UAE: Expo, FDI Fillips

Florence Eid-Oakden, Ph.D, Chief Economist
Ghalia Al Bajali, Analyst

- **The UAE is set to receive an economic fillip this year. Dubai Expo 2020 and the approved growth-friendly modernisation reforms should allow the country to continue enhancing its competitiveness.**
- **The new measures should raise the UAE's status as a business hub for global investment and help attract further FDI.**
- **The real estate market, which was fighting sluggish conditions even before the pandemic, is showing signs of life, and could be buoyed by Expo activity.**

Back in growth mode

The UAE's swift vaccine rollout has allowed it to surpass Israel as the top inoculator in the MENA region. The additional pick-up in business activity, along with the upcoming Expo 2020, points to an improving economy. Growth momentum will be particularly high in H2 2021.

- In April, the IMF revised its growth forecast for the UAE to 3.1% for 2021, up from the 1.3% previously forecast in October 2020 (against a downward revision in global growth). This compares with a 5.9% contraction in 2020.
  - The Central bank of the UAE estimates are less upbeat than those of the IMF, forecasting a GDP recovery of 2.5% in 2021. This expansion will be supported by a 3.5% growth in non-oil GDP.
  - Non-oil growth this year is driven by an increase in fiscal spending and a pick-up in employment.
  - Oil has been key to the recovery. Oil prices this year are expected to average USD 63 pb 2021, and USD 61 pb in 2022. A 61% YoY increase for 2021 from the average oil price in 2020.
  - These levels are slightly short of the USD 64 pb the IMF estimates is needed to balance the UAE's federal budget in 2021.
  - Oil GDP is forecast to remain flat at 2.8% for this year and 2022. This is far below pre-pandemic levels (3.4%), but still constitutes a significant pick-up from last year's sharp 6.2% contraction.
  - The UAE's oil GDP is nevertheless set to post the fastest growth rate among its GCC counterparts in 2021.
- A rebound in the UAE's oil sector would help ease the pressure on its fiscal position. The IMF expects the UAE's consolidated fiscal deficit to shrink to 1.3% of GDP this year from 7.4% in 2020.
- Favourable base effects will take hold as the Emirati authorities continue to ease lockdown-related restrictions. This will be key for the (gradual) return to normalcy of business activity. We expect it will take until H2 2022 for growth to get back to 2019 levels.

Table 1 - UAE Macroeconomic Indicators[1]

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	1.2	1.7	-5.9	3.1	2.6
Crude Oil Production (M Bpd)	3.0	3.1	2.8	2.9	3.0
Oil GDP Growth (%)	2.5	3.4	-6.2	2.8	2.8
Non-oil GDP Growth (%)	0.7	1.0	-5.8	3.2	2.5
CPI Inflation (%)	3.1	-1.9	-2.1	2.0	1.2
Fiscal Balance (% of GDP)	1.9	0.6	-7.4	-1.3	-1.1
C/A Balance (% of GDP)	9.6	8.4	3.1	7.1	6.3
Total Gov't. Gross Debt (% of GDP)	20.9	26.8	38.3	37.1	39.2
Total Gross Extrn'l Debt (% of GDP)	67.9	76.7	99.5	92.2	94.3
Gross Official Reserves (Mos. of Imports)	3.9	5.1	4.3	4.5	4.6
Nominal GDP (USD B)	422.2	421.1	354.3	401.5	409.8
Population (Millions)	9.5	9.7	9.8	10.1	10.4

  - On 17 May, Dubai allowed hotels to operate at full capacity, with concerts and sports events now open for vaccinated individuals.
  - The rapid pace of the reopening has been made possible by the UAE's aggressive procurement of vaccines. Additionally, around 67% of the population has been fully vaccinated.
- Expo 2020 Dubai is set to open in four months' time. We believe it will be bolstered by the strong vaccination momentum, which should also maximise its overall economic gains.
- This should boost the service sector (particularly tourism) during H2 2021, as pent-up demand increases and travel corridors open.
  - The new and more flexible visa regulations, which have made it easier for remote workers to base themselves in the UAE, will also be a contributing factor.
  - The intense humidity, summer heat and lingering travel restrictions, such as the temporary suspension of flights from India and the placing of the UAE on the UK's red list, may yet slow the pace of the recovery in tourism, at least during the first few months of the six-month-long Expo.
    - For context, India is Dubai's top source of foreign visitors, while the UK ranks fifth.

FDI still driven by oil & gas

The UAE continues to build on its regulatory environment in order to attract investors to the country. New reforms issued by the UAE to improve the foreign investment climate are already reaping results.

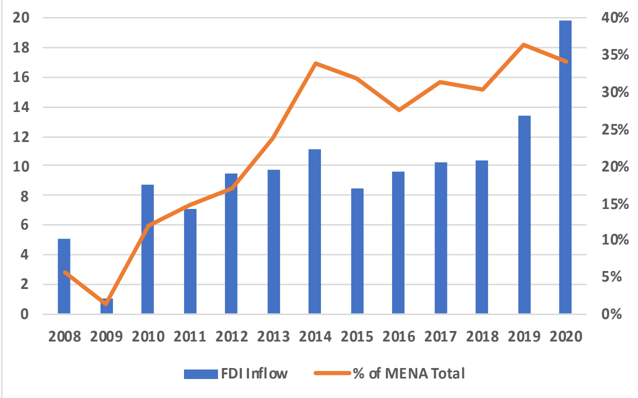
- Amid a decline in global FDI by 42% last year, the UAE, for the first time since 2013, recorded a net inflow of private sector FDI in 2020.
  - Inward FDI grew over 44% YoY to around USD 20B compared with 2019, while outward FDI declined by 10.8% YoY to around USD 9B.
  - According to the country's Ministry of Economy, the cumulative value of FDI inflows during 2020 amounted to around USD 174B, a growth of 12.9% YoY.
- Of the total USD 20B, Dubai accounted for USD 6.7B of the UAE's inward FDI.
  - Key sources of FDI came from France, Germany Japan, the UK and the US. Investment in the hospitality and

[1] Arabia Monitor; IMF.

food and beverage service sectors accounted for around 40% of the inflow.

- FDI inflows were partly drawn towards the digital economy, which proved most resilient in 2020. This included investments in artificial intelligence, the 'internet of things', blockchain and augmented and virtual reality.
- Unsurprisingly, the lion's share of growth in inflows, however, was driven by the energy investment partnerships initiated by the Abu Dhabi National Oil Company (ADNOC) with several foreign companies last year.
  - In July 2020, a consortium of infrastructure companies and Sovereign Wealth Funds (SWFs) signed a USD 20.7B agreement to invest in Abu Dhabi's natural gas pipeline infrastructure.
  - The transaction, the largest single global energy infrastructure deal last year, allowed around USD 10B of foreign investments to flow into the country.
  - In another deal, ADNOC entered a USD 5.5B deal with an investor consortium led by the US private equity firm Apollo Global Management in September 2020.
    - Under a 24-year lease agreement, the consortium acquired a 49% stake of ADNOC's Abu Dhabi Property Leasing Holding Company. This deal contributed a further USD 2.7B to the UAE's FDI inflow.
- More is yet to come. ADNOC plans to spend around USD 121B over the next five years to develop trading and business deals in its upstream, midstream and downstream operations.
  - More recently, ADNOC announced the sale of a 3% stake in ADNOC Distribution and has also issued USD 1.2B of convertible bonds.
  - Over the last four years, ADNOC has helped attract around USD 65B in FDI inflows. This is expected to continue on an upward trend as the state-owned company seeks to unlock liquidity to fund strategic projects in the pipeline.
- Furthermore, the roll-out of several growth-friendly reforms in 2020, along with the elimination of a law that required Emirati majority ownership, which came into effect on June 1, are set to boost FDI inflows going forward.
  - The UAE will benefit from GCC's first-mover advantage as a result of the law and retain its competitive edge over the regional peers. GCC neighbours are considering similar investment-boosting measures.
  - It is important to note that the new amendments to foreign ownership do not eliminate all foreign investment restrictions. Certain economic activities remain subject to minimum levels of Emirati capital participation.
  - Recently, the Abu Dhabi Department of Economic Development released a list containing over 1,000 activities that span across various sectors.[3]

Figure 1 - UAE FDI Inflows[2]



  - The new legislation will also allow the UAE to capitalise on the growing potential for privatisation and to expand its private sector.

Real estate: Demand on the horizon

With structural shifts boosting demand, we expect the existing supply-demand imbalance in the UAE's real estate sector to narrow. This longer-term outlook will be augmented by the residential housing market, which is expected to regain competitiveness by mid-2021 as government initiatives take effect.

- Prior to the pandemic, transaction volumes for residential properties were posting significant growth rates. In February 2020, transaction volumes posted the strongest start to a year since 2017, recording an increase of 24% across the UAE.
- Though transaction activity certainly slowed in 2020, the depth of the contraction in the residential market has been relatively limited considering the severity of lockdown measures. Transaction volumes in Dubai decreased by 14.4% YoY.
- While it remains unknown whether the pandemic will result in structural shifts for different use classes, the new regulatory measures, the vast availability of vaccines and the upcoming Expo 2020 activity are all opportunities to revive the UAE's real estate market this year.
- Recovery looks like it could be underway; property prices in Dubai grew by 2.5% in April, the largest single-month increase since March 2014. The average property price in the Emirate climbed to USD 244 per square foot.
  - Property sales transactions in Dubai also hit a four-year high to reach USD 27B in April. This is the highest value of monthly property transactions since March 2017.
- We remain cautiously optimistic about the pick-up in Dubai's real estate sector, and it does look like the authorities and the financial sector are determined to prevent a repeat boom and bust scenario.

[2] Arabia Monitor; UNCTAD.
[3] Sectors exclude defence as well as oil and gas but include manufacturing, agriculture, e-commerce, marketing, transportation, among others.

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Arabia Monitor
Aston House| Cornwall Avenue| London N3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com