

**UAE:****Bigger budgets to boost growth**

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- The UAE 2020 federal budget is the largest ever. As in previous years, it emphasises social development, education and health.
- Although individual emirates have their own budgets, the UAE federal budget allows federal entities to provide for security, social programmes and some utilities.
- Despite the completion of some major projects related to Expo 2020, we expect the 2020 Dubai budget to still dedicate at least one-fifth of its total spending for further growth through infrastructure programmes.

**Social development gets priority**

The UAE, which has announced a series of reforms and stimulus programmes to support the economy, approved a federal budget of USD 16.7B for 2020, the largest ever. It is 1.8% larger than in 2019 and 18% more than 2018.

- Assuming it meets its objectives, the UAE says this would be the third consecutive year in which the budget is balanced. It last had a deficit (2.6%) in 2017.
  - The IMF differs over 2018, calculating that there was a fiscal deficit last year of 1.6%. It does, however, expect a surplus of 1.8% this year.
  - All these projections are based on ongoing operations in the UAE and do not rely on oil income, which accounts for less than 10% of total projected revenues.
- Although the federal budget represents only a fraction of overall UAE spending (because individual emirates have their own budgets), it is important because it allows federal entities to provide for security, social programmes and some utilities.
- For 2020, 33% (vs 34.8% in 2019) is allocated to social development programmes such as housing and healthcare.
  - Education receives 15% of the total social development allocation (17% in 2019 and 17.1% in 2018), while healthcare receives 7%, on par with the previous years.
  - Some 6.5% of the total 2020 budget (5.3% in 2019) is allocated for programmes to guarantee social rights and enhance community integration via the Ministry of Community Development.
  - To provide suitable housing for UAE nationals, 2.5% of the total was allocated to the Sheikh Zayed Housing Programme, up from only 0.8% in 2019.
  - After the discovery of oil in the 1970s, the UAE redoubled their efforts on a resource-based industries strategy for economic growth and allocated large amounts towards social and economic development. It is continuing to focus on social development as part of Vision 2021, which is intended to promote economic diversity and knowledge-based skills.

Table 1 - UAE Macroeconomic Indicators<sup>1</sup>

	2016	2017	2018	2019e	2020f
Real GDP Growth (%)	3.0	0.8	1.7	1.6	3.0
Crude Oil Production (M Bpd)	3.0	2.9	3.0	3.1	3.2
Oil GDP Growth (%)	2.6	-3.0	2.6	3.2	1.7
Non-oil GDP Growth (%)	3.2	2.5	1.3	2.7	4.0
CPI Inflation (%)	1.6	2.0	3.1	2.1	2.1
Fiscal Balance (% of GDP)	-2.0	-1.6	-1.8	-0.8	-1.7
C/A Balance (% of GDP)	3.7	6.9	6.6	5.9	5.1
Total Gov't. Gross Debt (% of GDP)	20.2	19.7	18.7	19.2	19.0
Total Gross Extr'n'l Debt (% of GDP)	69.6	72.6	68.6	68.7	66.4
Gross Official Reserves (Mos. of Imports)	3.3	3.7	3.8	4.3	4.6
Nominal GDP (USD B)	357.0	382.6	424.6	427.9	449.1
Population (Millions)	9.2	9.4	9.5	9.7	9.8

- Other factors driving the focus on social development include:
  - The UAE Centennial 2071 project: This was launched by the Cabinet in 2017 aimed at making the UAE "the best country in the world" by 2071 through four new strategies focused on soft power, the fourth industrial revolution, higher education and water security.
  - Rising population: In 1961, before the discovery of oil, the Trucial States (now the UAE) population was estimated to be around 86,000 people. It has grown to more than 9 million, with the non-nationals increasing at a much faster rate than native emiratis. It is relatively young with, by some estimates, well over 80% of the population made up of people between the age of 15 and 64 (versus the roughly 65% found in the United States).
  - A goal to become a global, innovation-driven, knowledge economy: Given the population breakdown by age, the country is focusing on smart learning programmes, new licensing and evaluations systems, as well as curriculum revisions.
- A total of USD 6.3B or 37.7% of the budget total (37.5% in 2019), has been allocated to government affairs, of which 7% is for infrastructure and economic support.

**Economic stimulus & Expo 2020**

**Abu Dhabi contributes the lion's share of UAE funding, both federal and when combining the various emirates' budgets. It tends to determine how much of it is spent.**

- It plays a much larger role in total UAE spending than the federal government.
  - Abu Dhabi's expenditures make up about three quarters of the UAE's consolidated government spending, comprising federal and emirate-level spending.
  - Abu Dhabi also contributes at least 50% of the federal government's revenues.

<sup>1</sup> Arabia Monitor; IMF.

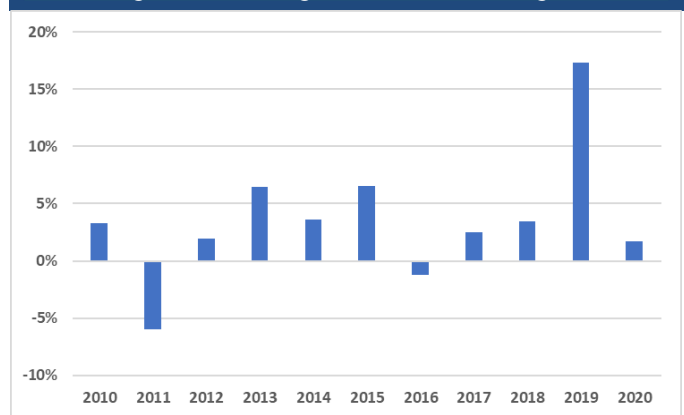
- It has not yet published its 2020 emirate budget, but government spending at that level is expected to increase.
  - This will partly reflect the start of a three-year economic stimulus package worth 5% of GDP.
  - The stimulus was announced last year as concerns grew about weakness in real estate and non-oil sectors.

**Dubai has also not yet published its 2020 budget but in 2019 it approved a budget of USD 15.4B, up 5% YoY, with much of it focused on the social sector. We expect more of the same.**

- General and administrative expenses, grants and subsidies represented 47% of total expenditure, while expenditure on the health, education and housing sectors represented 33% of the total budget.
- Despite the completion of some major projects related to Expo 2020 Dubai, which has boosted spending and growth significantly, we expect the 2020 budget to still dedicate at least one-fifth of its total spending for further infrastructure programmes.
  - We do not see a significant fall-off from the end of Expo 2020 stimulus.
- Non-tax revenues (fees) would still account for over 50% of total expected revenue, with the rest from tax and government investments.

**In November, the IMF revised its growth forecast for the UAE upwards to 3% for 2020 from 2.5% previously forecast in October (against a downward revision in global growth). That compares with 1.6% growth expected this year.**

- The improved outlook is due to expected rises in public and private spending at the federal and emirate levels, and higher investment ahead of the highly anticipated Expo 2020.
- The latest IMF revision is more optimistic than the 2.4% forecast by the Central Bank of the UAE, even though it also revised its growth forecast upward in early October from an earlier projection of 2% in May this year.
  - The bank expects 1.4% growth in the non-oil sector in 2019 compared with 1.3% in 2018 and 5% in the oil sector this year compared with 2.8% in 2018.
  - Growth will partly be driven by the economic stimulus package for the next three years that was announced by Abu Dhabi last year, brought together under the umbrella of the multi-phase “Ghadan 21” plan launched in June this year. There is significant progress in the initiative.
    - In October, Mubadala (state-owned and acting like a sovereign wealth fund) unveiled USD 250M to invest in startups in the region. This includes a USD 150M “fund of funds” programme that will invest in 15 venture funds committed to supporting Abu Dhabi’s Hub71 ecosystem.

Figure 2 - % Change in UAE Federal Budget<sup>2</sup>

- In August, the Abu Dhabi authorities ordered the disbursement of USD 435M via 1,000 housing loans.
- A specialised USD 163M Mega Events Fund was launched in the same month as part of Ghadan 21 to support leisure and business events.
- Economic activity will also be spurred by the reforms made by individual emirates, especially in Abu Dhabi and Dubai, that are aimed supporting SMEs and startups, attracting more value-added investments in technology, and providing additional jobs for emiratis in the private sector. For instance:
  - This year, Abu Dhabi launched nine new initiatives reinforcing its commitment to the private sector, with the goal of increasing the sector’s contribution to Abu Dhabi’s GDP from the current 32% to 37% by 2021. The initiatives included a new scoring mechanism for industrial tariffs, introduction of new licenses for technology businesses, and an SME Credit guarantee scheme.
  - Dubai also adopted several measures to bolster business sentiment focusing on reducing costs for industries, both onshore and in the free zones. For instance, the Dubai Free Zones (DFZ) Council launched a new initiative that would allow companies licensed at a single free zone in Dubai to operate in other free zones in the emirate, without the need for a second license. This will improve the ease of doing business across the free zones in Dubai.
- UAE growth in Q1 2019 stood at 2.2% YoY, supported by the oil sector (4.2% YoY) with non-oil rising 1.6% YoY.
  - In Q2, growth was also estimated at 2.2% YoY, with non-oil real GDP up 1.5% and the oil sector posting 4%.
  - Economic sentiment improved in Q2 as the Purchasing Managers’ Index recorded an average reading of 58.2, its highest quarterly reading since the end of 2014.

<sup>2</sup> Arabia Monitor; Ministry of Finance.

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