IIF

COUNTRY REPORT
UNITED ARAB EMIRATES

CONFIDENTIAL

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This report, which is based on a mission to the United Arab Emirates (UAE), forms a part of a country-by-country analysis of developments and prospects in each of the six member states of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE). A regional overview, focusing on issues and common themes, will be released following publication of all individual country reports.

Summary

As the UAE economy makes its way out of a mild recession caused by the global crisis, the key short-term challenge is to preserve financial stability while laying the basis for the resumption of sustained growth.

Vulnerabilities remain in the corporate and banking sectors while real estate has undergone severe price corrections and construction has slumped as almost half of the large public or quasi-public sector projects have been cancelled or are on hold.

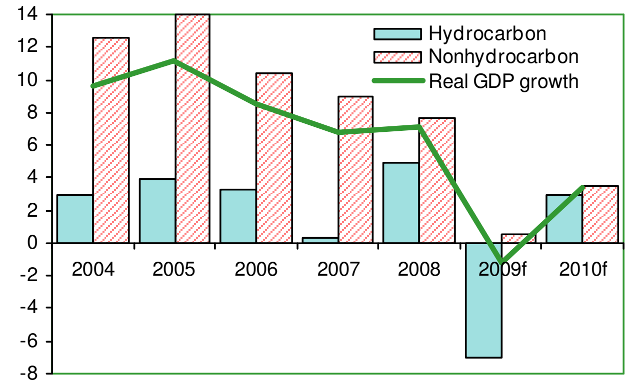
The policy response to recent challenges has been timely and substantial. Continued vigilance on the part of the UAE authorities will limit downside risks with the larger and wealthier Abu Dhabi successfully playing the role of the anchor of the UAE economy. Also, the public sector's close links with the private sector will continue to buffer the latter against additional external shocks.

After rapid growth in the past six years (an average annual growth of 9 percent) and a mild recession in 2009, the economy is expected to settle on a lower growth path, in the range of 3-4 percent, over the medium term. Hard hit by sharply tighter global liquidity, real GDP in Dubai is expected to contract by 3 percent this year, while Abu Dhabi's non oil sector growth will decelerate to 3.5 percent. The banking sector could hold a key to the speed of the recovery in 2010. Measures already taken by the authorities should be sufficient to maintain positive credit growth going forward, support consumption, and prevent the recession from becoming overly protracted.

Lower import prices, weaker domestic demand, and a decline in rents should bring average inflation down from 12.3 percent in 2008 to around 1 percent in 2009.

The large fiscal and external current account surpluses recorded in 2008 are expected to decline in 2009 due to lower export prices and a cut in crude oil production. These surpluses, combined with some recovery in global equity markets, will enable the Abu Dhabi Investment Authority, the sovereign wealth fund, to increase its foreign assets from $314 billion at end-2008 to $382 billion by end-2010.

Real GDP Growth
(annual percent change)



Main Economic Indicators

	2007	2008e	2009f	2010f
	(percent change)			
Real GDP	6.8	7.0	-1.2	3.4
Hydrocarbon	0.3	4.9	-7.0	3.0
Nonhyrocarbon	9.0	7.7	0.5	3.5
CPI (average)	11.1	12.3	1.0	2.5
	(billions of dollars)			
Nominal GDP	199	262	212	242
Merchandise Exports	179	239	177	208
o/w: Hydrocarbon	74	102	63	76
Merchandise imports	117	171	137	151
Current account balance	36	35	8	21
ADIA's foreign assets	355	314	355	382
Foreign debt	149	162	153	151
	(percent of GDP)			
Current account balance	18	13	4	9
Overall fiscal balance	23	22	8	11
Memoranda:				
Crude oil export price ($/b)	72.1	98.3	61.2	71.6

e = estimate, f = IIF forecast

Source: Central Bank of the UAE and IIF estimate and forecast.

Deepening asset price corrections could feed through to corporate and, ultimately, bank balance sheets, placing even greater stress on financial institutions. Financial risks may be higher than observed so far. Uncertainty regarding the true state of balance sheets will likely persist over coming months, restraining bank funding and credit growth, although we judge the risks to be manageable. While the impact of the global financial crisis has been limited thus far, continued vigilance is warranted. Regular stress testing of the banking system is needed to monitor evolving risks.

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Recent Political Developments

The political situation remains stable. The United Arab Emirates (UAE) continues to enjoy robust political stability, based on the high degree of consensus among the seven individual Emirates, and strong popular support for the individual rulers. Continued high living standards for nationals may have dampened any demands for greater political representation. The President of the UAE, Seikh Khalifa bin Zayed al-Nahan, enjoys the support of the rulers of all Emirates and is expected to maintain the relatively liberal economic and social policies.

The UAE continues to balance support for the U.S. with a broader commitment to supporting the Arab consensus on regional issues. It remains wary of Iranian intentions in the region, and the two countries have yet to resolve a dispute over the status of three islands in the Arabian Gulf. Nevertheless, Iran and the UAE have strong trade and investment links.

Dubai is seen as an integral part of the UAE and will receive support from Abu Dhabi when the need arises. Given its large oil reserves, Abu Dhabi remains the lead player in the Federation, using its funding of the federal government to strengthen internal social cohesion and promote economic development in other Emirates.

Recent Economic Development

1. Output and Inflation

Real GDP is estimated to have risen by 7 percent in 2008 (Table 1). While the rapid growth of the past six years had integrated the UAE into the global economy, it had also made it more vulnerable to the global financial crisis and recession.

Table 1
Real Growth and Inflation
(percent change)

	2003-07	2008	2009e	2010f
Real GDP	9.6	7.0	-1.2	3.4
Hydrocarbon	4.8	4.5	-7.0	3.0
Nonhydrocarbon	11.4	7.7	0.5	3.5
o/w: Abu Dhabi	10.1	7.9	3.5	4.7
Dubai	12.8	7.5	-3.0	2.3
CPI inflation (average)	9.3	12.3	1.0	2.5

e = estimate, f = IIF forecast
Source: Ministry of Economy and IIF calculations.

Nonhydrocarbon real GDP—the appropriate measure of economic activity in oil exporting countries—continued to expand rapidly in 2008, albeit at a slower rate than in the previous five years. Hydrocarbon GDP (which includes oil and gas) grew by 5 percent. On the expenditure side, private consumption and investment were the main sources of growth. The nonhydrocarbon sector now accounts for slightly more than three-quarters of real economic output (calculated at constant prices), the highest among the GCC after Bahrain.

We believe that overall activity might have contracted by 2 percent in the first half of 2009 owing to about 10 percent reduction in oil production in Abu Dhabi and significant contraction in economic activity in Dubai. These estimates are based on several indicators of economic activity in Dubai and Abu Dhabi, including weakness in retail sales, construction, and tourism. Nonhydrocarbon real GDP growth may have decelerated to around 3 percent in Abu Dhabi.

Box 1. Sharp Decline in Real Estate

In the five years to August 2008, property prices in the UAE quadrupled, boosted by rapid economic growth, abundant liquidity, and growing expatriate population. However, a major correction was bound to take place. Average house prices in Dubai fell by about 50 percent from August 2008 highs to March 2009, and rents declined by as much as 20 percent.

Key factors driving the sharp decline include (i) a drop in demand as foreign investors retreated and expatriate population contracted (by about 15 percent in Dubai); (ii) lack of funding as liquidity conditions tightened; and (iii) oversupply as large projects came on stream at a time of lower demand. Abu Dhabi has been less affected than Dubai. Average prices of houses in Abu Dhabi fell by 20 percent from August 2008 to March 2009. In the second quarter of this year, however, property prices increased by an average of 3 percent.

Oversupply in the real estate market in Dubai is not expected to be resolved before mid-2010. Significant new supply of housing is expected to become available in the second half of this year and early 2010. This will more than offset the cancellation of some of the real estate projects (Table 2). This, along with a greater exodus of expatriates this summer, could lead to a further decline in prices of real estate, and we expect prices to fall again by 10-20 percent in the second half of this year. Return of investor confidence hinges on significant improvement in the global economy and sustained recovery of oil prices.

The demand and supply dynamics in Abu Dhabi, however, remain favorable given the better economic prospects and the strength of government finances (most of the oil resources are in Abu Dhabi). This could stabilize the real estate market in Abu Dhabi in 2010.

The construction boom of the past five years has come to an abrupt halt. Unofficial estimates indicate that about half (in value terms) of the construction projects in the UAE, worth initially about $800 billion, have been put on hold or cancelled due to financing constraints. Foreign financing for many corporates has tightened, in line with a sharp drop in capital flows to emerging markets generally. Most recent data indicate that real estate prices have fallen by about 50 percent in Dubai and 20 percent in Abu Dhabi from their mid-2008 highs, and prices could fall further as population growth has reversed, due to the departure of expatriates, and as excess supply expands (Box 1).

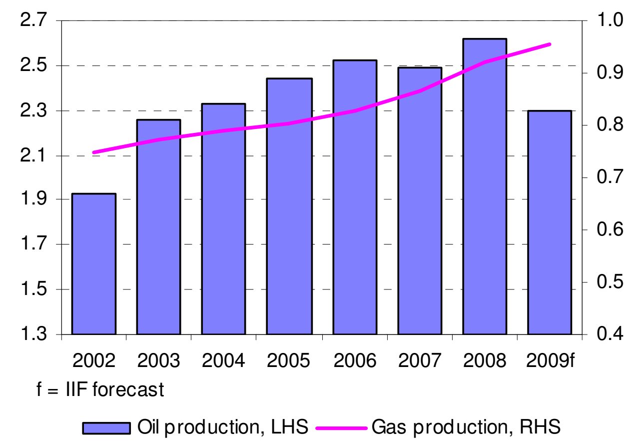
Table 2
Selected Mega-Projects
(only projects that ≥ $1 billion)

	$ Bn	Status
Oil and gas projects	**32**	
ADNOC – Sour Gas Development	10	Ongoing
ADNOC – Upper Zakkum Oil Field	8	Ongoing
DOLPHIN Sub-Sea Gas Pipeline	5	Ongoing
TAKREER – Ruwais Refinery	4	Ongoing
ADCO – SAS Oilfield Development	3	Ongoing
GASCO – Gas Treatment Plant	2	Ongoing
Other ongoing projects	**115**	
Projects cancelled/delayed/on hold	**105**	
Nakheel Harbour & Tower	38	On hold
Yas Island Development	30	Ongoing
Saadiyat Island	23	Ongoing
The Lagoons	15	Ongoing
Mina Zayed Port Redevelopment	15	Ongoing
Al Raha Beach Development	12	Ongoing
Culture Village (Arabian Bays)	12	On hold
Al Salam City	8	On hold
Al Maktoum International Airport	7	Delayed
Abu Dhabi Airport Expansion	7	Ongoing
Mohammed bin Zayed City	6	Ongoing
Dubai Metro System	5	Ongoing
Al-Reem Island	4	Ongoing
Aluminum Smelter Phase I	4	Ongoing
Aluminum Smelter Phase II	3	Ongoing
Dubai Pearl	3	Ongoing
Asia-Asia Hotel	3	On hold
Al Salam City (Phase I)	3	On hold
Dewa – Station P (Phase I)	3	Delayed
Inter-Emirates Rail Network	3	Ongoing
Shuweihat I WPP: Phase II	2	Ongoing
Upgrade of Sewage Network	2	Ongoing
Western Region Smelter Power Plant	2	On hold
Universal City Dubailand	2	Delayed
Dolphin City	2	On hold
Nad El Sheba racecourse	1	Cancelled
Redevelopment of Mina Rashid	1	On hold
Plaza Mayor (Jumeirah Village)	1	On hold
Falcon City of Wonders (Dubailand)	1	On hold
Palm Deira	1	On hold
Palm Trump Hotel & Tower	1	On hold

Source: ADNOC, Chamber of Commerce and various sources.

The production of oil has declined steadily since December 2008 and is expected to average 2.3 mbd in 2009, compared with 2.6 mbd in 2008 (Chart 1). Nonetheless, the state-owned oil company Abu Dhabi National Oil Company (ADNOC) remains committed to raising crude production capacity to 3.5 mbd by 2012. Natural gas production, which accounts for around 30 percent of total hydrocarbon production, rose by 3 percent in 2008.

Chart 1
OPEC induced decline in crude oil production
(mbd) (mbd of oil equivalent)



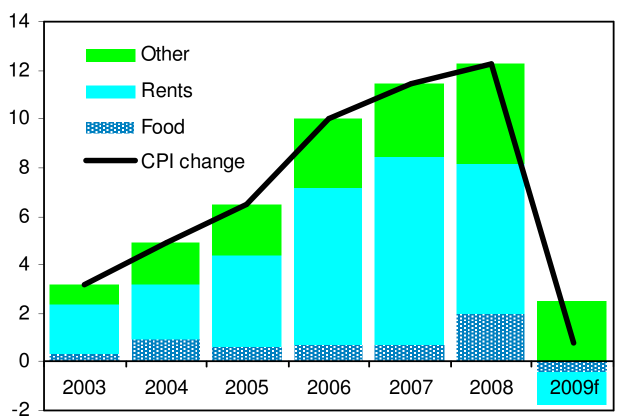
f = IIF forecast

Lower oil prices have not adversely affected ongoing hydrocarbon investments. UAE's plans to raise oil and gas production capacity are still on track. While the global financial crisis and recession have led many companies to downsize or delay projects in the energy sector, the UAE, by contrast, has continued to execute projects in the oil and gas sector, taking advantage of much lower costs. In this respect, ADNOC plans to invest about $50 billion over the next few years to expand crude oil, gas, and refining capacity. One major project includes $8 billion earmarked to increase crude oil production capacity at *Upper Zakhum*, Abu Dhabi's largest oil field, from 550 to 750 mbd. Expansion plans also include the $10 billion Sour Gas Development project that aims to develop reserves of the onshore *Shah and Bab* fields, which would process around 1 billion cubic feet per day (cfd) of sour gas and pump around 540 million cfd of gas suitable for consumption. There is also the Dolphin project, a $5 billion initiative that aims to transport gas from Qatar's North Field through an underwater pipeline.

Average consumer price inflation peaked at 12.3 percent in 2008, the highest in 20 years. The inflation rate has hovered between 9 and 12 percent in the past three years, fueled mainly by rent increases and higher import prices. Rents were hiked through January 2009, as a result of increased demand stemming from population growth and a sharp rise in the number of foreign workers in recent years (Chart 2).

Since early 2009, however, CPI inflation has been declining rapidly due to lower import prices, weaker domestic demand, and a decline in rents. Housing or rents is the single biggest item in the CPI basket, with a weight of 39 percent. Rentals decreased by an estimated 10 percent in Dubai and stabilized in Abu Dhabi during the first half of this year. From January to June, the CPI fell by 2.7 percent, due to a 5.8 percent decline in housing costs (for the UAE as a whole) and a 2 percent fall in food prices. The year-over-year inflation rate disappeared (was zero) in June 2009, as compared with a peak of 14 percent in May 2008. Our forecast of average inflation of 1 percent this year assumes that average rents fall by 3 percent in 2009 (Chart 2).

Chart 2
Rent price decreases behind lower inflation in 2009
(contribution to average inflation rate, percentage points)



f = IIF forecast, assuming that average rents fall by 3 percent.

2. External Sector

The UAE's external position remains strong. A further increase in hydrocarbon revenue in 2008 generated a substantial current account surplus, despite strong import growth (Table 3). The current account surplus narrowed slightly to $28 billion in 2008 (equivalent to 11 percent of GDP). The increase in exports was more than offset by the sharp rise in imports. Strong consumer demand and a sharp increase in average global commodity prices caused the value of imports to climb by 46 percent.

The financial account balance shifted from a surplus of $29 billion in 2007 to a deficit of $55 billion in 2008 following the decrease in foreign borrowings by commercial banks as a result of the tight global credit conditions during the second half of 2008. Capital flows driven by expectations of a revaluation of the dirham vis-à-vis the dollar largely reversed in the second half of 2008.

In the absence of officially published external debt, we have compiled our own estimates of the external debt using data from the UAE Central Bank, the Bank of International Settlements (BIS), and private sector data providers. **Our estimates show that the total external debt stock increased from $94 billion in 2006 to $162 billion at end-2008 (equivalent to 62 percent of GDP),** split equally between commercial banks and nonbanks (Table 4). The nonbank sector in the UAE may also be significantly indebted to non-BIS reporting banks. Dubai accounts for two-thirds of the external debt of the UAE, equivalent to about 110 percent of Dubai's GDP. Most nonbank debt is owed by public sector entities in Dubai. Individual emirate governments have minimal sovereign debt outstanding.

Table 3
Balance of Payments
(in billions of U.S. dollars)

	2006	2007	2008e	2009f
Current account balance	36.0	35.2	28.2	8.2
% GDP	21.2	17.7	10.8	3.9
Trade balance	57.6	62.1	68.9	40.3
Exports	145.7	178.7	239.4	177.0
Hydrocarbon	70.2	73.9	102.2	62.6
Oil and products	63.1	66.1	91.5	55.1
Gas	7.1	7.8	10.7	7.6
Nonhydrocarbon	28.5	34.3	43.0	38.6
Exports by Emirates	8.0	11.5	16.5	12.9
Free zone exports	20.5	22.8	26.6	25.7
Re-exports	47.0	70.6	94.2	75.9
Imports	-88.1	-116.6	-170.5	-136.7
Imports by Emirates	-67.3	-91.9	-134.0	-108.2
Free zones	-20.8	-24.7	-36.5	-28.5
Income, net	4.6	8.4	3.8	3.9
Services, net	-18.0	-26.0	-33.9	-26.0
Credits	7.1	8.1	9.6	7.7
Debits	-25.2	-34.1	-43.5	-33.7
Transfers, net	-8.2	-9.3	-10.6	-10.1
Financial account bal.	-25.8	28.7	-55.3	-8.3
Private capital	26.1	59.2	-25.9	-0.8
FDI, net	1.9	-0.4	-2.1	-0.8
Outward	-10.9	-14.6	-15.8	-8.0
Inward	12.8	14.2	13.7	7.2
Portfolio, net	1.2	1.4	2.2	0.0
Commercial banks	9.7	48.6	-12.2	0.0
Private nonbanks	15.2	9.6	-13.7	0.0
Official capital	-51.9	-30.5	-29.5	-7.5
Errors and omissions	-3.6	-14.1	-19.8	0.0
Overall balance	6.6	49.9	-46.9	0.0
Change in Central Bank's foreign assets	-6.6	-49.9	46.9	0.0
Memoranda:				
Gross reserves of central bank	27.9	77.8	30.9	30.9

e = estimate, f = IIF forecast

Sources: Central Bank of the UAE and IIF estimates and forecasts.

Government debt limits have been recently established. The Federal National Council passed a law regulating public borrowing at the emirate and federal levels. Under this law, individual emirate governments will be able to borrow up to 15 percent of their GDP. This suggests some constraints on the government of Dubai. The law also establishes a public debt unit at the Ministry of Finance with each Emirate being represented by their local debt office. All government entities now require the approval of the Federal Cabinet in order to issue bonds or sukuks.

In April 2009, the Abu Dhabi government bought $10 billion of Dubai's bonds, half of the $20 billion issue. The support helped restore calm as shown in the narrowing of the credit-default swap spreads in recent months. While the Abu Dhabi government has little need to borrow, it plans to secure financing for major projects and provide a sovereign yield curve for companies. It currently has $4 billion in outstanding external debt, with a further $7 billion available under its recently launched $10 billion Global Medium-Term Note Program. If fully drawn, this would take its total debt to $11 billion, equivalent to less than 10 percent of current Abu Dhabi GDP estimates.

Table 4
External Debt and Assets

	2006e	2007e	2008e	2009f
	(billions of U.S. dollars)			
External debt	94	149	162	153
Government	7	10	13	11
Commercial banks	48	88	77	77
Private nonbanks	39	51	72	65
Foreign assets	397	486	397	443
Central bank	28	77	32	32
Commercial banks	63	54	51	55
ADIA	306	355	314	355
Net external debt	-303	-337	-235	-290
	(percent of GDP)			
Total external debt	56	75	62	72
Net external debt	-178	-170	-90	-135

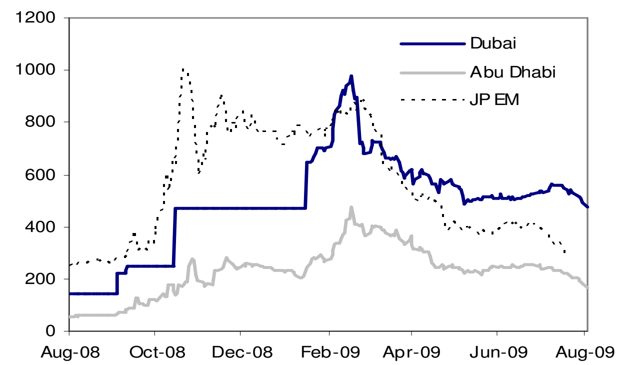
e = estimate, f = IIF forecast

Source: Central Bank, BIS, and IIF estimate and forecast.

The UAE is in a large net external creditor position. Total foreign assets of the UAE are estimated at around $450 billion (including foreign assets of ADIA, Central Bank of the UAE, Abu Dhabi Investment Council, and International Petroleum Investment Company). This gives a positive net external asset position of around $300 billion, equivalent to 140 percent of the projected GDP in 2009. The sharp decline in major global market indices in 2008 has likely resulted in significant losses for the UAE's Sovereign Wealth Fund (SWF).

Our rough estimates show that ADIA's foreign assets have decreased from $355 billion at end-2007 to about $314 billion at end-2008 despite the large recorded current account surplus. This is explained by the asset writedowns that ADIA incurred in the global equity and real estate markets during the second half of 2008. The investment income on ADIA assets is estimated to have also declined from $13 billion in 2007 to $7 billion in 2008. ADIA invests in international markets in a variety of asset classes—equities, fixed income, real estate, private equity and alternatives. More recently, it has increased its investment in emerging economies.

Chart 3
Sovereign CDS Spreads
(basis points, 5-year maturities)



Reflecting a general increase in financial risks, **credit default swap (CDS) spreads on sovereign debt and the rollover risk of foreign debt have increased sharply (Chart 3).** Despite the strong external position, international market perceptions of the UAE's credit risk deteriorated from September 2008 through March 2009, as indicated by the rising rates for CDS for both sovereign and government related corporate entities. Dubai's CDS spreads widened to around 1000 basis points (bps) in March 2009, and have declined since then to 500 bps in June. During the same period, the Abu Dhabi CDS dropped from 450 bps in February 2009 to 230 bps in June 2009. Abu Dhabi's CDS spreads are also much lower than the average for emerging economies. In April, Abu Dhabi issued $3 billion of bonds with 4 percent coupon on the 5-year tenor, and it was oversubscribed. The spread was about 300 basis points above comparable U.S. Treasuries.

3. Financial Sector and Stock Market

The process of global deleveraging led to a severe tightening of credit conditions. The UAE banking system was highly leveraged and dependent on foreign lines of credit. Monetary and credit growth decelerated rapidly in recent months from the dangerously high pace in recent years. The 12-month broad money growth rate decelerated from 45 percent in June 2008 to 15 percent in June 2009, and is expected to decelerate further to

6 percent by end-2009. Bank credit to the private sector has also decelerated from a peak of 59 percent (year-on-year) in September 2008 to 15 percent in June 2009 (Table 5). We expect the year-on-year credit growth to decelerate further to less than 5 percent by end-2009 (Chart 4).

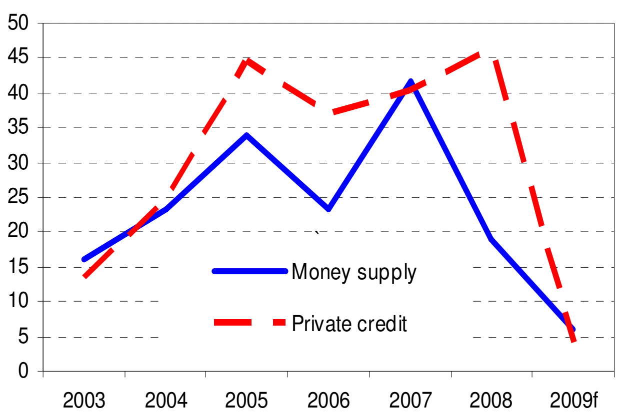
Table 5
Monetary Survey

	2006	2007	2008	June 2009e
	(billions of Dh, eop)			
Net foreign assets (NFA)	156	161	33	23
Central bank	101	285	112	102
Commercial banks	54	-124	-79	-79
Net domestic assets	244	405	641	695
Claims on government, net	-52	-61	-134	-134
Claims on public enterprises	33	45	56	70
Claims on private sector	418	586	777	778
Claims on nonbank financial Institutions	32	55	98	98
Other items, net	-188	-220	-156	-117
Broad money (M2)	399	566	674	718
	(percent change, 12 months)			
Claims on private sector	37	40	33	15
Money supply (M2)	23	42	19	15
Memoranda:				
Lending rate (businesses, %)	7.9	8.0	9.1	6.5
Deposit rate (one year, %)	4.2	4.3	2.5	4.0
Real lending rate (%)	-1.4	-3.1	-3.2	3.0

e = IIF estimate for June 2009 based on partial data from the Central Bank of the UAE.

Source: IFS through December 2008 and IIF calculations.

Chart 4
Broad money and private sector credit decline sharply
(12-month percent change, annual figures)



f = IIF forecast

The banking system in the UAE experienced large capital outflows, reflecting in part repatriation of foreign funds and generalized risk aversion. As a result, dollar liquidity became scarce and financial costs rose significantly.

Available financial soundness indicators show that the banking system in the UAE is healthy (Table 6). But these indicators may not fully capture the risks posed by high credit growth and concentration in real estate. The capital adequacy ratio increased to about 16 percent in March 2009, and most banks continued to be profitable. The NPL-to-total credit ratio was reported at 2.9 percent for end-March 2009. Banks receiving government funds have been required to raise their minimum capital adequacy ratios from 11 percent in June 2009 to 12 percent by June 2010. With year-on-year inflation around zero percent in June 2009, real deposit rates have turned positive after years of negative returns, providing additional incentive to save. Lending to the private sector remained broadly flat from January to May 2009. As a result, loan-to-deposit ratios have declined significantly, but are still above the 100 percent ceiling set by the central bank.

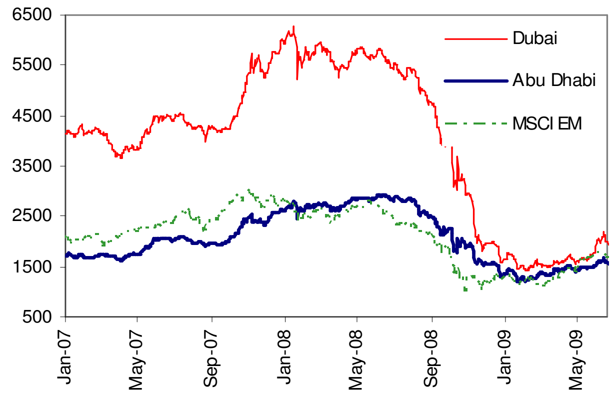
Table 6
Banking Sector Indicators
(in percent, unless otherwise indicated)

	2006	2007	2008	March 2009
Return on assets	2.3	2.0	1.8	2.1
Return on equity	18.0	21.0	17.3	15.9
Capital adequacy ratio	16.6	14.0	13.3	16.2
NPLs to total loans	6.3	2.9	2.5	2.9
Liquid assets to total assets	16.4	13.2	6.1	9.2
Provisions/NPL's	98	100	101	96
Loans to deposits[1]	111	109	122	105
Real estate loans/total loans	5.9	8.3	10	13.4
Private credit (% change)	37	40	48	20

[1]Credit to private sector as percent of deposits by residents (excluding government deposits), derived from IFS.
Source: Central Bank of the UAE and IIF calculations.

Asset prices fell sharply last year. During the boom years, banks lent substantial amounts for real estate and equity purchases. In 2008, the Abu Dhabi and Dubai market indices, ADSM and DFMGI, fell by 48 and 72 percent, respectively, in 2008 (Chart 5). Banking stocks were also dragged lower on concerns over their exposure to the real estate sector and over increasing loan deposit ratios, which reached 137 percent at end-2008 (defined as private sector loans divided by resident deposits, excluding government deposits). So far this year (as of July 30, 2009) the ADMSM has recovered by 17 percent and the DFMGI by 11 percent.

Chart 5
Dubai and Abu Dhabi Stock Market Indices (2004 = 100)



Economic Policies

1. Fiscal Policy

Due to the strength of oil revenue, the UAE's fiscal position remains sound. We estimate that the consolidated fiscal surplus rose to AED 210 billion (22 percent of GDP) in 2008. The government's published fiscal accounts significantly understate the true fiscal position since they omit both investment income earned on ADIA's financial assets, and the profits of ADNOC, which are paid directly to ADIA without passing through the budget.

Our estimates of the consolidated fiscal data presented in Table 7 uses an amalgam of the outturns and budgets for 2009 of the three main Emirates (Abu Dhabi, Dubai and Sharjah) and the federal budget. We also include public transfers to the budget mainly in the hydrocarbon revenue, reflecting ADNOC's surplus, and the investment income of ADIA, which is the biggest item in the nonydrocarbon revenue. Consolidated expenditure is estimated to have risen by 45 percent in nominal terms in 2008 to the equivalent of 26 percent of GDP, or 44 percent of nonhydrocarbon GDP. Subsidies and transfers remain large. UAE nationals enjoy a generous welfare system involving free land, interest free loans, free education and health, and heavily subsidized food, water and electricity. Capital spending continues to account for a modest proportion of overall spending (13 percent of total spending, or 5.7 percent of nonhydrocarbon GDP).

Fiscal policy has become more expansionary. The nonhyrocarbon fiscal deficit (which is a good proxy for fiscal stance) widened from 9 percent of GDP in 2007 to 17 percent in 2008, and is projected to further widen to 19 percent of GDP in 2009 (Chart 6). **We estimate that the consolidated fiscal surplus for the UAE will narrow from 21.9 percent of GDP in 2008 to 7.5 percent in 2009.** The decrease in current expenditures in nominal terms is due to lower spending on subsidies and goods as a result of sharply lower commodity prices. Capital expenditure, which has large import content, is expected to be stagnant in nominal terms, but increase significantly in volume terms. Hydrocarbon revenues are projected to fall by 38 percent on the back of the sharp fall in oil prices and a reduction in oil exports in volume terms.

Table 7
Consolidated Government Finances

	2006	2007	2008e	2009f
		(bn UAE dirhams)		
Total revenue	294.5	333.2	452.2	296.1
Hydrocarbon	217.4	235.1	367.2	203.7
o/w: Profit transfers[1]	52.6	58.8	87.3	47.0
Nonhydrocarbon	77.1	98.1	84.2	92.4
o/w: Invest. income	41.1	49.1	20.9	29.4
Total expenditure	127.7	166.9	242.1	236.1
Current	103.1	126.6	157.4	158.6
Wages	17.7	21.3	28.9	33.3
Goods and services	26.4	36.9	43.5	44.9
Federal services	25.3	31.3	34.4	34.6
Subsidies & transfers	32.7	35.7	48.8	42.7
Other	1.0	1.4	1.8	3.1
Capital	15.2	17.3	31.4	31.6
Loans and equity[2]	9.0	20.8	49.8	44.6
Foreign grants	0.4	2.3	3.6	1.2
Overall balance	166.8	166.3	209.1	39.7
				(% GDP)
Total revenue	47.2	45.2	47.3	37.0
o/w: Hydrocarbon	34.8	31.9	38.42	25.5
Total expenditure	20.4	22.6	25.4	29.5
Overall balance	26.7	22.5	21.9	7.5
Nonhydrocarbon balance	-8.1	-9.3	-16.5	-18.0
		(% nonhydrocarbon GDP)		
Nonhydrocarbon balance	-12.6	-14.7	-27.9	-24.8
Total expenditure	31.9	35.7	42.8	40.7
o/w: Capital	3.8	3.7	5.5	5.5

e = estimate, f = IIF forecast

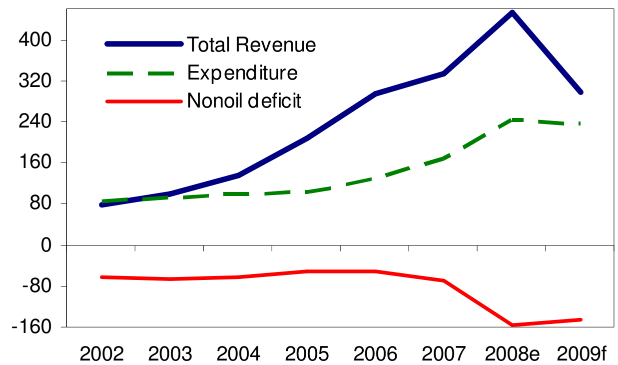
[1]Transfers from government entities in oil and gas sector.

[2]Includes equity contributions to state-owned enterprises.

Sources: UAE authorities and IIF consolidation and forecast.

Abu Dhabi's fiscal position is very strong. Our estimates show that Abu Dhabi's fiscal breakeven oil price is around $40 per barrel, taking into account the projected 12 percent decline in oil production and the budgeted expenditure for 2009. Using our average oil price forecast of $60 per barrel, the fiscal balance for Abu Dhabi (including investment income on ADIA and ADNOC's profit transfers) is projected at a surplus of 8.5 percent of UAE's GDP in 2009. In Dubai, a fiscal deficit of about 1 percent of GDP is projected, and the federal government is likely to record a small surplus of 0.3 percent of total GDP. The Abu Dhabi government is expected to continue providing financial support to other emirate governments, government-owned companies, and systematically critical banks.

Chart 6
UAE Consolidated Fiscal Accounts
(in billions of UAE dirhams)

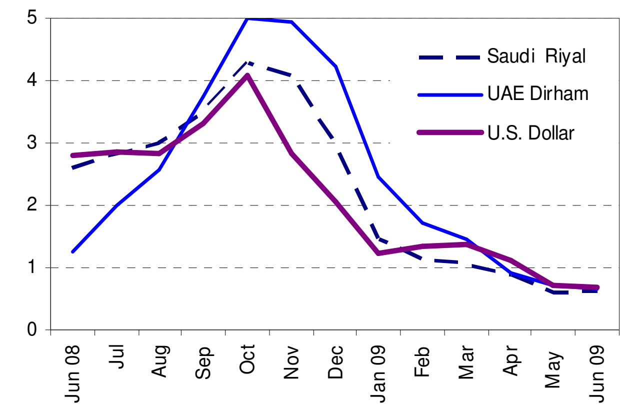


e = IIF estimate, f = IIF forecast

2. Monetary and Exchange Rate Policies

The pegged exchange rate continues to provide additional economic support owing to monetary easing in the United States. The central bank has also introduced other key measures to provide liquidity to the banking system. Banks' buffers were reinforced by countercyclical and provisioning policies and sustained profitability during the recent oil boom.

Chart 7
Interbank 3-Month Deposit Rates
(percent, monthly averages)



The central bank reduced its key policy rate, guaranteed all bank deposits, and introduced other key measures to provide liquidity to the banking system. In February, the central bank took up $10 billion of bonds issued by Dubai to help support state-affiliated companies. Dubai is planning to raise another $10 billion before year-end.

In early 2009, the government injected Dh100 billion (equivalent to 12 percent of GDP) into the banking system to bridge the liquidity gap. Interest rates have been reduced, tracking U.S. interest rates (Chart 7). Lending rates, which range between 6 and 7 percent, are now positive in real terms, and at least 2 percentage points higher than the average deposit rates. The authorities' provision of liquidity, deposit guarantees, and continued expansionary fiscal policies helped to ease the credit crunch brought about by reduced access to capital markets and the withdrawal of foreign funds. The central bank took several steps to strengthen banking supervision, including:

- Closer monitoring of banks' asset portfolios with a focus on real estate loans.
- Review of the loan classification and provision regulations to better assess exposure and risks.
- Increased frequency of reporting of liquidity indicators by banks.
- Strengthening of the financial stability unit.

The dirham is broadly aligned with fundamentals and we expect the peg to the dollar to be maintained. UAE's real effective exchange rate (REER) has appreciated by 16 percent since end-2004, reversing the 10 percent depreciation experienced during 2001-2004. The appreciation of the REER in recent years has been due mainly to rising domestic inflation (Table 8). One important question is whether the real appreciation of the past few years was in line with the appreciation of the equilibrium real effective exchange rate (ERER). Oil prices spiked between 2003 and mid-2008, with the sharp improvement in UAE's terms of trade (TOT) suggesting that the underlying ERER should be more appreciated than before the oil price increase.

The underlying ERER can be defined as the level of real effective exchange rate that is consistent with the equilibrium values of the economic fundamentals in the long run. We found evidence of a long-run cointegration relationship between the real effective exchange rate (REER) and key fundamentals that include relative productivity of the UAE's economy vis-à-vis its trading partners, TOT, net foreign assets in percent of GDP, and overall fiscal balance. The spread between the REER and the ERER has narrowed in recent years and disappeared in 2008 as a result of the further significant appreciation of the actual REER.

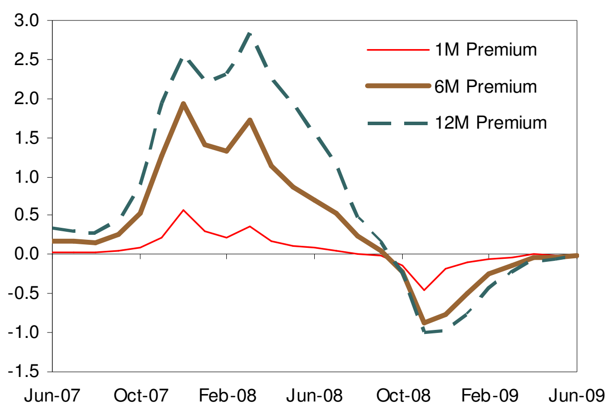
Table 8
Exchange Rate Developments
(period averages)

		Effective Exchange Rates		
	Dh:$	Nominal Index[1]	REER Index[1]	REER[2] % Change
2002	3.67	102.3	103.1	-1.2
2003	3.67	95.3	96.2	-6.7
2004	3.67	91.3	93.6	-2.7
2005	3.67	91.0	96.0	2.5
2006	3.67	90.7	101.2	5.4
2007	3.67	87.0	103.6	2.3
2008	3.67	85.6	108.7	4.5
2009f	3.67	88.8	112.0	2.0

f = IIF forecast
[1]2000 = 100; based on trade with all trading partners.
[2]Real effective exchange rate, - indicates depreciation.
Source: National authorities and IIF estimates.

The change in liquidity conditions meant that last year's concerns over the policy constraints of the exchange rate peg to the dollar have abated (Chart 10).

Chart 10
Dirham's forward premium spread vanished
(percent of spot prices, monthly averages)



In May, the UAE pulled out of the planned GCC monetary union. It expressed reservations about the GCC summit's decision that Riyadh, the Saudi capital, was chosen to host the Monetary Council, a precursor to a common central bank. Nonetheless, the UAE dirham will remain pegged to the dollar. The peg is regarded as having contributed to decades of macroeconomic stability and very low transaction costs.

Currency futures now indicate that markets no longer doubt the peg will be maintained. The flexibility of labor, prices, and wages—due to a flexible expatriate workforce—would ensure that any potential misalignment would be addressed through price or labor force adjustments. It is important to note that in the UAE, the latter adjustment is affected not through changes in the employment of nationals, but through the officially regulated immigration channel.

3. Structural Reforms and Statistics

The UAE continues to press ahead with structural reforms in a number of areas, including financial, public sector reforms, infrastructure, and governance. Good progress has been made in strengthening banking sector supervision and regulation. The central bank continues to encourage banks to improve disclosure standards and increase transparency in line with current regulations.

Progress has been made in diversifying the economy and improving competitiveness. The UAE is ranked high in international business environment and competitiveness surveys. The *World Economic Forum's (WEF) 2009 Global Competitiveness Report* ranked the UAE 28th out of 131 countries, the best among Arab countries. The UAE scores high in the following indicators:

- **Well-developed infrastructure**. The UAE has excellent road networks, though there are major traffic problems.
- **Good governance**. Considerable improvements have been made in the rule of law and corporate governance. Recently, Dubai launched an anti-corruption drive that resulted in several high-profile arrests.
- **Efficient market**. This is due to the fact that there are no significant trade barriers, no income taxes, relatively efficient legal framework, flexible wage determination, and well-developed financial and equity markets.

A sustained effort to address weaknesses in macroeconomic statistics is needed. The UAE's economic statistics database continues to suffer from weaknesses, though some progress has been made recently in improving the institutional framework. Shortcomings in economic and financial data reflect inadequate compilation techniques, shortage of trained staff, and weak information flow between federal and emirate governments and public sector entities. As a result, publication of data remains unsatisfactory. With the exception of CPI statistics, macroeconomic data are made available with a considerable lag and the frequency of official statistics is inadequate.

The statistical techniques used in compiling GDP by production and expenditure approaches are not sound. In particular, the estimation of deflators by sectors needs further improvement. Detailed monetary statistics are posted on the central bank's website with a lag of at least three months and many entries in the balance of payments statistics are estimated on the basis of incomplete information.

The central bank and the Ministry of Finance are currently making efforts to improve the quality and timeliness of economic and financial data. A new federal statistics law was approved in late 2008 to establish a National Bureau of Statistics. The UAE began participating in the IMF's General Data Dissemination System (GDDS) in August 2008, marking a major step forward in the development of its statistical system. Such participation commits a country to building its national statistical system consistent with international practices. The GDDS addresses the full range of issues critical for compiling and disseminating national procedures with best international practices.

Outlook

After the rapid growth of the past few years and a mild recession in 2009, the economy is expected to shift to a lower but more sustainable growth path, in the range of 3-4 percent, over the medium term. We expect real GDP to contract by about 1 percent in 2009 in light of lower oil production. Hydrocarbon real GDP is projected to fall by 7.0 percent. Crude oil production is projected to decrease by 11 percent to 2.33 mbd in 2009, while gas production is expected to continue increasing by about 3 percent. The deceleration in the nonhydrocarbon real GDP growth to less than 1 percent is somewhat mitigated by maintaining an expansionary fiscal policy, and monetary easing.

The banking sector could hold a key to the speed of the recovery. Measures to support credit can hold off a tightening of credit conditions and support consumption. Nonhydrocarbon growth in Abu Dhabi is expected to moderate to 3.5 percent, while Dubai's economy could contract by 3 percent this year before a modest recovery in 2010. The bottoming out of the real estate market would be one of the main catalysts to the recovery towards the end of this year and early next year. Dubai's pace of development was too fast, and in the absence of the current world financial crisis, a correction was inevitable.

The authorities recognize that Dubai, in its rush to build the leading business hub in the region, had overleveraged and overextended itself. Despite this year's downturn in Dubai, the economy has solid foundations with excellent infrastructure (including roads, ports, and airports) unmatched in the Middle East. Tourism will also start to recover in 2010, and Dubai will remain the preferred finance base for the Middle East (Box 2). Dubai has also enough assets to aid its recovery. Such assets include its huge container transshipment business, aluminum smelters, tourism, and its role as a regional service hub. More importantly, the extent to which Dubai and Abu Dhabi are intertwined means that Dubai cannot be allowed to fail.

We expect the average inflation rate to fall from a peak of 12 percent in 2008 to around 1 percent this year and then rise slightly to 2.5 percent in 2010. The sharp fall in world commodity prices combined with the major correction in the housing market and the associated decline in rents have helped dampen inflationary pressures. There is a risk of deflation, however, if average rents decline by more than 6 percent this year. However, if the dollar depreciates towards the end of this year, then average inflation could exceed 1 percent.

Credit growth will decelerate substantially. While domestic liquidity conditions will improve in the second half of this year, buoyed by some recovery in oil prices, the year-on-year credit growth is expected to decelerate to below 5 percent by end-2009 from levels that were clearly excessive in the past two years.

The external current account balance is projected to be in a modest surplus of 4 percent of GDP this year and 9 percent of GDP in 2010. Imports of goods (including Free Zones) are expected to decline from \$171 billion in 2008 to \$137 billion in 2009 due to the sharp fall in import prices and weak domestic demand.

We expect the consolidated fiscal accounts to register a relatively modest surplus. The sharp fall in the price of oil, from an average of \$97 in 2008 to a forecast \$60 per barrel in 2009, will also reduce the consolidated fiscal surplus from the equivalent 22 percent of GDP in 2008 to 8 percent in 2009, before rising again to 11 percent in 2010. This combined with some recovery in global equity markets will enable the Abu Dhabi Investment Authority (ADIA) to recover its foreign assets from \$314 billion at end-2008 to \$382 billion by end-2010.

There are downside risks to our forecast arising from a possible deeper and longer global recession, which could result in much lower oil prices and further correction in the real estate market (Box 3). Deepening asset price corrections would feed through to corporate and, ultimately, bank balance sheets, placing even greater stress on financial institutions. It would also lead to a further fall in rents, possibly leading to deflation.

Banks may also struggle for some time to adjust balance sheets, with credit and counterparty concerns stifling credit expansion and exacerbating banks' liquidity preference. Financial risks may be higher than observed so far. Uncertainty regarding the true state of bank balance sheets, including the extent of nonperforming loans and the potential capital shortfall, could limit the availability of funding for banks for a protracted period, with knock-on effects on their ability and willingness to provide fresh credit.

Box 2. DIFC Maintains its Profile

The Dubai International Financial Centre (DIFC) was conceived by the Government of Dubai. It is the world's fastest growing international financial hub and aims to develop the same stature as New York, London, and Hong Kong. Since it opened in September 2004, the DIFC has attracted high-caliber firms from most countries.

The DIFC focuses on banking and brokerage, capital markets, wealth management, insurance, reinsurance and captives, Islamic finance, and ancillary services. Many international corporations have set up their regional office bases in the DIFC over recent years and the development now boasts numerous boutique stores, art galleries, and a wide variety of food and beverage outlets. Firms operating in the DIFC are eligible for 100 percent foreign ownership, zero percent tax rate on income and profits, no restrictions on foreign exchange or capital/profit repatriation, and access to ultra modern office accommodation, state-of-the-art technology, and sophisticated infrastructure.

The DIFC is expected to maintain its profile. The basic elements that encouraged international firms to open branches in Dubai continue to attract other firms despite the current global recession and sharp correction in the real estate market in Dubai. While the DIFC has been affected by the global financial crisis, it has succeeded in maintaining its profile as one of Dubai's prime office developments.

The DIFC and surrounding Shaikh Zayed Road area are set to become the Central Business District in the region for years to come. With the CBD development coming online, new roads being built, and the completion of the Metro by the end of this year, a solid case can be made for investment in this area over other office locations in the region. Jebel Ali has the largest port in the Middle East and is home to 5500 companies from 120 countries. Dubai International Airport is the sixth busiest in the world by international passenger traffic.

According to unofficial sources, banks in the UAE face at least $3 billion in potential losses from two troubled Saudi family conglomerates (the *Algosaibi* and *Saad* groups). This, however, represents less than 1 percent of the total assets of the banking system or 6 percent of the capital and reserves. If confirmed this exposure could threaten the profitability of the banking sector in the second half of 2009.

These factors could reduce nonhydrocarbon growth by 1-1.5 percentage points, as compared with the baseline scenario, to 2 percent in 2010. The central bank needs to strengthen oversight of risk management practices and conduct regular stress tests to assess the impact of further decline in asset prices and a prolonged period of low growth.

Box 3: Global Economic Outlook

The global economy is expected to contract in 2009 for the first time in the post-war era. Advanced economies are experiencing particularly sharp declines, while emerging economies are being hit hard through both trade and financial channels. OECD economies are likely to contract by more than 3 percent (Table 9). While there are some signs that the rate of decline in output is moderating, the global economy is still expected to contract by around 3 percent in 2009, before a recovery emerges in the later months of 2009. Credit-sensitive demands – especially for big-ticket consumer and capital goods – have been especially weak. Initial weakness in final demand led to an unwanted rise in inventories. In recent months, however, production weakness has reflected a determined effort to trim inventories. Global unemployment is now rising sharply. The recovery in 2010 is likely to be sluggish in OECD countries.

Growth in emerging economies in Eastern Europe, Latin America, and Southeast Asia is expected to slow sharply from 5.5 percent in 2008 to 1.5 percent in 2009 under the drag of falling export demand and financing, lower commodity prices, and much tighter external financing constraints. Developing countries in Africa and the Middle East are better prepared this time to face policy challenges because of improved macroeconomic policy implementation and relatively weak transmission channels linking their banking system with the international financial system.

The stance of global macroeconomic policy has turned decisively supportive in recent months. On the monetary side, there has been a coordinated easing in interest rates and a massive expansion of central bank liquidity facilities. On the fiscal side, a wide range of countries have announced expansionary policies. By later this year, the combination of these policies should begin to yield some results, and the forecast remains for a return to modest growth in 2010. Recent data suggest that the rate of decline in economic activity is moderating at varying degrees among regions. Cuts in policy interest rates, continued provision of ample liquidity, public guarantees, and bank recapitalization have appreciably lowered concerns about systematic failure and have supported intermediation. Nonetheless, bank lending conditions are expected to remain tight and external financing conditions constrained for a considerable time.

Volume of world trade in goods and services is expected to drop by about 12 percent in 2009, with a significantly sharper contraction in trade volumes of manufactured products. The oil market has been among the most deeply affected by the recent turmoil in global financial markets and the subsequent weakness in economic activity. Brent oil prices are likely to average $61 per barrel in 2009 and $72 per barrel in 2010. While the price of oil will fluctuate in the short term, and could correct down, even if briefly, from current levels, the secular trend is clearly upwards. Crude oil and some petroleum products inventory levels are still high, a stronger revival in demand is needed to bring the market into balance – even with continued output restraint from OPEC. Much depends on the prospect of global economic recovery, which remains particularly hard to predict, although a consensus is emerging that the worst is over.

Table 9
The World Economic Outlook in Summary

	2007	2008	2009f	2010f
Real GDP growth		(percent, annual)		
World	3.5	1.7	-2.9	2.4
United States	2.1	0.4	-2.6	2.5
Japan	2.3	-0.7	-5.4	2.5
Euro area	2.7	0.6	-4.7	0.6
Latin America	5.5	4.1	-2.2	1.7
Eastern Europe	6.2	4.2	-5.2	2.5
Asia Pacific	9.9	7.0	5.3	7.4
Middle East	6.3	5.4	1.9	3.5
World trade volume	7.2	2.9	-12.0	1.0
LIBOR, $ deposits	5.3	3.0	1.2	1.4
	(US$/barrel, period average)			
Brent crude oil price	72.6	98.3	61.2	71.6

f = IIF forecast

Source: IIF estimates as of 7/27/09.

IIF DATABASE: UNITED ARAB EMIRATES

Code		2003	2004	2005	2006	2007	2008e	2009f	2010f
	DOMESTIC ECONOMY, HYDROCARBON SECTOR, AND EXCHANGE RATES								
	DOMESTIC ECONOMY (1995 prices)								
E100	Real GDP (dirhams billion)	301.3	330.4	367.3	398.6	425.7	455.7	450.0	465.2
E101	% change	11.9	9.7	11.2	8.5	6.8	7.0	-1.2	3.4
	Hydrocarbon real GDP (dirhams billion)[1]	91.0	93.7	97.4	100.5	100.8	105.8	98.4	101.4
	% change	13.6	2.9	4.0	3.2	0.3	5.0	-7.0	3.0
	Non-hydrocarbon real GDP (dirhams billion)	210.3	236.8	269.9	298.0	324.8	349.8	351.6	363.9
	% change	11.2	12.6	14.0	10.4	9.0	7.7	0.5	3.5
E500	Nominal GDP (dirhams billion)	321.8	386.5	513.1	624.6	729.7	963.4	798.8	891.5
E501	% change	17.9	20.1	32.7	21.7	16.8	32.0	-17.1	11.6
	Hydrocarbon nominal GDP (dirhams billion)[1]	92.1	123.3	185.1	224.1	261.8	397.7	224.5	282.5
	% change	27.0	33.8	50.1	21.1	16.8	51.9	-43.6	25.9
	Non-hydrocarbon nominal GDP (dirhams billic	229.6	263.3	328.0	400.5	467.9	565.7	574.3	608.9
	% change	14.6	14.7	24.6	22.1	16.8	20.9	1.5	6.0
E505	GDP deflator % change	5.4	9.5	19.4	12.2	9.4	23.3	-16.0	7.9
E510	Nominal GDP ($ billion)	87.6	105.3	139.7	170.1	198.7	262.3	217.5	242.7
	HYDROCARBON SECTOR								
	Crude oil production (barrels/day thousand; aver	2260	2330	2440	2520	2490	2620	2330	2390
	% change	17.1	3.1	4.7	3.3	-1.2	5.2	-11.1	2.6
	Gas production (b/d thousand; oil equivalent; av	772	789	803	828	865	920	948	986
	% change	3.2	2.2	1.7	3.1	4.5	4.2	3.0	4.0
	EXCHANGE RATES								
T400	Exchange rate, end-period (Dh:$)	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
T410	Exchange rate, average (Dh:$)	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
T430	Nominal effective rate (2000 = 100) [2]	95.3	91.3	91.0	90.7	87.0	85.6	88.8	88.6
	% change	-6.9	-4.2	-0.3	-0.4	-4.1	-1.6	3.7	-0.2
T440	Real effective rate (2000 = 100)[2]	96.2	93.6	96.0	101.2	103.6	108.7	112.8	115.1
T441	% change	-6.7	-2.7	2.6	5.4	2.4	4.9	3.8	2.0

f = IIF forecast

[1]Refers to crude oil and natural gas (does not include manufactured oil or gas products).

[2] Based on all trading partners.

IIF DATABASE: UNITED ARAB EMIRATES

Code		2003	2004	2005	2006	2007	2008e	2009f	2010f
	EXTERNAL BALANCE ($ billion)								
	CURRENT ACCOUNT BALANCE								
B100	Trade Balance	21.3	27.2	42.6	57.6	62.1	68.9	40.3	56.8
B110	Merchandise exports	67.1	90.6	117.2	145.7	178.7	239.4	177.0	207.6
	Hydrocarbon exports	29.6	38.4	55.0	70.2	73.9	102.2	62.6	76.3
	Oil1	25.7	33.8	49.2	63.1	66.1	91.5	55.1	67.0
	Gas2	3.9	4.7	5.8	7.1	7.8	10.7	7.6	9.3
	Non-hydrocarbon exports	37.6	52.2	62.2	75.5	104.9	137.2	114.4	131.4
	o/w: Re-exports	33.9	39.8	47.0	62.3	70.6	94.2	75.9	86.8
B120	Merchandise imports	-45.8	-63.4	-74.5	-88.1	-116.6	-170.5	-136.7	-150.9
	Balance on Services, Incomes and Transfers	-13.8	-16.4	-17.9	-21.6	-26.6	-34.1	-32.1	-35.7
	Services, net	-9.1	-12.1	-14.6	-18.0	-23.9	-27.3	-26.0	-29.0
B212	Exports of services	2.8	3.0	6.0	7.1	8.4	9.6	7.7	8.0
B222	Imports of services	-11.8	-15.1	-20.6	-25.2	-32.3	-43.5	-33.7	-37.0
	Income, net	0.0	0.7	3.5	4.6	6.6	3.8	3.9	4.4
B214	Income receipts	2.5	4.5	8.8	10.4	13.8	11.6	6.5	8.0
B226	Income payments	-2.5	-3.8	-5.3	-5.8	-7.2	-7.8	-2.6	-3.6
B230	Transfers, net	-4.7	-5.1	-6.7	-8.2	-9.3	-10.6	-10.1	-11.1
B250	Current Account Balance	7.6	10.8	24.8	36.0	35.6	34.8	8.2	21.1
B252	% GDP	8.6	10.2	17.7	21.2	17.9	13.3	3.8	8.7
	EXTERNAL FINANCING								
F250	External financing, net	-7.6	-10.8	-24.8	-36.0	-35.6	-34.8	-8.2	-21.1
F280	Equity investment, net	-10.9	-17.8	-40.0	-78.0	-60.0	-58.0	0.2	-12.4
	Debt liabilities	-0.4	8.3	16.3	53.3	71.7	13.5	-8.4	-2.1
	of which:								
F340	Official bilateral creditors	0.1	-0.1	-0.1	3.7	2.6	3.1	-1.5	-0.1
F350	Commercial banks	-0.8	3.7	9.9	25.2	39.1	-10.5	0.0	0.0
F360	Other creditors (includes private nonbanks)	0.3	4.7	6.5	24.4	30.0	21.0	-7.0	-2.0
F450	Resident lending, net[4]	3.6	2.2	1.6	-4.8	2.6	-37.2	0.0	0.0
F500	Change in official reserves (- = increase)	0.2	-3.5	-2.6	-6.5	-49.9	46.9	0.0	-6.5

f = IIF forecast

[1]Comprises exports of crude oil, refined products and liquified petroleum gas.

[2]Comprises exports of liquified natural gas and natural gas liquids.

[3]May include unrecorded flows of obligations to official bilateral creditors and commercial banks.

[4]Includes errors and omissions), and changes in monetary gold.

IIF DATABASE: UNITED ARAB EMIRATES

Code		2003	2004	2005	2006	2007	2008e	2009f	2010f
	EXTERNAL DEBT AND ASSETS ($ billion)								
	EXTERNAL DEBT								
D100	Total external debt	16.5	24.9	41.0	94.4	148.5	162.0	153.0	151.0
D102	% GDP	18.8	23.7	29.3	55.5	74.7	61.7	70.3	62.2
D105	% Exports goods, services & income	22.8	25.4	31.1	57.8	73.9	62.1	80.0	67.5
	by term:								
D202	Medium/Long term debt	7.3	11.0	18.1	66.6	104.4	108.3	107.8	104.0
D203	Short term debt	9.2	13.9	22.9	27.8	44.1	53.7	45.2	47.0
	by sectors								
D340	Government	3.5	3.5	3.2	7.0	10.0	13.0	11.0	11.0
D350	Commercial banks	9.6	13.3	23.2	48.4	87.5	77.0	77.0	77.0
	Public entities and private nonbanks	3.4	8.1	14.6	39.0	51.0	72.0	65.0	63.0
	EXTERNAL ASSETS								
A500	Reserves excluding gold	15.1	18.5	21.0	27.6	77.2	31.7	31.7	38.2
A505	% Imports goods, services, & income	25.1	22.5	20.9	23.2	49.5	14.3	18.3	19.9
A506	Months imports goods, services & income	3.0	2.7	2.5	2.8	5.9	1.7	2.2	2.4
A510	Gold value (market price)	0.17	0.16	0.18	0.24	0.28	0.38	0.38	0.38
	Gold price ($ per ounce)	417.3	409.2	444.8	604.3	696.7	968.4	968.4	968.4
A512	Gold (million ounces)	0.397	0.397	0.397	0.397	0.397	0.397	0.397	0.397
A600	Deposit money banks' foreign assets	30.4	34.4	47.7	63.2	53.7	55.4		
A700	Deposits in BIS banks	49.3	53.1	62.3	85.5	110.8	76.2		

f = IIF forecast

[1]May include unrecorded obligations to official bilateral creditors and commercial banks.

IIF DATABASE: UNITED ARAB EMIRATES

Code		2003	2004	2005	2006	2007	2008e	2009f	2010f
	GOVERNMENT & MONETARY SECTORS, FINANCIAL MARKETS AND INTEREST RATES								
	GOVERNMENT SECTOR (dirhams billion)[1]								
G300	Consolidated government balance	8.29	36.99	102.27	166.8	166.3	209.1	59.8	98.6
G302	% GDP	2.6	9.6	19.9	26.7	22.8	21.7	7.5	11.1
G310	Consolidated government revenue[2]	99.9	135.3	206.7	294.5	333.2	451.2	296.1	355.3
G311	% change	25.6	35.4	52.8	42.5	13.1	35.4	-34.4	20.0
G312	% GDP	31.0	35.0	40.3	47.1	45.7	46.8	37.1	39.9
	of which: Hydrocarbon revenue[3]	75.4	99.9	153.6	217.4	235.1	367.0	203.7	251.0
	% change	36.7	32.6	53.7	41.6	8.1	56.1	-44.5	23.2
	% total revenue	75.5	73.9	74.3	73.8	70.6	81.3	68.8	70.7
G320	Consolidated government expenditure	91.6	98.3	104.4	127.7	166.9	242.1	236.3	256.6
G321	% change	5.8	7.3	6.2	22.3	30.7	45.0	-2.4	8.6
G322	% GDP	28.5	25.4	20.4	20.4	22.9	25.1	29.6	28.8
	% of NHFDP	0.40	0.37	0.32	0.32	0.36	0.43	0.41	0.42
G600	Consolidated government total gross debt	37.9	49.2	70.0	95.2	124.8	139.2	130.9	124.9
G602	% GDP	11.8	12.7	13.6	15.2	17.1	14.5	16.4	14.0
G410	Consolidated government gross domestic debt	34.4	45.7	66.8	88.2	114.8	126.2	119.9	113.9
	% GDP	10.7	11.8	13.0	14.1	15.7	13.1	15.0	12.8
G420	Consolidated government gross external debt	3.54	3.50	3.20	7.00	10.00	13.00	11.00	11.00
	% GDP	1.1	0.9	0.6	1.1	1.4	1.3	1.4	1.2
	MONETARY SECTOR (dirhams billion)								
M100	Net foreign assets	136.6	152.0	166.9	155.7	160.3	33.20		
M200	Domestic credit	152.5	193.7	283.2	399.5	570.2	796.9		
M201	% change	22.9	27.1	46.2	41.1	42.7	39.8		
M210	Claims on public sector	-17.0	-17.7	-22.3	-18.7	-16.0	-78.30		
M250	Claims on private sector	169.5	211.4	305.5	418.2	586.0	875.10		
M300	Other liabilities	88.5	97.3	126.0	155.9	164.8	155.8		
M400	Broad money	200.6	248.4	324.1	399.3	565.7	674.30		
M401	% change	15.5	23.8	30.5	23.2	41.7	19.2		
M411	Broad money velocity % change	2.1	-3.0	1.7	-1.2	-17.5	10.8		
M805	Consumer prices % change average	3.1	5.0	6.2	9.3	11.1	12.3	1.0	2.5
	FINANCIAL MARKETS	2003	2004	2005	2006	2007	2008		
	Abu Dhabi Stock Market Index (2001=1000)	1380	2413	4088	2357	3576	1878		
	Dubai Stock Market Index (2004=1000)	1000	2515	7426	4127	5932	1636		
	Abu Dhabi Equity Market Capitalization ($bn)								
	Dubai Equity Market Capitalization ($ bn)		37.2	114.1	86.9	138.2	63.1		
	INTEREST RATES								
	Real lending rate	2.5	0.9	1.0	-1.4	-3.1	-3.2	5.5	
K210	Lending rate (business loans)	5.6	5.9	7.2	7.9	8.0	9.1	6.5	
K220	Deposit rate	1.2	1.6	3.5	4.2	4.3	2.5	4.0	
K230	Real deposit rate	-1.9	-3.3	-2.6	-4.6	-6.1	-8.7	3.0	

f = IIF forecast

[1]Includes accounts of the federal government and the individual emirate governments.

[2]Includes estimated investment income of ADIA and profits of ADNOC (excluded in official presentation).

[3]Includes estimated profits of ADNOC (excluded in official presentation).

IIF DATABASE: UNITED ARAB EMIRATES

Code		2003	2004	2005	2006	2007	2008e	2009f	2010f
	STRUCTURAL FACTORS								
	MERCHANDISE TRADE								
S100	Merchandise exports ($ billion)	67.1	90.6	117.2	145.7	178.7	239.4	177.0	
	Export composition % total:								
	Hydrocarbon	44.0	42.4	46.9	48.2	41.3	42.7	35.4	
	Non-hydrocarbon	56.0	57.6	53.1	51.8	58.7	57.3	64.6	
	Export destination % total:								
S111	EU	4.3	5.7	7.9	4.0	4.4	3.7		
S112	Japan	26.0	24.9	24.6	25.6	23.5	25.3		
S113	India	3.2	5.4	4.3	4.5	4.8	4.7		
	Iran, I.R of	4.3	3.8	3.6	3.5	3.7	3.7		
S115	Exports % GDP	76.6	86.1	83.9	85.7	90.0	91.3		
S120	Merchandise imports ($ billion)	45.8	63.4	74.5	88.1	116.6	170.5		
	Import origin % total:								
S131	EU	23.7	24.4	21.5	21.4	21.4	20.6		
S132	US	6.8	6.0	9.4	11.4	8.7	9.2		
S133	China	9.8	9.9	9.6	10.9	12.8	13.4		
	India	8.3	9.7	9.1	9.8	10.0	9.8		
S135	Imports % GDP	52.3	60.3	53.4	51.8	58.7	65.0		
	POPULATION								
S400	Population (million)	3.55	3.76	4.11	4.23	4.49	4.69	4.48	4.66
S401	% change	6.0	5.9	9.2	3.0	6.1	4.5	-4.4	4.0
S411	Per capita real GDP % change	5.5	3.5	1.8	5.3	0.6	2.4	3.3	-0.5
S420	Per capita $ GDP	24672	27985	34026	40218	44277	55935	48504	52076
	WORLD ECONOMIC FRAMEWORK								
W101	Industrial country real GDP % change	1.7	2.9	2.4	2.8	2.3	0.6	-3.8	1.6
W204	$ LIBOR (six-month, average)	1.2	1.8	3.8	5.3	5.3	3.1	1.5	1.8
W304	Brent spot oil price ($/bbl, average)	28.5	38.1	55.2	66.3	72.6	98.3	60.8	71.6
	% change	13.8	33.5	44.9	20.1	9.5	35.5	-38.2	17.8
	UAE export crude ($/bbl, average)	28.1	36.6	53.8	65.8	72.1	97.8	60.3	71.1
W410	SDR:$, end-period	0.673	0.644	0.700	0.665	0.635	0.652	0.67	0.66
W420	Euro:$, end-period	0.79	0.74	0.84	0.76	0.69	0.72	0.77	0.74
W430	Yen:$, end-period	107.2	102.6	117.8	119.1	111.7	90.7	100.0	105.0
W505	World price commodities % change	5.9	15.2	6.0	23.2	14.1	7.4	-12.7	10.1
W515	World price manufactured goods % change	14.4	8.8	3.6	3.7	8.8	9.6	-8.9	1.7

f = IIF forecast