.9	1.7	1.3	7.2	
Primary deficit	-0.4	0.9	7.7	2.6	2.3	2.0	1.9	1.5	1.0	11.2	0.3
Primary (noninterest) revenue and grants	30.6	28.4	24.0	27.7	27.6	27.1	26.5	26.1	25.8	160.7	
Primary (noninterest) expenditure	30.1	29.4	31.7	30.2	29.9	29.1	28.4	27.6	26.8	172.0	
Automatic debt dynamics 4/	-0.3	1.1	5.5	-3.7	-0.8	-0.1	0.0	0.2	0.3	-4.0	
Interest rate/growth differential 5/	-0.3	1.1	5.5	-3.7	-0.8	-0.1	0.0	0.2	0.3	-4.0	
Of which: real interest rate	0.4	1.9	3.6	-2.9	0.5	1.3	1.5	1.7	1.8	3.8	
Of which: real GDP growth	-0.7	-0.7	1.9	-0.8	-1.3	-1.3	-1.4	-1.5	-1.5	-7.8	
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/	0.7	4.1	-0.9	1.1	-1.5	-0.8	-2.2	-2.5	-2.6	-8.5	



Source: IMF staff calculations.

1/ Based on available data.

2/ Abu Dhabi's Long-term bond spread over U.S. bonds.

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 as an increase in the 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 $ae(1+r)$.

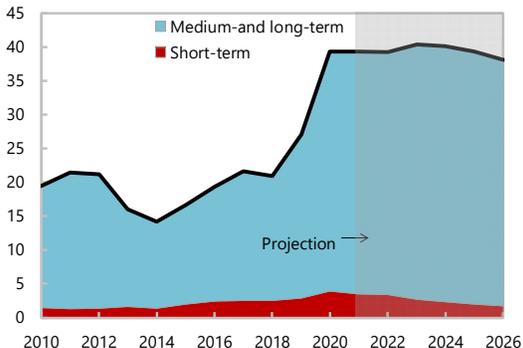
7/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

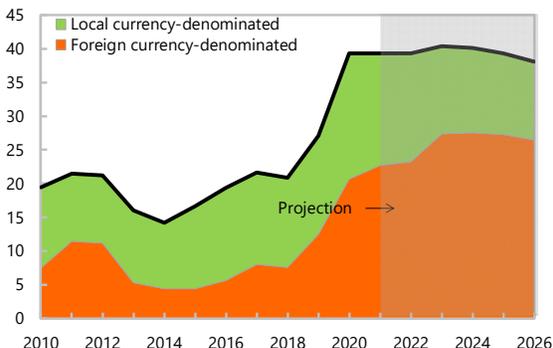
Figure 3. UAE: General Government DSA – Composition of Government Debt and Alternative Scenarios

Composition of Government Debt

By Maturity
(Percent of GDP)



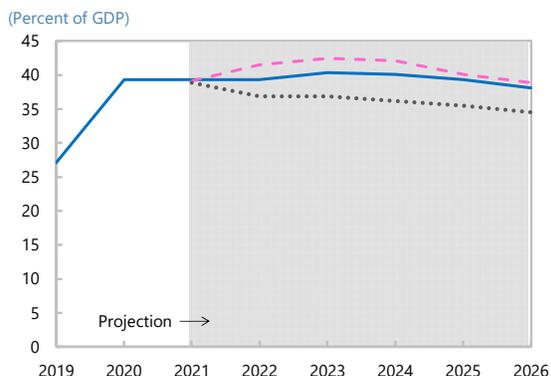
By Currency
(Percent of GDP)



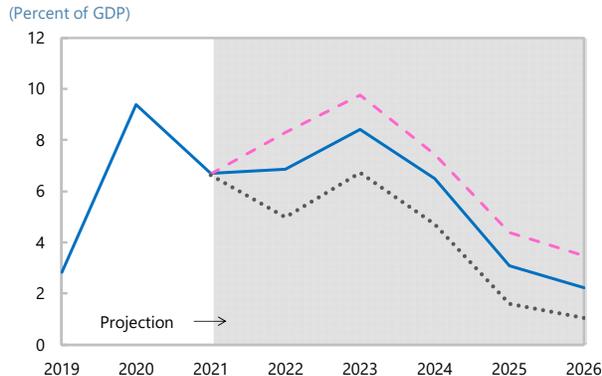
Alternative Scenarios

— Baseline Historical - - - - - Constant Primary Balance

Gross Nominal Government Debt



Government Gross Financing Needs



Underlying Assumptions
(Percent)

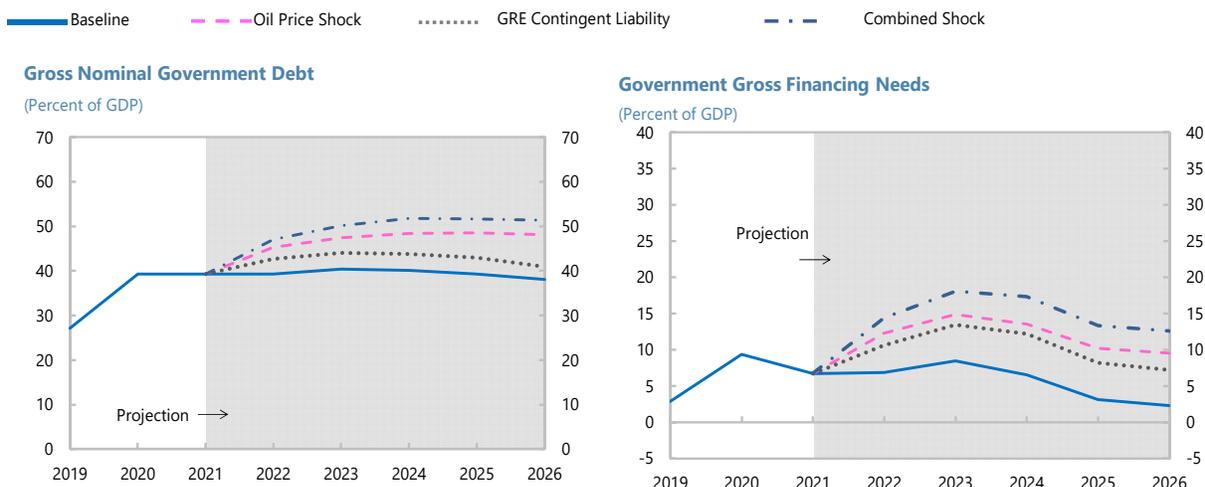
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.2	3.5	3.6	3.7	3.9	4.0
Inflation	11.2	1.8	0.9	1.1	1.3	1.5
Primary balance	-2.6	-2.3	-2.0	-1.9	-1.5	-1.0
Effective interest rate	3.2	3.3	4.6	5.6	6.4	7.1

Constant Primary Balance Scenario 1/	2021	2022	2023	2024	2025	2026
Real GDP growth	2.2	3.5	3.6	3.7	3.9	4.0
Inflation	11.2	1.8	0.9	1.1	1.3	1.5
Primary balance	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	3.2	3.3	4.6	5.6	6.4	7.1

Historical Scenario 1/	2021	2022	2023	2024	2025	2026
Real GDP growth	3.0	3.0	3.0	3.0	3.0	3.0
Inflation	11.2	1.8	0.9	1.1	1.3	1.5
Primary balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	3.2	2.7	4.0	5.3	6.4	6.8

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

Figure 4. UAE: General Government DSA – Stress Test Scenarios



Assumptions
(Percent)

Baseline Scenario

	2021	2022	2023	2024	2025	2026
Real GDP growth	2.2	3.5	3.6	3.7	3.9	4.0
Inflation	11.2	1.8	0.9	1.1	1.3	1.5
Primary balance	-2.6	-2.3	-2.0	-1.9	-1.5	-1.0
Effective interest rate	3.2	3.3	4.6	5.6	6.4	7.1

Oil Price Scenario 1/

	2021	2022	2023	2024	2025	2026
Real GDP growth	2.2	0.0	0.2	0.3	0.4	0.6
Inflation	11.2	1.8	0.9	1.1	1.3	1.5
Primary balance	-2.6	-4.9	-4.7	-4.6	-4.1	-3.7
Effective interest rate	3.2	3.3	4.6	5.6	6.4	7.1

GRE Contingent Liability Scenario 2/

	2021	2022	2023	2024	2025	2026
Real GDP growth	2.2	3.5	3.6	3.7	3.9	4.0
Inflation	11.2	1.8	0.9	1.1	1.3	1.5
Primary balance	-2.6	-3.6	-4.0	-4.1	-3.1	-2.4
Effective interest rate	3.2	3.8	5.6	7.1	7.8	8.5

Combined Scenario 3/

	2021	2022	2023	2024	2025	2026
Real GDP growth	2.2	0.0	0.2	0.3	0.4	0.6
Inflation	11.2	0.9	0.1	0.2	0.4	0.6
Primary balance	-2.6	-6.2	-6.6	-6.8	-5.8	-5.1
Effective interest rate	3.2	3.8	5.6	7.1	7.8	8.5

Source: IMF staff calculations.

1/ Oil price is lower by \$10 in 2022-26.

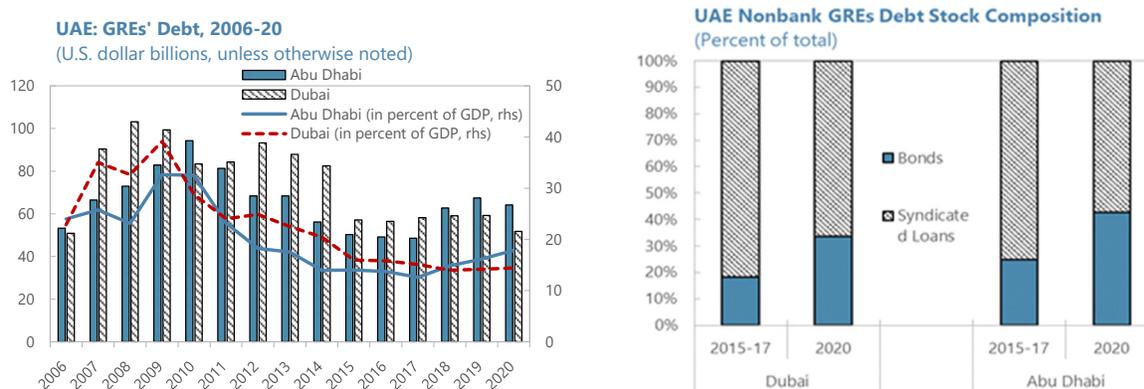
2/ 20 percent of GRE debt is assumed to be taken over by the government in 2022-26.

3/ This scenario combines the oil price and the GRE contingent liability scenarios.

Annex III Box I. UAE's Government Related Entities' Performance and Risks¹

- 1. Government-related entities (GREs) are a key source of growth and development for the UAE.** GREs represent a large share of the UAE economy (nonbank GREs assets in this sample stood at 112 percent of GDP in 2020) and are present in a large number of sectors, including financial services, real estate, utilities, transportation, tourism, and health and education, among others.²
- 2. GREs are also a source of vulnerability and risk for the public sector.** Shocks to GREs would impact the government's budget or balance sheet via numerous transmission channels, for example, through lower profits leading to lower taxes or dividends; the provision of government support to address weak financial health of GREs, including by extending loans, assuming liabilities or recapitalizing troubled GREs; or, if GREs do not meet budget loans or guarantee calls. GRE financial difficulties may also reflect a buildup of vulnerabilities from the accumulation of losses and excessive leverage, which could undermine the viability of maintaining operations.³
- 3. GRE financial performance has been adversely affected by the COVID-19 pandemic.**⁴ GRE debt surged in 2018-19 amid favorable global financial conditions, largely reflecting a re-leveraging of Abu Dhabi GREs whose borrowing needs increased in an environment of low oil prices. Abu Dhabi GREs' debt increased by 32.1 percent between 2017 and 2020 to about \$64.2 billion, while Dubai GREs' debt decreased by 11 percent during the same period to \$51 billion. In 2020, according to staff estimates, Abu Dhabi GREs' debt has increased by 1.7 percentage points to 17.9 percent of GDP, while Dubai GREs' debt remained almost unchanged at 14.4 percent of GDP.

Box Figure 1. UAE: GREs' Debt Stock

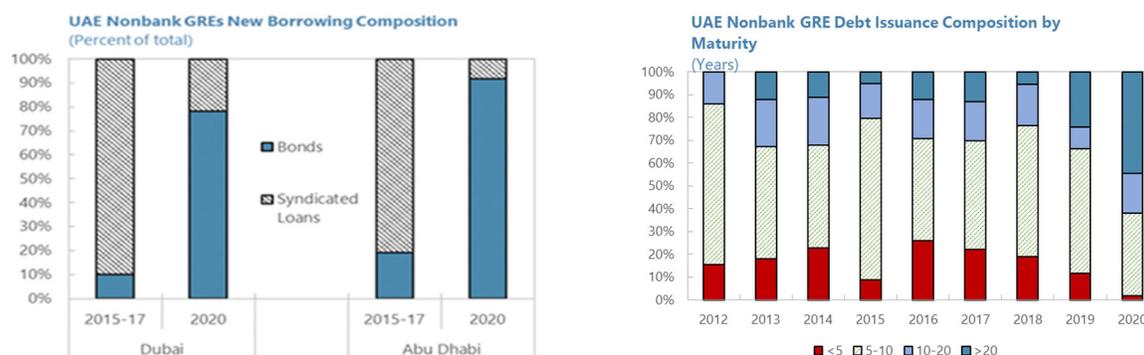


Sources: Country authorities, Dealogic, and IMF staff calculations.

- 4. Since 2015, the composition of GREs' debt borrowing has shifted from loans to bonds, while the maturity structure of debt has lengthened.** UAE GREs have been vigorously tapping global Eurobond markets in recent years, with bonds comprising 86 percent of new borrowing in public markets in 2020, compared to 15 percent during 2015–17. Moreover, issuance of debt with maturity longer than 10 years increased from 27 percent of total in 2015–17 to 62 percent in 2020. Meanwhile, debt with maturity shorter than 5 years decreased from 19 percent of total to 2 percent during the same period.
- 5. Despite lengthened maturity profiles, Abu Dhabi and Dubai GREs face short-term rollover risks with a combined \$68.8 billion debt, including \$51.9 billion of nonbank GRE debt due in 2021-23.** Staff estimates suggest that \$31.8 billion of Dubai GRE debt will come due in 2021-23, while for Abu Dhabi the amount is \$37 billion. These large obligations could prove challenging to meet in the context of tightening global financial conditions (Box Figure 1).

Annex III Box I. UAE's Government Related Entities' Performance and Risks (continued)

Box Figure 2. UAE: GREs' Debt Issuance

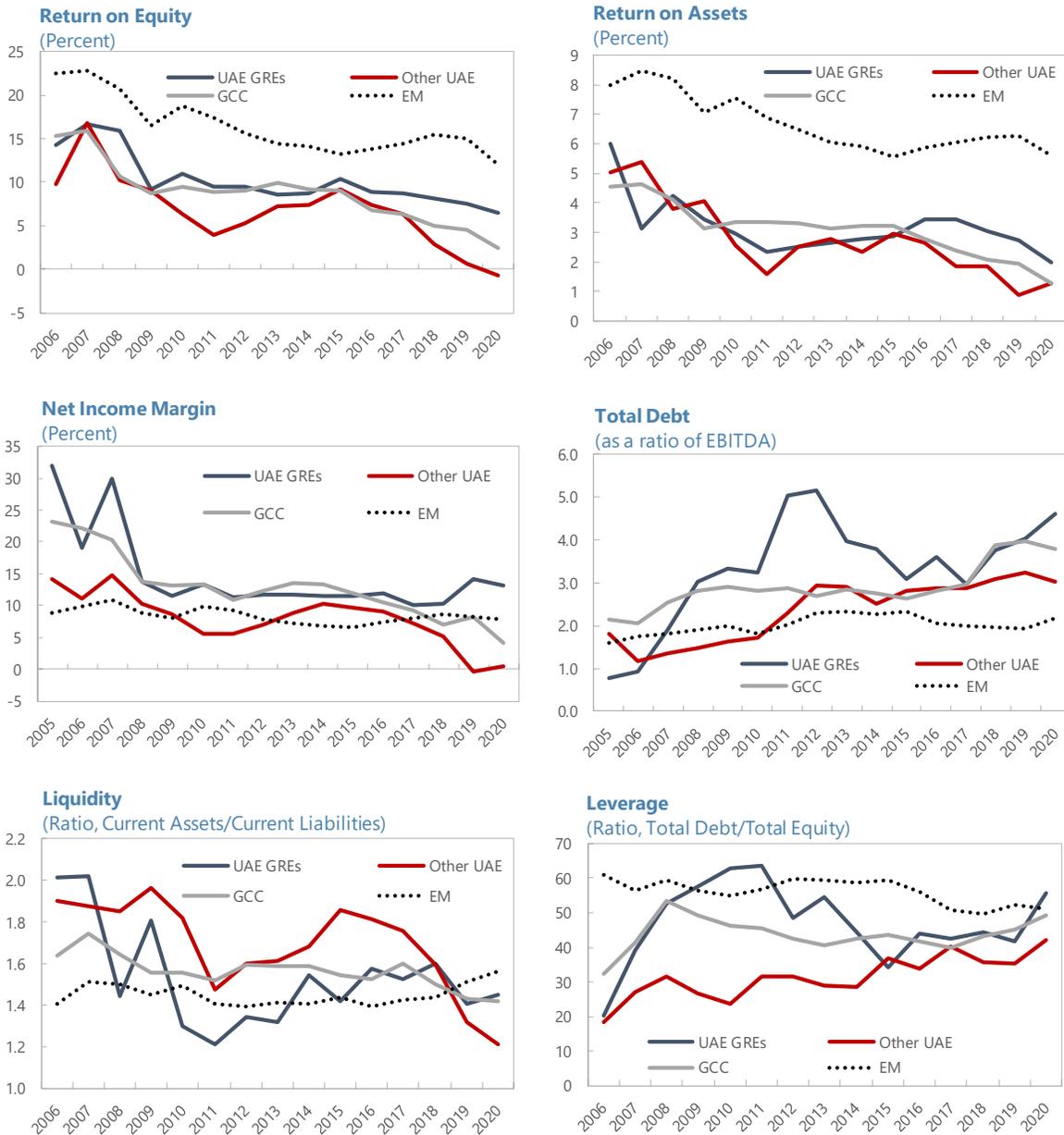


Sources: Dealogic and IMF staff calculations.

- 6. GRE financial performance deteriorated, and risks increased in 2020, according to staff analysis applying the IMF's SOEs Health Check tool.**⁵ Using a sample of 24 nonbank GREs with publicly available information, the share of GREs with "high" and "very high" risk ratings increased sharply. Despite the generous TESS program and significant government COVID-19 support measures both the share of loss-making GREs and GREs' liquidity and solvency risks increased in 2020.
- 7. Despite deteriorating trends, UAE GREs' financial health is relatively better than the median for UAE and GCC nonfinancial corporates, but lower than the median for emerging markets** (Box Figure 2). UAE GREs have operated with higher returns on assets and equity compared to other UAE and GCC corporates, and higher margins than EMs. However, their debt has also increased at the fastest rate, with the median debt-to-EBITDA ratio rising from 3 in 2015-2017 to 4.4 in 2020. This compares to increases of 0.3 for other UAE corporates, 0.8 for GCC corporates, and 0.06 for EM corporates over the same period. While UAE GREs have better liquidity than other UAE corporates, they also have the highest leverage among the four comparator groups.
- 8. GRE debt servicing capacity remains relatively low.** Data in the sample show that "debt-at-risk" (defined as debt with an interest coverage ratio (ICR) of less than 1.5 times) for nonbank GREs nearly doubled to about \$30 billion in 2020 compared to 2019. High leverage and low returns on assets (below 2 percent) underscore the reduced servicing capacity in some of the GREs. The improved economic outlook, higher oil prices, and low interest rates should provide some relief in the near-term.
- 9. A prolonged COVID-19 crisis or tighter global financial conditions could intensify GRE risks.** A worsening of external and domestic economic conditions could lead to increased leverage of GREs and higher default probabilities, raising pressures on financial and fiscal accounts. Moreover, higher global interest rates and tighter global financial conditions could increase GRE rollover risks.
- 10. Bank credit exposures to GREs is moderate, but concentration risks could intensify.** Domestic bank credit to GREs increased to 17 percent of GDP in 2020 (about 14 percent of total domestic credit for the banking sector). As a share of total loans, conventional banks are more involved in credit provision to GREs than Islamic banks. GREs also account for about 14 percent of banks' deposits. Despite the overall moderate credit exposure, GREs pose significant concentration risks for banks given their size and warrant careful and forward-looking monitoring.

Annex III Box I. UAE's Government Related Entities' Performance and Risks (continued)

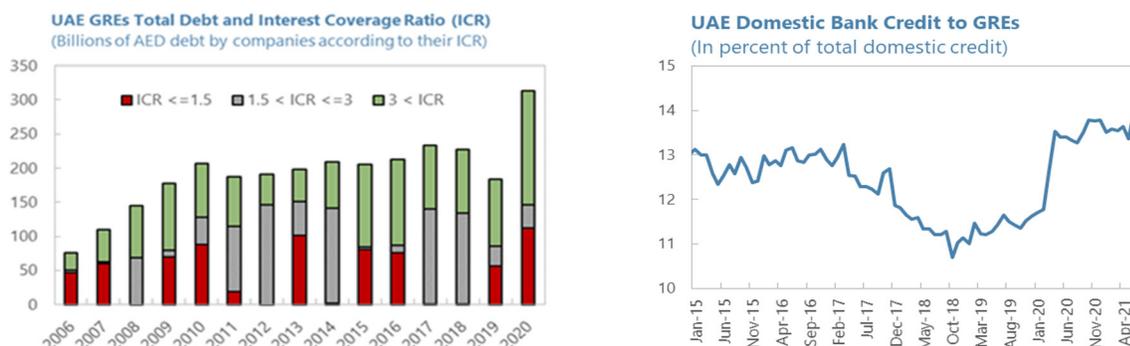
Box Figure 3. UAE: GREs' Performance Relative to the UAE and GCC Median: Selected Indicators



Note: Staff estimates based on financial data of 89 UAE corporates, including 24 GREs, 389 GCC corporates and 657 emerging market (EM) corporates sourced from S&P Capital IQ database. EM sample refers to firms from Brazil, Russia, India, and South Africa included in S&P Global Broad Market Index.

Annex III Box I. UAE's Government Related Entities' Performance and Risks (concluded)

Box Figure 4. UAE: GREs' Debt Servicing and Bank Credit



Sources: Haver Analytics, S&P Market Intelligence, and IMF staff calculations.

11. Contingent fiscal risks from GREs should be closely monitored and pre-emptively mitigated.

Building upon the recommendations of the 2016 Article IV, priority should be given to collecting regular and timely information on GREs for fiscal risk analysis, with formal reporting requirements for GREs. GREs' financial disclosures should be improved more generally, while accounting, auditing, and financial reporting practices should be standardized. To mitigate GRE risks, the authorities should build on recent progress to develop an integrated approach, including implementing prudent fiscal policies, continuing to enhance macro and micro-prudential frameworks, improving the traction of liquidity management and monitoring, controlling of GREs' leverage build-up and integrating them to the public debt management framework, and further strengthening corporate governance and transparency frameworks.

12. The authorities should encourage greater efficiency and increased productivity of GREs. This can be done by developing performance-based contracts and considering increasing private sector participation in the GREs' capital and management. It is imperative that the government clearly delineates between GREs' commercial and noncommercial operations and clarifies support strategies.

¹ Prepared by Hatim Bukhari and Yevgeniya Korniyenko.

² GREs are enterprises with government ownership share of more than 50 percent. Staff analysis is based on information available in S&P Capital IQ and BvD Orbis databases. This does not include many GREs for which data are not publicly available. Lack of comprehensive data on GREs limits broader policy considerations.

³ High debt in relation to equity and assets worsens the solvency perception of a company, raises its borrowing costs and increases vulnerabilities. Other potential GRE vulnerabilities include weak corporate governance, inadequate oversight that leads to higher risk taking, uncompensated quasi-fiscal activities, arrears to governments, and excessive ad-hoc dividend (tax) extraction.

⁴ Staff estimates of GREs' debt are based on Dealogic loans and bonds data.

⁵ This Annex used IMF's SOEs Health Check tool: [Managing Fiscal Risks from State-Owned Enterprises \(imf.org\)](https://www.imf.org/en/Tools/soes-health-check).

Annex IV. External Sector Assessment¹

Overall Assessment: The external position in 2020 was broadly consistent with the level implied by medium-term fundamentals and desirable policies. Supported by central bank reserves and substantial sovereign wealth fund assets, the external balance sheet remains strong. The external position is expected to improve in 2021 as oil revenues recover. However, the projected current account balance over the medium term is somewhat below the level needed to ensure sufficient saving for future generations. Data gaps hinder a more comprehensive external sector assessment.

Potential Policy Responses: In the near-term, targeted support to the hard-hit sectors should continue as ensuring public health and supporting the most vulnerable remain the top policy priorities. Once the recovery firms, fiscal consolidation within a transparent medium-term framework could bring the current account balance closer to the level required for intergenerational equity. Structural reforms to diversify the economy could also help strengthen the external position.

Foreign Assets and Liabilities: Position and Trajectory

Background. The UAE does not report International Investment Position data. Net International Investment Position (NIIP) is estimated at \$635.9 billion (177.2 percent of GDP) at end-2020. NIIP is expected to reach \$634.0 billion (156.1 percent of GDP) by end-2021.

Assessment. The external balance sheet is strong and NIIP is expected to remain strong over the medium-term. Substantial accumulated assets represent both protection against vulnerabilities from oil price volatility and savings of exhaustible resource revenues for future generations.

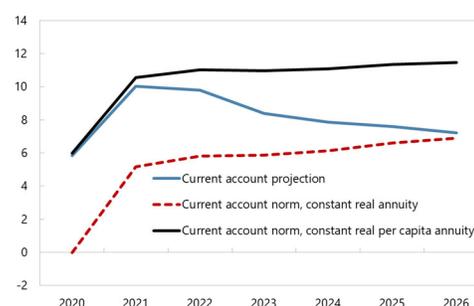
2020 (% GDP)	NIIP: 177.2	Gross Assets: 283.9	Debt Assets: 29.7	Gross Liab.: 106.7	Debt Liab.: 106.7
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Current Account

Background. The current account (CA) surplus declined to 5.8 percent of GDP in 2020 from 8.9 percent in 2019. The trade balance decreased by 22.5 percent as oil exports declined. The terms of trade are estimated to have deteriorated by 9.0 percent in 2020. However, several factors moderated the decline in the current account, including improved trade in services, a decline in the population, and a weaker REER. The current account is expected to register a surplus of 10.0 percent of GDP in 2021 as oil revenues recover—oil production grew by 11 percent in 2021Q3 relative to 2020Q3 after remaining weak in the first 2 quarters, and oil prices increased by 61 percent on average in the first 9 months in 2021 relative to the same period in 2020 (the terms of trade are projected to improve by 7.2 percent in 2021).¹

Assessment. Given the UAE's oil-dependent economic structure and the wide swings of oil prices in 2020, the Consumption Allocation Rules² (on a per-capita basis) based on the PIH continues to serve as staff's primary anchor for external sector assessment. The Consumption Allocation Rules suggest a CA gap of 5.9 percent of GDP for the constant real annuity and -0.1 percent of GDP for the constant real per capita annuity allocation rules, respectively.³ The CA balance is projected to be lower than the CA norm over the medium term. The CA-regression approach estimates a CA gap of -1.2 percent of GDP, which incorporates an upward adjustment of 4.5 percent of GDP that is applied to the CA balance to account for the temporary impact of the COVID-19 crisis regarding oil trade (3.7 percent of GDP), travel services trade including tourism (0.5 percent of GDP), remittances (0.1 percent of GDP) and a shift of consumption towards tradable goods (0.2 percent of GDP). On balance, staff assesses a CA gap of -0.14 percent of GDP with a range from -1.3 to 1.1 percent of GDP in 2020.⁴

Consumption Allocation Rules: CA Norms vs. Projections (Percent of GDP)



Source: Country authorities; and IMF staff calculations.

¹ Prepared by Yang Yang.

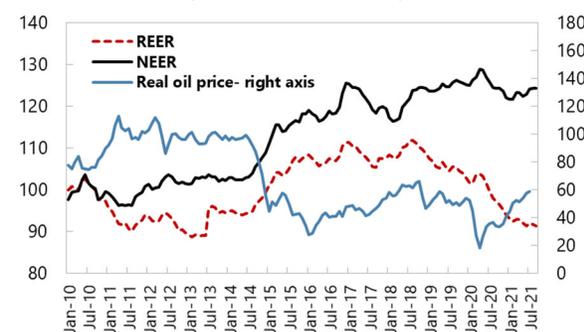
UAE: Model Estimates for 2020 (in percent of GDP)		
	CA gap	CA norm
EBA Lite CA approach	-1.2	13.10
Constant annuity in real terms	5.9	0.0
Constant annuity in real per capita terms	-0.1	6.0

Real Exchange Rate

Background. The dirham has been pegged to the US dollar at a rate of 3.6725 since November 1997. On average, the REER depreciated by 5.3 percent in 2020 (while NEER appreciated by 0.6 percent) but was 7 percent below its 5-year average. As of end-September 2021, the REER has depreciated by 7.5 percent on average so far in 2021.

Assessment. Consistent with the staff CA gap and based on an elasticity of 0.7, staff assesses the REER to be overvalued by about 0.26 percent with a range of -1.6 to 2.0 percent. Exchange rate movements have a limited impact on competitiveness in the short run as oil is the main exported product and there is limited substitutability between imports and domestically produced products.

Nominal and Real Effective Exchange Rates, 2010-2021
(Index; 2010=100)



Capital and Financial Accounts: Flows and Policy Measures

Background. Net financial outflows increased in 2020 compared to 2019 due to foreign banks' home bias effects in the midst of the crisis. The outflows were temporary and banks' foreign liabilities have been growing steadily since 2021Q2. The equity market witnessed outflows in March and April of 2020 as oil prices declined and COVID-19 struck market confidence but has rebounded since August 2020. The equity market has continued to experience positive inflows in 2021 except for some outflows in April.

Assessment. The UAE has an open capital account. The large central bank reserves and sovereign wealth fund assets limit risks and vulnerabilities from capital flows. A lack of detailed information on capital flows, and data gaps on GREs and SWFs activities, complicates analysis of the financial account and hinders a more comprehensive assessment.

FX Intervention and Reserves Level

Background. The central bank buys and sells unlimited dollars and dirhams to registered counterparties at the official exchange rate to maintain the peg. Gross FX reserves declined to \$106.7 billion (29.7 percent of GDP, 7.6 months of imports and 74 percent of the Fund's reserve adequacy metric) at end-2020 from \$108.4 billion at end-2019. This was mainly driven by large outflows via the banking system in Q2 2020; inflows resumed later in the year, according to staff estimates. Reserves are expected to increase by \$13.6 billion (3.3 percent of GDP) in 2021 including the allocation of SDR 2.2 billion (0.8 percent of GDP). Reserves are expected to increase further over the medium term as oil revenues recover.

Assessment. Reserves play a dual role of buffers for precautionary motives and savings for future generations. Reserves are adequate for precautionary purposes (measured by the Fund's metrics). Fiscal consolidation is needed over the medium term to strengthen the external position and increase savings for future generations.

¹ The average oil export price is assumed to be \$66.9 a barrel in 2021 (\$42.3 a barrel in 2020). Oil export volumes are expected to decrease by 2.0 percent in 2021.

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

³ Estimated norms are sensitive to model parameters, such as the GDP growth rate, interest rate, and population growth rate.

⁴ Staff applies an average CA gap range of +/-1.2 percent of GDP for emerging markets.

Annex V. Risk Assessment Matrix¹

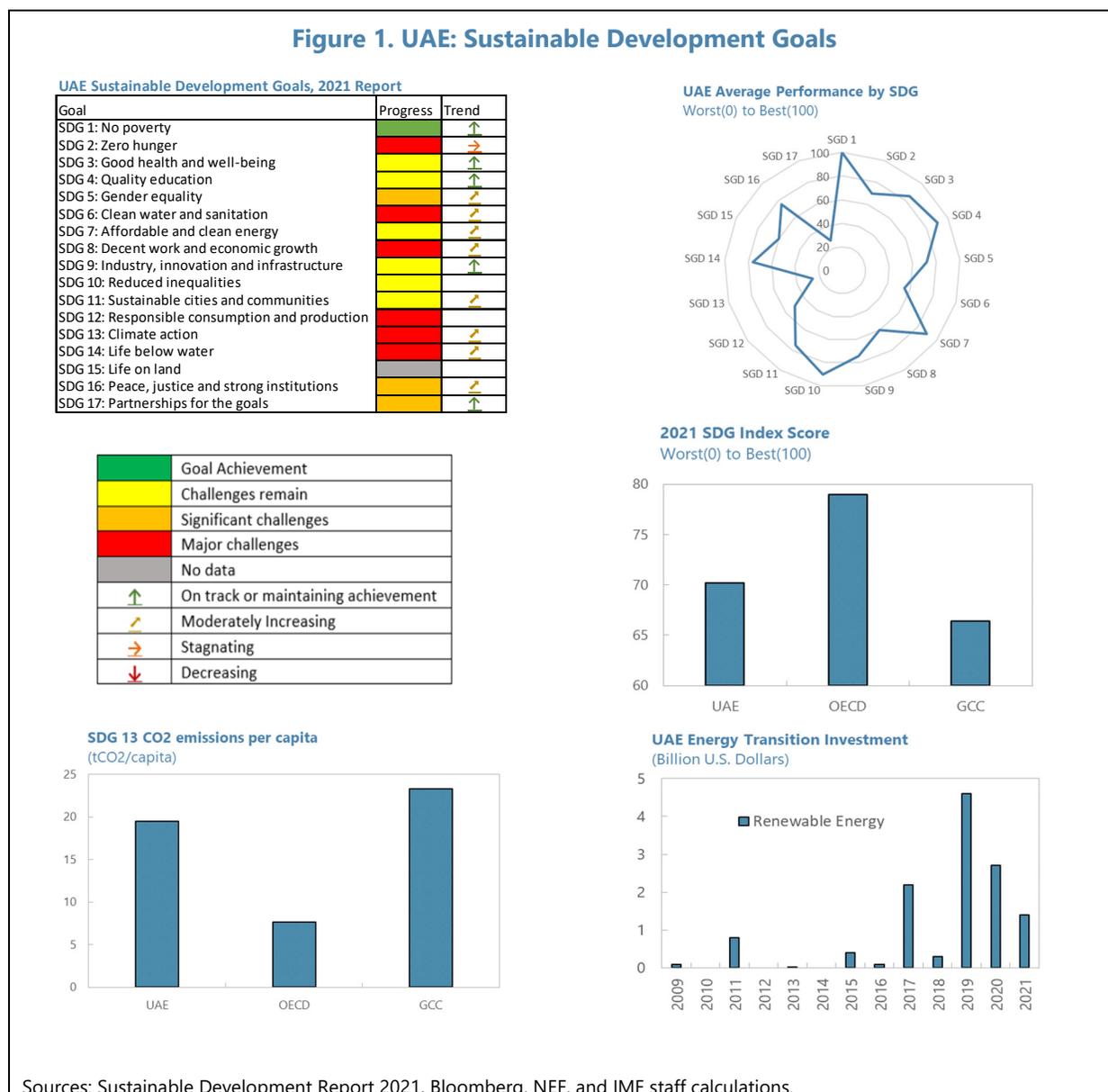
Nature/source of main risks	Likelihood/Time Horizon	Expected impact on the economy if risk is realized	Policy Response
Global Risks			
Global resurgence of the COVID-19 pandemic.	Medium/Short-to-medium-term	High	
		Renewed containment measures and travel restrictions would severely impact hard hit sectors, reducing non-oil growth. Declining global demand would lead to oil price declines, eroding fiscal and external balances through lower oil revenue and possibly also result in additional OPEC+ production cuts and lower oil GDP growth. Global financial conditions would tighten, increasing risks of capital flows reversals and vulnerabilities among highly indebted GREs.	Health measures should be strengthened as needed. Targeted fiscal and macro-financial support measures should be extended. Additional fiscal space should be deployed to increase the size of targeted support, if needed, guided by intertemporal fiscal considerations. The CBUAE should stand ready to increase the scale of liquidity support through the TESS program, while continuing close, forward looking monitoring of banks' asset quality.
Uncontrolled COVID-19 local outbreaks and subpar/volatile growth in affected countries.	High/Short-to-medium-term	Medium/High	
		Poorly managed COVID-19 outbreaks and volatile growth in affected countries could lower trade flows and adversely impact tourism and hospitality sectors' recovery with a significant impact on the UAE. Broader effects on global growth could depress oil prices (see above) and cool other engines of growth (capital flows, FDI).	Targeted policies should be deployed as described above.
Disorderly transformation.	Medium/Medium-term	Medium/High	
		COVID-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and weak bankruptcy resolution frameworks. This, coupled with a withdrawal of COVID-19-related policy support, could undermine near- and medium-term growth prospects and increase unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shifts production activities across countries.	Continue with structural reforms to boost non-oil growth, attract foreign investment, and increase the efficiency of labor markets, including by enhancing human capital, aligning public and private wages, and upskilling and training workers, including expatriates. Continue diversification efforts and policies to ensure a smooth transition to a greener economy, deeper capital markets, and adoption of productivity enhancing technology, fintech, and digitalization.

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 of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability 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.

Widespread social discontent and political instability. Intensified geopolitical tensions and security risks.	Medium/Short-to-Medium-term	Medium/Low	
		The positive effect of higher oil prices on public finances will likely be overshadowed by negative spillovers on growth from higher uncertainty.	Needed policy response would depend on the nature of the shock. Fiscal policy response may be warranted, and the authorities would need to ensure stability of the financial system.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia.	Medium/Short-to-medium-term	Medium/Low	
		Tighter global financial market conditions could affect UAE's ability (both government and GREs) to refinance their substantial debt obligations, creating financial disruptions.	Carefully calibrate the fiscal position and limit new debt accumulation; strengthen management of fiscal risks and oversight of GREs.
		Domestic Risks	
Excessive risk-taking by government-related enterprises (GREs).	Medium/Short-to-Medium-term	Medium	
		Materialization of quasi-fiscal risks could create a fiscal burden and lead to financial market disruptions with negative confidence effects.	Strengthen monitoring and control over quasi-fiscal liabilities and the overall framework for managing fiscal risks, including by increasing transparency of GRE balance sheets and exposing nonstrategic GREs to commercial practices and competition. Strengthen the policy framework by establishing transparent rules based fiscal framework with credible medium-term anchors.

Annex VI. Sustainable Development Goals and Climate Change Actions¹

The UAE has made a significant progress and is on track to fulfill important SDGs, including on health, education, and industry. Nevertheless, additional efforts are needed in several areas, notably on availability of clean water and sanitation, responsible consumption and production, and climate action. The UAE is actively tackling climate change challenges through measures that aim at reducing carbon emission, developing resilient infrastructure, and investing in a new energy economy. Those various initiatives should foster significant progress in meeting climate-related SDGs.

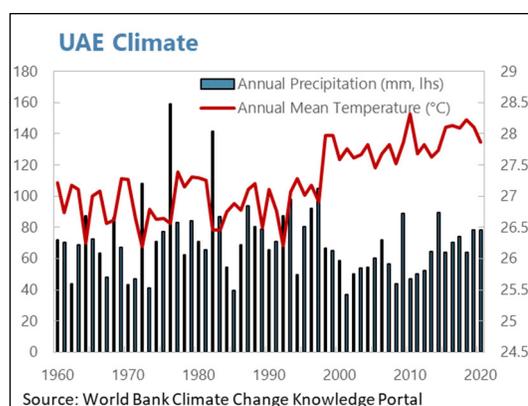


¹ Prepared by Charlotte Sandoz, Hatim Bukhari, and Yevgeniya Korniyenko.

1. The UAE is on track to fulfill important SDGs, including on health, education, and industry. Indicators of gender equality and availability and affordability of clean energy are trending positively. Additional efforts are needed in several areas, notably responsible consumption and production and climate action. The UAE is actively tackling climate change challenges through several plans covering all economic sectors and using measures that aim at reducing carbon emission, developing resilient infrastructure, and investing in a new energy economy.

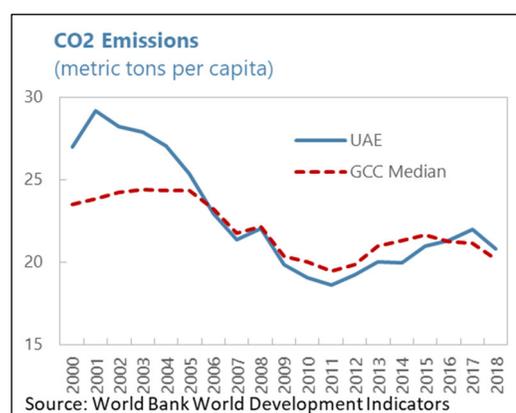
2. The UAE is highly vulnerable to potential impacts of climate change. Growing heat

stress with rising temperatures remains one of the main climate-related concerns, including through significant potential impacts on infrastructure, human health and the natural habitat. Climate change is also expected to affect the agriculture sector, which represents about 85 percent of total water consumption. Both agriculture and urbanization have increased the pressure on non-renewable natural water sources that could result in a growing gap in water availability. Moreover, the UAE's critical infrastructures, such as desalination and power stations, as well as habitats located on coastal zones are at risk with rising sea levels.



3. The UAE has made significant progress both in enhancing understanding of climate vulnerabilities and in mitigating climate risks, including through the launch of the National Climate Change Plan in 2017. The UAE carbon

emissions per capita remains 2.5 times larger than in OECD. As part of this Program, the UAE's Second Nationally Determined Contribution (NDC) to the Paris Agreement submitted in December 2020 committed the country to an economy-wide emission reduction target of 23.5 percent relative to business-as-usual in 2030. In October 2021, the authorities recently set a net-zero carbon emission goal for 2050, covering significant emission reductions across energy, transport, industry, waste and agriculture as well as enhancement of carbon sinks. In addition, the UAE undertaking 14 projects for reducing the emissions of Greenhouse Gases (GHGs) under the umbrella of Clean Development Mechanism projects.²



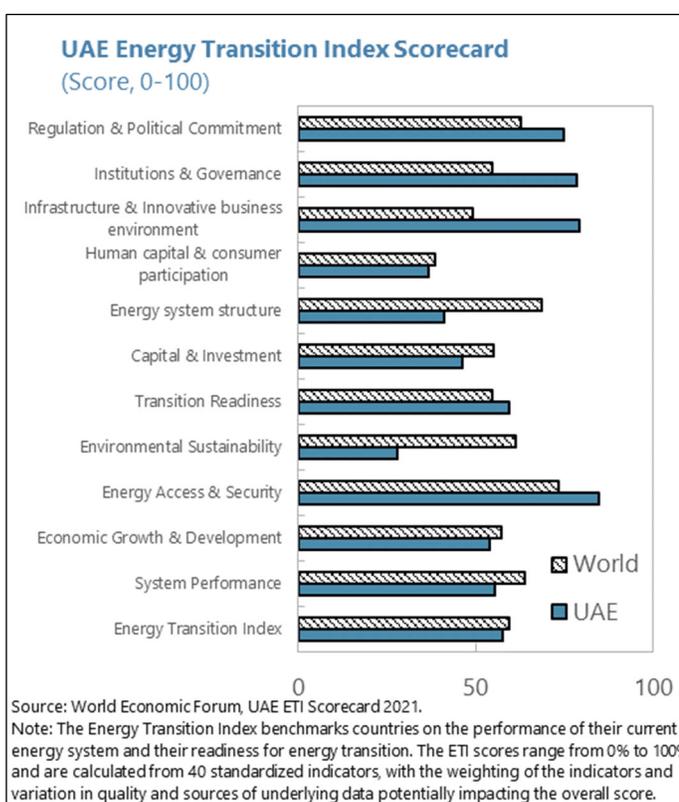
4. The National Adaptation Program and the Green Agenda 2030 provide additional frameworks to guide the UAE's green growth initiatives. The UAE is taking steps to enhance climate resilience of key economic sectors including construction and transportation and building

² ADNOC has announced plans to reduce GHG emissions intensity by 25 percent by 2030. ADNOC has decided to invest in sustainable desalination technologies and to expand the share of renewable energy in the process.

adaptive capacity across public and private sectors. In addition, the UAE Water Security Strategy 2036 aims to reduce potable water consumption by 20 percent and increase reuse of treated water to 95 percent by 2036. Concerning the agriculture sector, the UAE is continuing to adopt climate-smart production methods and facilitate innovations in agri-tech through the National Food Security Strategy adopted in 2018. The recently adopted UAE Circular Economy Policy 2021-2031 promotes a regenerative economy and sustainable consumption and production.

5. The UAE’s National Energy Strategy 2050 targets to increase the share of clean energy to 50 percent of the installed power capacity mix and reduce final energy demand by 40 percent by 2050.

From just above 100 megawatts (MW) in 2015, the UAE’s clean energy capacity reached 2.4 GW in 2020. With large projects under development, including solar and waste-to-energy projects and the new Barakah nuclear power plant, and planned the country is on track to meet its energy targets. In 2021, the UAE scored higher than the world average on 5 categories of the Energy Transition Index, with a strong performance on Energy Access and Security.³ The UAE is exploring opportunities in low-carbon green and blue hydrogen development and is looking to establish the country as a green hydrogen hub. To this end, ADNOC plans to increase hydrogen production as a cleaner alternative to fossil fuels. Dubai Electricity and Water Authority recently announced plans to stop building fossil fuel power plants and power the emirate’s electricity grid entirely with renewable energy by 2050. While oil and gas are expected to remain a key part of the future energy mix, the UAE aims to invest \$163 billion in clean energy by 2050 under its 2050 Energy Strategy and Net-Zero goals.



6. With the implementation of ongoing mitigation and adaptation initiatives, the UAE is steadfast in its pursuit of the targets under SDG 13 Climate Action and SDG 7 Affordable and Clean Energy.

While UAE's climate and sustainable energy related actions are directly relevant to SDGs 13 and 7, the UAE National Adaptation program also contributes towards SDG 9 Industry, Innovation and Infrastructure (through sustainable and resilient infrastructure), SDG 11 Sustainable Cities and Communities (through cities' adaptation to climate change and disaster management),

³ For details on ETI scores and methodology, see: https://www3.weforum.org/docs/WEF_Fostering_Effective_Energy_Transition_2021.pdf

SDG 14 Life Below Water (by strengthening ecosystems' resilience), and SDG 15 Life On Land (through a sustainable use of terrestrial and inland freshwater ecosystems and combating desertification). To strengthen its climate policy framework, and in line with SDG Target 13.2, the UAE is currently developing a comprehensive climate law that will support the mainstreaming of climate objectives. This law will complement the National Climate Change Plan 2017–2050.

Annex VII. Cross-border Use of Wholesale Central Bank Digital Currency: Some Preliminary Considerations¹

1. The CBUAE has been exploring wholesale CBDC (wCBDC) to enhance cross-border payments. A wCBDC is a digital liability of the central bank held by selected participants, usually financial institutions, thus resembling central bank reserves.² However, different from reserves, wCBDC relies on Distributed Ledger Technology (DLT).³ In a wCBDC arrangement designed for cross-border use, usually each central bank would issue their own wCBDC, held by domestic and foreign financial intermediaries, providing the rails for cross-border payments. The CBUAE has been exploring wCBDC for cross-border use through its involvement in Project Aber and the Multiple CBDC (mCBDC Bridge).

2. CBUAE projects are at a preliminary and exploratory stage, focused on acquiring knowledge on the use of the DLT.

- Project Aber was a Proof of Concept developed by the CBUAE and the Saudi Central Bank. The findings of the project, released at the end of 2020, were positive with respect to the capabilities of the DLT technology.
- The mCBDC Bridge project was started by the Hong Kong Monetary Authority and the Bank of Thailand, and enlarged, in February 2021, to the Digital Currency Institute of the People's Bank of China, the CBUAE, and the BIS Innovation Hub. Early results, released in September 2021, show a substantial improvement in cross-border transfer speeds, with the potential to reduce users' costs significantly while ensuring regulatory compliance. The work will continue on developing a production-ready solution, testing business use cases in international trade, and deepening the study of policy implications, regulation, and legal requirements.

3. Several benefits could be envisaged from using wCBDC in cross-border payments for the UAE. By shortening existing long chains in cross-border payments, wCBDC could bring cheaper, faster, more accessible cross-border transfers for UAE residents, in addition to decreasing barriers to trade. This could spur economic activity in a setting like the GCC, where there is substantial intra-region trade and movement of citizens and residents. wCBDC could be a channel to increase global financial integration, further deepening capital markets and the development of a local bond market, complementing the authorities' current efforts. Finally, it could act as a catalyst for further fintech innovations, for instance if coupled with tokenization of assets.

¹ Prepared by Marcello Miccoli.

² Retail CBDC, instead, can be accessed by everyone.

³ A DLT is database that is stored, shared and synchronized on a computer network. The DLT allows for innovative features, such as programmability, Payment vs Payment arrangements, as well as likely increased resiliency, through its decentralized structure.

4. Nevertheless, wCBDC could pose risks, underscoring the importance of further analysis. While projects are at preliminary stages, macro-financial implications should be carefully analyzed before implementation. At a first level, monetary and financial stability effects results from the impact of wCBDC on (i) capital flows, and (ii) domestic money markets. Regarding the former, higher financial integration could increase capital flows, while the new technology could allow for much faster transfers, potentially leading to higher volatility in flows. These could amplify effects of global financial cycles, impacting domestic capital markets and potentially exchange rates, raising financial stability vulnerabilities. wCBDC could impact domestic monetary conditions through its exchange with local central bank reserves.⁴ Depending on use cases and design characteristics of the wCBDC, its introduction could have implications for the liquidity surplus, the issuance of M-Bills, and daily volatility in liquidity conditions. For instance, remuneration of wCBDC modifies incentives for banks to hold reserves overnight.

5. The CBUAE is best positioned to carefully evaluate benefits and risks of wCBDC before implementation. Further analysis of implications is warranted to fully characterize potential macro-financial risk elements. But additional risks should be carefully evaluated, including operational risk for the central bank, cyber risk, as well as implications for central bank law, and data privacy, among others. Close collaboration with the legal department of the CBUAE is warranted.

6. Independently of wCBDC, the CBUAE has made substantive improvements on several aspects related to cross-border payments. The CBUAE contributed to the establishment the regional Buna payments system, owned by the Arab Monetary Fund, which started its operations at the end of 2020. Also, the CBUAE made major improvements on the AML/CFT framework, helping financial institutions preempt checks and delays. Finally, new regulation on payments systems were issued by the CBUAE in 2021, defining more stringent requirements in terms of governance, risk management, and cyber security, as well as allowing the entry of new service providers, which will support also cross-border payments.

⁴ Generically, wCBDC will only provide the rails for cross-border payments, and banks, in order to settle transfers, will need to exchange reserves for wCBDC from the central bank.



UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

November 5, 2021

Prepared By

Middle East and Central Asia Department

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FUND RELATIONS

(As of September 30, 2021)

Financial Position in the Fund for United Arab Emirates as of September 30, 2021 (imf.org)

Membership Status: Joined on September 22, 1972; accepted Article VIII status in February 1974

General Resources Account	SDR Million	Percent Quota
Quota	2,311.20	100.00
Fund holdings of currency	1,746.06	75.55
Reserve tranche position	565.66	24.47

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	2,783.59	100.00
Holdings	2,368.34	85.08

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund

	2021	2022	Forthcoming		
			2023	2024	2025
Charges/interest	0.05	0.25	0.25	0.25	0.25
Total	0.05	0.25	0.25	0.25	0.25

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 under Article VIII, Sections 2, 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfer for current international transactions and multiple currency practices, 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 2019 Article IV consultation discussions were held during October 23 - November 5, 2019. A press release was published on November 6, 2019. The last Article IV Executive Board Consultation was on January 13, 2020.

FSAP Participation, ROSCs, and OFC Assessments

FSAPs were conducted in 2003 and 2007.

Technical Assistance:

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
MCM	Bank Liquidity Risk Management and Liquidity Forecasting	March 2017
STA	Business Conditions Survey	March 2017
STA	Monetary and Financial Statistics	April 2017
STA	National Accounts Statistics	October 2017
MCM	Development of Local Currency Domestic Bond Market	November 2017
FAD	Fiscal Risks and Gender Budgeting	February 2018
MCM	Developing Monetary Policy Operations and the Local Currency Government Bond Market	July 2018
STA	Producer Price Index	October 2018
STA	National Accounts	November 2018
FAD	Fiscal Risk Analysis and Management	January 2019
MCM	Systemic Liquidity and Reserve Adequacy	May 2019
FAD	Strengthening Fiscal Risk Analysis and Management	July 2020
STA	National Accounts	September 2020
STA	National Accounts	April 2021
MCM	Liquidity Management and Forecasting	July 2021
MCM	Assessing the Stress Testing Framework of the CBUAE	August 2021

Resident Representative: None

WORLD BANK RELATIONS

(As of October 13, 2021)

The activities of the World Bank Group in United Arab Emirates can be found at:

<https://www.worldbank.org/en/country/gcc/brief/united-arab-emirates-country-program>

STATISTICAL ISSUES

(As of October 13, 2021)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some gaps but remains broadly adequate for surveillance. There are substantial shortcomings on the dissemination of fiscal statistics and accounts of government-related entities (GREs) and data on the External Debt and International Investment Position (IIP) are not provided. In particular, there is limited data on government sovereign assets and GREs' debt and contingent liabilities to the government. The UAE statistical agencies gradually improve the availability and quality of their statistics, but more progress is needed to improve coverage, timeliness, and availability of economic statistics.</p>
<p>National Accounts: The methodology broadly conforms to the 2008 SNA. Annual GDP is compiled in current and constant 2010 prices with a lag of around five months, while the authorities began releasing current and constant price (2010) quarterly GDP estimates in May 2019 (by production only). In 2021, the authorities released 2010-2020 annual National Accounts Estimates, including by type of expenditure.</p> <p>National accounts compilation is undertaken by the Federal Competitiveness and Statistics Centre (FCSC) and the independent regional (Emirati) statistical agencies of Abu Dhabi and Dubai that report directly to the Emirates governments. This creates problems of priorities and hinders the sharing of data by the regions to the FCSC. Although the FCSC is responsible for compiling the national estimates of GDP, it only compiles estimates for the Northern Emirates (that is, the UAE excluding Abu Dhabi and Dubai) then adds the gross value added (GVA) compiled by the other two agencies to arrive at national GDP. This is not advisable and should be discontinued, as the compilation process is not consistent across the three agencies since they use different data sources and compilation techniques to estimate GVA for the same activities. There is a need for improvement of coordination and data sources.</p>
<p>Price statistics: In November 2018, a new quarterly national manufacturing sector Producer Price Index (PPI) was published, in line with a roadmap to subscribe to the SDDS. The quarterly index aggregates Emirate-level PPIs produced by the regional statistical agencies in Abu Dhabi and Dubai, with a common base year of 2014. CPI data are published with a delay of around one month. Consumer price indexes need further harmonization at the federal level. The work on revising the CPI basket weights is in its final stages.</p>
<p>Government finance statistics (GFS): In April 2017, for the first time since 2012, the UAE authorities have recommenced reporting high frequency data for budgetary central government. The UAE has submitted annual general government fiscal accounts for the <i>GFS Yearbook</i> since 2012, after the implementation of <i>GFSM 2001</i> in 2009 by the federal and several emirate governments. In July 2018, the UAE has launched a National Summary Data Page (NSDP), which includes dissemination of central and general government data. Currently, the authorities are working on compiling balance sheets data for the general government based on the GFSM 2014 framework, and are expected to disseminate an opening financial balance sheet in due course.</p>
<p>Monetary statistics: The central bank of the UAE (CBUAE) disseminates SRF-based monetary data covering the central bank and the other depository corporations since September 2016, with monthly frequency and timeliness of less than one month. Following the implementation of the April 2017 STA mission recommendations, the CBUAE started reporting quarterly data on other financial corporations (OFCs) covering insurance and other OFCs supervised by the CBUAE starting in December 2018.</p>

Financial sector surveillance: The CBUAE 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. STA has recommended the CBUAE to also compile and report encouraged FSIs for deposit takers and other sectors.

Financial Access Survey: The UAE reports data on several series and indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External Sector Statistics: The information needed to compile the balance of payments (BOP) has shortcomings, especially for the financial account, and these gaps currently prevent the CBUAE from submitting BOP data to the IMF’s Statistics Department. The CBUAE has started receiving cross-border transactions data from the SWIFT Scope system, and this should aid compilation of the BOP. Improved BOP statistics will, in turn, help the authorities in their project to compile the IIP, which will close an important statistical gap. The FCSC has made a significant progress in outward FDI data compilation using firms’ survey, which still needs to be disseminated. Many components of the IIP data are currently missing or incomplete, as data on private foreign assets and liabilities and on government foreign assets lack appropriate surveys or are not published. The development of a comprehensive BOP and IIP is feasible, if the CBUAE, the FCSC, and the Ministry of Economy strengthen their capacity, enhance coordination, and receive appropriate support at the highest level. The authorities have requested a TA mission to advance progress on BoP and IIP compilation.

II. Data Standards and Quality

The UAE became a participant in the GDDS in July 2008. In July 2018, the UAE launched a National Summary Data Page (NSDP), becoming the first Gulf Cooperation Council (GCC) country to implement the recommendations of the Enhanced General Data Dissemination System (e-GDDS). The UAE continues to work toward subscribing to the Special Data Dissemination Standards (SDDS).

No Data ROSC is available.

UAE: Table of Common Indicators Required for Surveillance
(As of October 13, 2021)

	Date of latest observation	Date received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of publication ¹
Exchange Rates	Real time	Real time	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	08/2021	10/2021	M	M	M
Reserve/Base Money	08/2021	10/2021	M	M	M
Broad Money	08/2021	10/2021	M	M	M
Central Bank Balance Sheet	08/2021	10/2021	M	M	M
Consolidated Balance Sheet of the Banking System	08/2021	10/2021	M	M	M
Interest Rates ³	Real time	Real time	D	D	D
Consumer Price Index	08/2021	10/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ – Central and General Government	06/2021	10/2021	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/2016	04/2018	A	A	NA
External Current Account Balance	2020	04/2021	A	A	A
Exports and Imports of Goods and Services	2020	04/2021	A	A	A
GDP/GNP	2020	05/2021	A	A	A
Gross External Debt	...	...	NA	NA	NA
International Investment Position ⁶	...	...	NA	NA	NA

¹ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I): Not Available (NA).

² 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.

³ Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic nonbank financing.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.