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November 18, 2021

**Statement by Mr. El Qorchi and Mr. Haleemi on United Arab Emirates
(Preliminary)
Executive Board Meeting
November 22, 2021**

We thank staff for the comprehensive report and Mr. Mohieldin, Mr. Alhosani, and Ms. Fadhel for their informative Buff statement.

The Covid-19 pandemic and the collapse of oil prices in 2020 had negative effects on economic growth, fiscal balance, and general government debt of the U.A.E. The authorities' immediate and targeted policy response tempered the impact but still the economy contracted by 6.1 percent in 2020. In 2021, supported by favorable oil prices and high vaccination rates, activity has picked up and the recovery is on track, but downside risks to the outlook remain and call for close attention. We agree with the thrust of the staff appraisal and would like to provide the following remarks.

The U.A.E. has made good progress in diversifying its oil-based economy over the past few years, particularly in construction and services. The outlook for the non-oil economic growth remains broadly favorable and non-oil GDP growth is expected to surpass oil GDP growth over the medium term. However, given the uncertainties related to the international oil market, and the global economy more broadly, greater efforts would be needed to accelerate private sector involvement (i.e., energy, infrastructure, and fintech sectors), enhance productivity, including by investing in human capital to keep pace with rapid technological changes and increasingly with the global competitive environment. The recent labor market reforms are commendable, but continuous efforts would be needed to better integrate the young, educated Emiratis in the evolving labor market.

We agree with the staff's recommendation on strengthening the fiscal policy framework and enhancing fiscal consolidation by launching a UAE-wide and well-coordinated Medium-Term Fiscal Framework (MTFF). The UAE's fiscal position is currently supported by favorable oil prices, and its existing fiscal buffers could accommodate short-

to medium-term spending. However, in the longer term, sustainability of oil-related flows due to intergenerational considerations and the increased global drive towards green growth could potentially pose risks to the government's future financing resources. And for that reason, enhanced efforts would be needed to undertake growth-friendly fiscal consolidation and explore alternative revenue sources in the context of MTFF.

We take note of the authorities' efforts in moving towards a greener economy. We welcome their commitment to reducing greenhouse gases by 23.5 percent in the second Nationally Determined Contribution (NDC) and achieving net-zero carbon emission by 2050 to address the vulnerabilities associated with climate change. Furthermore, we encourage public investment partnerships with the U.A.E.'s dynamic private sector in achieving the net-zero emission goal, as well as in mitigation and adaptation initiatives.

Uncertainties and vulnerabilities related to government-related entities (GREs) require close attention. In the event of a major economic downturn, GREs could potentially pose significant financial risks to the government's budget, and that calls for close monitoring of contingent fiscal liabilities associated with the operations of GREs. Similarly, we echo staff's recommendation to strengthen GREs' financial management and their governance by enhancing government's oversight functions.

Finally, we welcome the authorities' commitment to its structural reform agenda. Prioritized, well-sequenced, and sustained reforms would lift the economy's productivity and boost its global competitiveness.

With this, we wish the UAE authorities very success in implementation of their reform programs.