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**Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Al-Riffai on United Arab Emirates
Executive Board Meeting
January 25, 2023**

On behalf of the authorities of the United Arab Emirates (UAE), we would like to thank staff for the constructive discussions and dialogue carried throughout the mission with the Central Bank of the UAE (CBUAE) and Ministry of Finance (MoF), as well as other stakeholders.

Macroeconomic developments

The authorities' swift, decisive, and successful management of the COVID pandemic and policy response, as well as the implementation of economy-wide reforms have helped safely reopen the economy with a strong economic rebound and growth. Higher energy prices, rapid expansion in trade, tourism, domestic economic activity related to the 2020 Dubai Expo and the 2022 world cup in Qatar, as well as buoyant government spending, are greatly contributing to robust growth. Despite the global headwinds from the record-high inflation, tightening global financial conditions, and regional geo-political tensions, the authorities are committed to implement reforms aimed at diversifying the economy.

Policy rates have been raised in alignment with the US Fed policy actions to maintain the exchange rate peg. Social welfare spending and subsidies for low-income households have been recently doubled to mitigate the impacts of higher food and energy prices on the vulnerable. Inflation is expected to moderate in 2023.

The banking sector remains resilient, adequately capitalized and liquid, asset quality and profitability have improved, and private credit has steadily grown. Though still higher than their pre-pandemic levels, NPL rates are consistently falling and are well provisioned. The CBUAE maintains its vigilance over the sector, working to mitigate and address any risks to financial stability.

External sector activity continues to be strong, and the current account is in surplus as a result of higher energy prices and strong recovery of the non-hydrocarbon sector. Foreign reserves are ample at 7.2 months of imports net of reexports (12.8 months including

reexports) and external buffers, including Sovereign Wealth Funds and foreign assets, are adequate to support overall external accounts. Though sovereign yields have risen, spreads as of December 2022 remain contained and are well below the emerging market average.

The fiscal stance reflects well the authorities' objectives to raise revenues, improve spending effectiveness, and reduce government debt. Ongoing fiscal structural reforms that aim to mobilize domestic revenues, including by increasing tax revenues by broadening the tax base, support the authorities' plans to reinforce long-term fiscal sustainability. All the while, public debt remains sustainable and is expected to fall further to 30.2 percent of GDP in 2022 from 35.9 percent of GDP in 2021. By developing domestic capital markets, the federal government has expanded its financing toolkit, successfully issuing USD 7 billion in international and AED 9 billion in domestic bonds in 2021 and 2022.

Outlook and Risks

The growth outlook remains positive, despite the global headwinds, as a result of strong domestic economic activity and a healthy reform momentum aimed at achieving sustainable economic growth and further diversification. GDP is projected to grow at 3.6 percent in 2023, with hydrocarbon sector growth expected at 3 percent and non-hydrocarbon at 3.8 percent. The government intends to boost non-oil exports to major markets including by implementing the bilateral free-trade and the Comprehensive Economic Partnerships Agreements (CEPAs) to open up markets in Asia and Africa.

Though expected to somewhat moderate, the higher oil prices and new energy cooperation agreements, boosted by a favorable business environment, advanced infrastructure and logistics, and elevated liquidity, are expected to support the strong economic activity. Higher projected fiscal and external buffers are expected to finance the energy transition and provide adequate fiscal and external stability to mitigate the global headwinds.

The CBUAE will continue to closely track the US Federal Reserve policy actions to curb inflation and maintain the exchange rate peg. Though the introduction of corporate taxation in mid-2023 may cause an uptick in inflation, the impact is expected to be short lived and firms are expected to absorb most of the costs.

The authorities are intent on building resilience and implementing necessary measures to address long-term climate related challenges and risks. However, they see the necessity of transitioning towards a low carbon energy reality through a pragmatic and realistic momentum so as not to jeopardize energy security at both the national and international levels. The adverse impacts from the recent global energy and food crises are testament to the wisdom of that approach.

Laying down near-term policies to ensure sustainable growth

The authorities are committed to a growth friendly and credible fiscal consolidation and are intent on avoiding procyclical fiscal stances. Higher oil revenues will help target support to

those most in need (to mitigate the impact of inflation) and will also help build fiscal buffers to further strengthen medium-term fiscal sustainability. Greater domestic revenue mobilization, including through the planned introduction of a CIT is on track and will help increase fiscal policy transparency and simplify the current tax structure¹. The authorities plan to revisit and reassess inflation support measures as price pressures subside.

The Ministry of Finance, through the UAE Sustainable Finance Working Group, is currently laying down policies that ensure an orderly and well-planned energy transition. To ensure coherent policy outcomes, the government has placed sustainability objectives at the center of public policy and is currently working to guide collaboration across all government entities towards the path of the UAE's net zero commitment.

By constantly remaining vigilant in identifying and mitigating potential systemic risks, the CBUAE is committed to maintaining financial stability. CBUAE closely monitors the financial sector including by continuously strengthening macroprudential and regulatory frameworks to support sustainable economic growth.

Safeguarding Medium term Financial Stability

The UAE's banking sector operates in a very strong economic environment. The banks have remained resilient and are well equipped to absorb incoming shocks. The authorities' successful management of the pandemic and the introduction of new residency visas have already led to a rebound in the labor market, which in turn increased the demand for housing. Though risks related to the real estate sector had emerged, tighter regulation of real estate exposures since the financial crisis and improved underwriting practices mitigate these risks. Having said that, it is worthy to note that the rise in real estate prices has mostly been in high-end housing market. Furthermore, the banking sector's year-long observation period of the Standards for Bank Real Estate Exposure raised awareness of the banks' exposure to the real estate sector, as a result, some banks are already taking steps to reduce their exposure. CBUAE intends to continue to closely monitor and assess the risks stemming from this sector.

Work on the Resolution and Recovery Framework is ongoing and efforts to further strengthen regulation and supervision of the insurance sector will indeed continue.

The authorities are appreciative of the Fund's TA that supported the Dirham Monetary Framework (DMF), liquidity management, and market development. The authorities intend to implement the DMF in line with recommendations of the Fund's TA. The recent 5-year tranche Treasury Bonds issued in the amount of AED 1.5 billion (part of the AED 9 billion T-Bonds issuance program for 2022) was oversubscribed 5.7 times. Issuances such as this new five-year T-Bonds will contribute to strengthening the local debt capital market and build the UAE dirham denominated yield curve.

¹ The Federal Decree-Law No. (47) of 2022 on the Taxation of Corporations was issued on December 09, 2022.

Policies that foster transformation and digitalization in the sector aim to transform the financial infrastructure and national payment systems in alignment with international standards, to ultimately transfer the benefits to financial consumers. More recently, the CBUAE opened a dialogue with financial industry officials to discuss digitalization in the sector including towards the implementation of the new Instant Payment Platform using a phased approach. The latter is planned to be launched in the first quarter of 2023 with a pilot group of licensed financial institutions. The Instant Payment Platform will facilitate real-time payments and fund transfers in the UAE around the clock. The authorities are cognizant of the importance of judiciously balancing the opportunities and risks related to increased digitalization in the sector.

The authorities have made a high-level political commitment to work with the FATF and MENAFATF to strengthen the effectiveness of its AML/CFT regime, in line with international standards. Ongoing work to further strengthen the AML/CFT framework in line with the National Strategy for AML/CFT and the National Action Plan of the UAE continues. There has been demonstrated positive progress, including by providing additional resources to the Financial Intelligence Unit (FIU) so as to strengthen their analytic capabilities and provide financial intelligence to Law Enforcement Authorities and the Public Prosecutors, to combat high-risk money laundering threats. Furthermore, CBUAE's Anti-Money Laundering and Combatting the Financing of Terrorism Supervision Department (AMLTD) works closely with the Licensed Financial Institutions to ensure their full compliance and understanding of the guidance issued regularly by CBUAE. To that end, the authorities recognize the value of maintaining inter-agency coordination, international cooperation, and collaboration with the private sector to mitigate potential risks and safeguard the UAE's financial system.

As a member of the UAE Sustainable Finance Working Group (SFWG), the CBUAE is dedicated to supporting the UAE's commitments towards sustainability and the green transition, in line with the National Climate Change Plan of the UAE 2050, the UN SDGs, and related initiatives adopted globally. To that end, the CBUAE is working to strengthen sustainability disclosure; foster sustainability-focused corporate governance; and design the UAE's Sustainable Finance Taxonomy. The progress made includes extensive benchmarking and fact-gathering exercises undertaken to gain a first-hand understanding of evolving standards and international best practices. The SFWG's second public statement issued to that effect was recently communicated at the CoP27². CBUAE is incorporating climate risk stress testing for banks and plans to have similar stress testing for the insurance sector in 2024.

Reinforcing long term fiscal sustainability

² The UAE's international commitments include the UAE Green Agenda 2015-2030, the National Climate Change Plan of the UAE 2017- 2050 and the UAE Net Zero by 2050 Strategic Initiative. The financial sector plays a pivotal role in directing private capital towards sustainable projects, businesses and products within the UAE.

The authorities plan to maintain a prudent fiscal stance whilst advancing fiscal structural reforms to entrench long-term fiscal sustainability and meet climate transition objectives and challenges. Domestic resource mobilization, including through the imminent implementation of the CIT, in tandem with civil service reforms and targeted social safety nets will help build fiscal buffers to finance reforms. Work is also ongoing to ensure there is fiscal coordination at the federal and emirates levels and coordination with the CBUAE on fiscal policy and developments in the domestic capital market. To the latter, work will continue to ensure that debt maturities are lengthened, financing costs lowered, and the yield curve become functional and well established. The authorities are also diligently working to improve fiscal transparency and strengthen governance and accountability.

Sustaining the structural reform momentum

The UAE was the first country in the region to set a 2050 net zero goal and the authorities are advancing their economic reform agenda that aims to diversify away from heavy reliance on the oil sector in line with the Strategy 2050. However, now, more than ever, the world needs a practical and responsible approach to the energy transition, one that is both pro-growth and pro-climate. Over a relatively short period, the authorities have managed to significantly upgrade and operationalize policy frameworks that support the energy transition, towards achieving long-term climate goals. To that end, a climate lens has been embedded in all policy activity and sectoral level policies prioritize investments that reduce emissions and energy intensity. The UAE is also developing a sectoral green taxonomy and financing strategies, including to mainstream green and sustainable finance.

The authorities are mindful of their responsibility of achieving a low-carbon growth strategy whilst continuing to provide reliable energy resources to the world. ADNOC, one of the least carbon intensive producers in the world, has allocated \$15 billion to invest in a range of projects by 2030. The projects aim to advance and accelerate lower-carbon solutions, invest in new energies and decarbonization technologies that reduce carbon intensity by 25 percent by 2030, to ultimately reach the net zero target by 2050. As hosts of the upcoming UN CoP28 in Dubai, the authorities aim to appropriately focus on *“realistic, practical, and pragmatic solutions to accelerate the global energy transition”*. The CoP28 plans to hold the first formal assessment of progress since the Paris Agreement came into effect – known as the Global Stocktake.

To further advance a safe energy transition, engagement with international partners is crucial. For instance, on November 1st, the UAE and the United States signed a major new clean energy framework to ensure the swift and smooth transition toward clean energy and away from unabated fossil fuels. The U.S.-UAE Partnership for Accelerating Clean Energy (PACE) will help catalyze USD100 billion in financing, investment, and other support and aims to deploy globally 100 gigawatts of clean energy by 2035 to advance the energy transition and maximize climate benefits.

The authorities are determined to entrench and advance policies that integrate strategies across all levels of the government combined with coordinated efforts to further advance CEPAs, the Digital Economy Strategy, and Green Strategy to achieve higher and

sustainable medium-term growth. To that end, they acknowledge that further modernizing the labor market and supporting private sector employment, including by encouraging greater female labor market participation, are essential to achieving the desired outcomes of economic diversification towards inclusive and sustainable growth.

Conclusion

The UAE authorities have demonstrated commitment to implementing robust macroeconomic policies and upholding strong institutional frameworks. In a world of overlapping crises, the authorities have been able to successively steer the rebound in domestic economic activity, as well as navigate an environment of increasing global and geo-economic challenges. The authorities are extremely supportive of a rules-based multilateral system that relies upon and entrenches beneficial integration across different regions and countries. Throughout, the UAE authorities greatly value their partnership with the Fund.