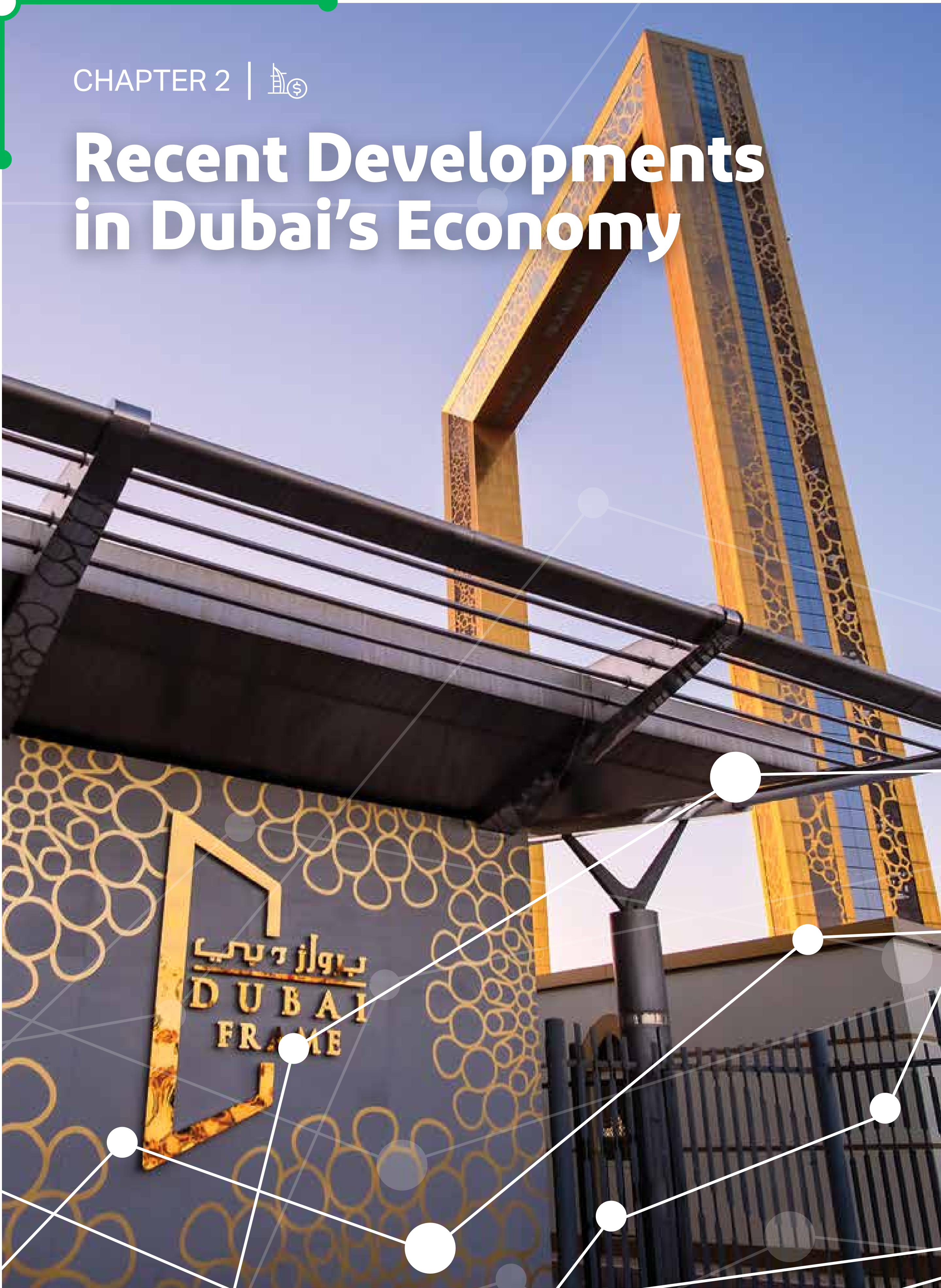
CHAPTER 2

Recent Developments in Dubai's Economy



↑ 1.9%

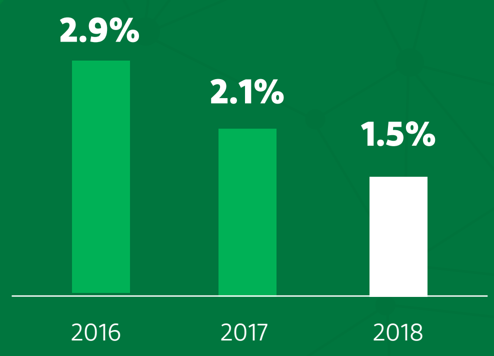
USD 108.4 Billion
in 2018

1

Dubai's GDP grew by 1.9 per cent, in constant prices, to AED 398.1 billion (US$108.4 billion) in 2018, a deceleration from 3.1 per cent in 2017.

Diversified Economy Underpins Dubai's Strength

Dubai's GDP is diversified into twenty economic categories. The most rapid growth rates were seen in Real Estate and Tourism, including Accommodation and Food Services.



2

Drop in Inflation

Dubai's annual price of inflation was 1.5 per cent in 2018 vs. 2.1 per cent in 2017 and 2.9 per cent in 2016.

5%

VAT

3

Public Finance Reform

The most significant reform was the Introduction of 5% Value Added Tax: will expand Dubai's government revenue base.

Overview

Despite a difficult global economic environment Dubai's economy continued to grow in 2018 with real GDP expanding to AED 398.1 billion, an increase of 1.9 per cent, but a deceleration from the 3.1 per cent growth achieved in 2017. The slowdown could be due to a combination of external factors such as the trade dispute between China and the US, economic instability among neighbouring countries and domestic issues such as the imposition of VAT across the UAE. Real GDP growth in Dubai is expected to recover to an annual rate of 2.1 per cent in 2019 followed by an acceleration to 3.2 per cent in 2020 as a result of the positive impact expected from hosting Expo 2020 on the economy. The outlook for 2019 is predicated on a favourable global and regional outlook prevailing although as discussed above there are a number of downside risks that could veer growth off-course.

All the main seven economic sectors contributing to Dubai's GDP grew in real terms in 2018 apart from Manufacturing which fell by 0.3 per cent after growth of 2.3 per cent the year before reflecting slowing external demand. The Wholesale and Retail sector grew by 1.3 per cent in 2018 just above its 2017 rate of 0.9 per cent. In contrast, the Transport and Logistics sector grew modestly by 2.1 per cent compared to the strong growth of 8.4 per cent in 2017 mainly as a result of the global slowdown in foreign trade. All of the main sectors are expected to experience positive growth in value added in 2019 and 2020, but especially Accommodation and food which is predicted to rise by 6.6 per cent mainly as a result of the influx of international visitors to Expo 2020.

Inflation in Dubai was 1.5 per cent in 2018 down from 2.1 per cent in 2017. This rate has steadily fallen from an annual rate of 3.7 per cent in 2015 and 2.9 per cent in 2016. In addition, total employment in Dubai has risen steadily since 2010 and the employed workforce has risen by 36.4 per cent to reach 2.78 million by 2018, which is a substantial increase over an eight-year period. Dubai is also a highly open economy with total foreign trade value of exports and imports reaching AED 1.3 trillion in 2018, down by only 0.2 per cent on the year before, despite the slowdown in the growth of trade in the global economy.

In terms of macroeconomic policy, monetary conditions in Dubai depend on the interest rate decisions taken by the Central Bank of the UAE which doesn't have an independent monetary policy because of the link between the US$ and the AED. This implies that all of the UAE, including Dubai, faces an official interest rate heavily influenced by the interest rate set by the United States Federal Reserve Board. The UAE Central Bank has mirrored the Federal Reserve's process of normalising interest rates from the last quarter of 2016 until the end of 2018 and the subsequent reduction of rates until October 2019.

Fiscal policy is largely at the discretion of Dubai's government, which makes decisions over current and capital spending at the local level, and has control over those revenues not stemming from UAE policies such as customs duties, taxes on branches of foreign banks operating from Dubai and labour fees. The structure of government revenues in Dubai has also started to change in 2018 with the introduction of a 5 percent federal value-added tax (VAT). This new tax and the implementation of government reforms led to a decline in the ratio of non-tax revenues to total revenue to 79.5 per cent in 2018 and it is expected to continue falling to 75.0 per cent in 2019.

Fiscal policy has been expansionary in 2018. Current public spending has steadily increased throughout the period 2006-2019, from 4.8 percent of GDP to 10.9 percent in 2019, but capital spending has risen as a result of Expo related investments and the need to counteract the slowdown in the economy stemming from falling domestic and internal demand. A study by consultants EY estimates that a total of AED 40.1 billion will have been invested as a result of Expo 2020 in event specific assets and in infrastructure most of which will be retained for future use. The study estimates that the long run multiplier effect of the Expo related investment will have contributed AED 122.6 billion in gross value added to the UAE economy between 2013 and 2031 with a peak impact equal to 1.5 per cent of the UAE's GDP during the second half of the year when the exhibition is open.

Macroeconomic & Sectoral Performance

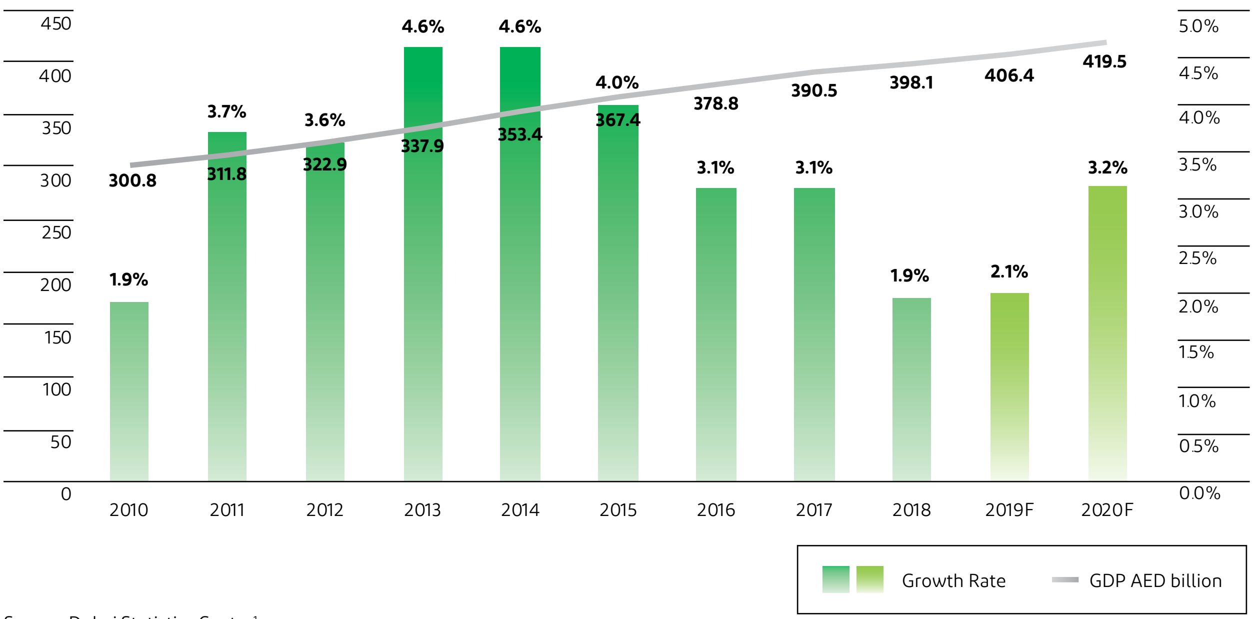
Real GDP Growth

2.1 Real GDP in Dubai grew to AED 398.1 billion in 2018, a rise of 1.9 per cent over 2017, but this was a slowdown from 3.1 per cent in 2017. This unexpected deceleration in growth could be due to two sets of challenging (both external and internal) conditions that have pulled down the emirate's expansion. Global growth and trade slowed down sharply last year due to trade tensions between China and the US while some of Dubai's main trading partners were hit by a combination of macroeconomic instability, such as in Turkey and a re-imposition of trade sanctions by the US on Iran. On the internal front, the introduction of VAT had contributed to Dubai's growth deceleration, mostly in the first half of 2018, although the increase in government expenditures may have offset the impact of the VAT on household consumption. Overall, the economy grew by 1.7 per cent in the first half of the year, but the combined impact of government actions and improving growth in a number of sectors produced a higher rate of 2.2 per cent in the second half of 2018.

Real GDP growth in Dubai is expected to recover to an annual rate of 2.1 per cent in 2019 rising strongly to 3.2 per cent for 2020 as a result of the positive impact expected from hosting Expo 2020 on the economy. The outlook for 2019 is predicated on a favourable global and regional outlook prevailing, although as discussed above there are a number of downside risks that could veer growth off-course. Past performance and Dubai's current and projected real growth rates and the value of GDP path in constant prices from 2010 to 2020 are shown in (Figure 2.1).

2.2 The slowdown in Dubai's GDP growth rate, in 2018, needs to be put in its regional context since all of the GCC economies experienced very low growth in that year. The UAE as a whole experienced lower non-oil GDP growth at 1.3 percent last year while the Saudi Arabian non-oil economy grew by 2.0 per cent. Dubai's relatively diversified economic base, unlike other GCC economies, helped to contain the effects of regional geopolitical factors and the slowdown in the world economy in 2018.

Figure 2.1: Dubai Real GDP (AED billion) and Growth Rates (% YoY)



Source: Dubai Statistics Center[1]
F: Forecast of the Department of Economic Development in Dubai, November 2019

1 https://www.dsc.gov.ae/en-us

2.3 The slowdown in Dubai's GDP growth in 2018 was also due to sluggish private consumption in the aftermath of the introduction of the Value Added Tax (VAT) which led to a fall in net exports, a large share of which is trade in goods and services with the other Emirates. As Dubai's economy is well integrated within the UAE, the Gulf region and the world, its growth performance is heavily impacted by external growth trends in the other Emirates, other GCC economies and beyond. Faced with these challenges, the government of Dubai undertook several initiatives to stimulate growth, including fiscal measures. This stimulus has involved an acceleration of both current and capital expenditures partly to support Expo investment expenditures, but also to counteract the slowdown in the economy resulting from weakening private sector aggregate demand.

Performance of the Main Sectors in Dubai's Real GDP

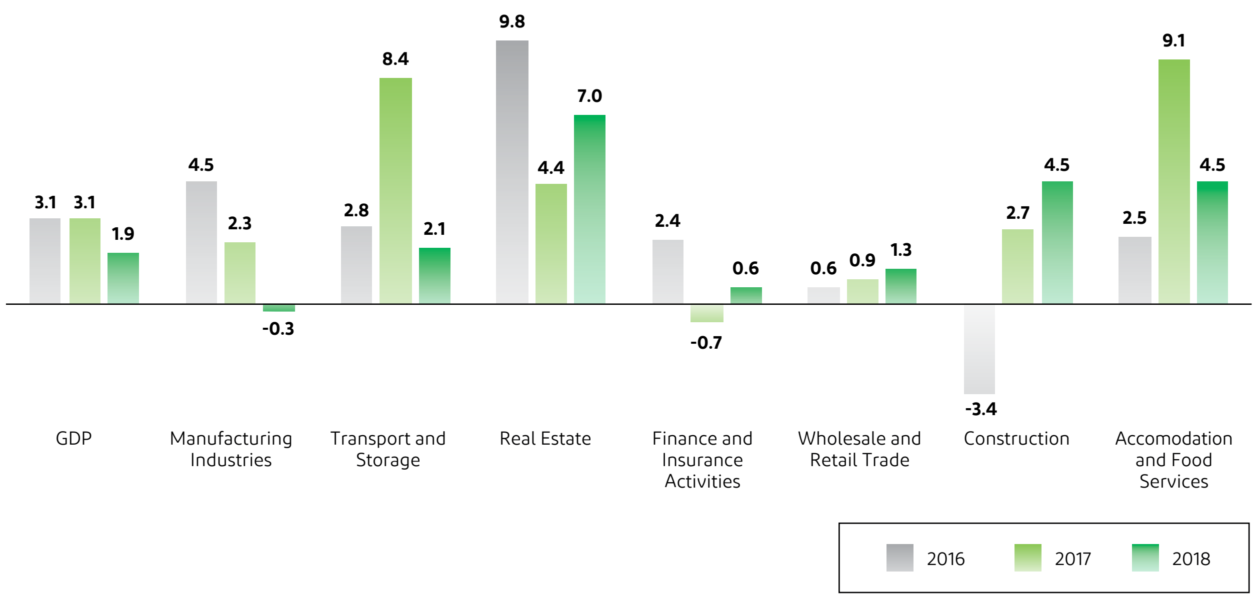
2.4 The structure of Dubai's economy is broken down in official statistics into twenty distinct sectors. In 2018, seven of these sectors, ranked in order of relative size, contributed over three quarters, or 76.8 per of the total of Dubai's total real GDP. These main sectors measured as a percentage of GDP were: Wholesale and Retail trade, 26.4 per cent; Transport and storage, 12.3 per cent; Financial and Insurance activities, 10.2 per cent; Manufacturing, 9.2 per cent; Real Estate activities, 7.2 per cent; Construction, 6.4 per cent and Accommodation and Food (largely tourism), 5.1 per cent. The final group of other economic activities, accounting for 23.3 per cent of GDP in 2018, is dominated by five sectors.[2]

2.5 All the main economic sectors in Dubai's GDP grew in real terms in 2018 apart from Manufacturing which fell by 0.3 per cent after growth of 2.3 per cent the year before reflecting slowing external demand. The Wholesale and Retail sector grew by 1.3 per cent in 2018 just above its 2017 rate of 0.9 per cent. The Transport and Logistics sector per cent grew modestly by 2.1 per cent compared to the strong growth of 8.4 per cent in 2017 again mainly as a result of the global slowdown in foreign trade.

The Financial Services and Insurance sector grew by 0.6 per cent in 2018 following relative stagnation the year before while Real Estate grew above the rate of real GDP at 7.0 per cent up from the rate of 4.4 per cent in 2017. Construction grew by 4.5 per in 2018 cent on the back of rising investment, up from 2.7 per cent in 2017 and continuing recovery from the contraction of minus 3.4 per cent in 2016.

The Accommodation and Food sector saw real growth of 4.5 per cent in 2018, higher than the GDP growth, but down significantly from 2017 when growth more than tripled due to a revival in tourism to reach 9.1 per cent. Sectors' real growth rates from 2016 to 2018 are shown in (Figure 2.2).

Figure 2.2: Growth in Value Added of the Main Sectors in Dubai (%)



Source:Dubai Statistics Center

2 Public administration, defence and social security, Information and communication, Professional, scientific and technical activities, Administrative and support service activities, and Electricity, gas, steam and air condition supply.

2.6 Each sector's contribution to the total GDP growth in Dubai's economy of 1.9 per cent is listed in (Table 2.1). In 2018, the largest contributors were real estate, wholesale and retail trade and construction accounting for 25.0, 18.0 and 14.5 percent of overall growth respectively. Given the high variability of sector growth contributions in previous years, it is difficult to predict which economic activities will lead growth in future years. However, given the non-tradable nature of construction and real estate and the high degree of openness of Dubai's economy, it is highly unlikely that sustainable growth will be able to rely continuously on those two sectors in the future.

Inflation

2.7 The general annual rate of inflation measured by relative changes in the consumer price index (CPI) compared to a base year of 2014 in Dubai was 1.5per cent in 2018, down from 2.1 per cent in 2017. This rate has steadily fallen from an annual rate of 3.7 per cent in 2015 and 2.9 per cent in 2016. The rate of inflation turned negative in December of 2018 with prices falling by 0.4per cent resulting in a year on year change in prices of 0.2 per cent in the last quarter of 2018. This falling trend in the cost of living continued into 2019 with prices dropping by 3.1per cent on a year-on-year basis in the first nine months of 2019 over the same period the year before, (Figure 2.3).

2.8 The continuing fall in the rate of price inflation in Dubai in 2019 can be attributed mainly to drops in the annual rate of price inflation in housing, water and electricity which carry a combined weight of 43.6 per cent of the overall index based on 2014 expenditure estimates. Prices or cost of these services fell by 2.9 per cent in 2018 and fell again on Y-o-Y basis by 6.2 per cent in the first nine months of 2019.

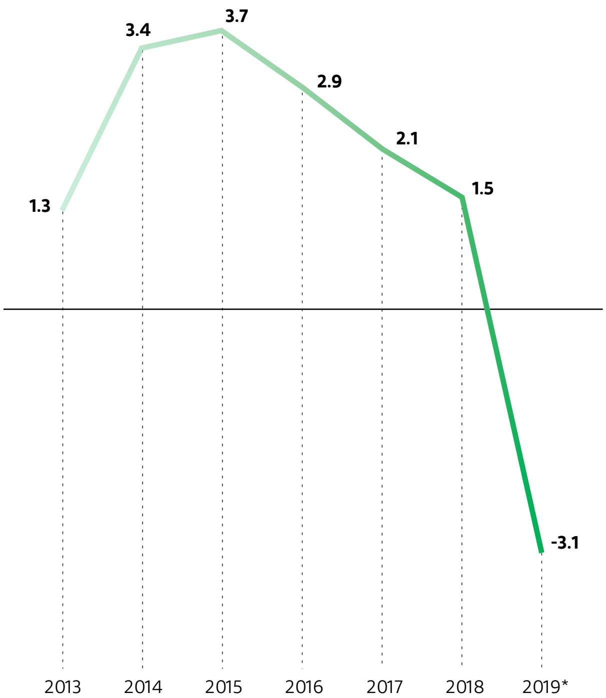
Inflationary pressures also abated considerably across other expenditure groups, such as food and non-alcoholic beverages expenditures, education, health and the restaurants and hotels sectors, (Figure 2.4).

Table 2.1: Main Sectors Contribution to Real GDP Growth in 2018

Sector	Share of GDP	Share in GDP Growth	Contribution to GDP growth rate	Sector Output Growth rate
Wholesale & Retail Trade	26.40%	18%	0.35%	1.33%
Transport & Logistics	12.30%	13%	0.25%	2.08%
Financial Services and Insurance	10.20%	3.30%	0.06%	0.62%
Manufacturing	9.20%	-1.40%	-0.03%	-0.29%
Real Estate	7.20%	24.90%	0.48%	7.03%
Construction	6.40%	14.50%	0.28%	4.53%
Accommodation and Food (Tourism)	5.10%	12%	0.22%	4.54%
Others	23.30%	16.00%	0.33%	1.33%
GDP at Constant Prices	100.00%	100.00%	1.94%	1.94%

Source: Dubai Statistics Center

Figure 2.3: Dubai General Rate of Inflation (% Year on Year)



Source: Dubai Statistics Center
* First 9 months of 2019

Labour Market Developments

2.9 In the UAE as a whole, conditions in the labour market softened at the end of 2018 and employment in the private sector declined year on year by 0.5 per cent in Q4 2018 according to the UAE Central Bank compared to an increase of 1.9 per cent in the previous quarter.

The mild expansion of real growth projected to be 2.0 per cent in 2019 rising to 3.6 per cent in 2020 is expected to lead to a tightening of the labour market. This prospect is confirmed by the latest Business Confidence Index (BCI) survey conducted by the Department of Economic Development which indicated that 59 per cent of companies were optimistic about growth in Q1 2019, compared to 41 per cent in the same period in 2018.

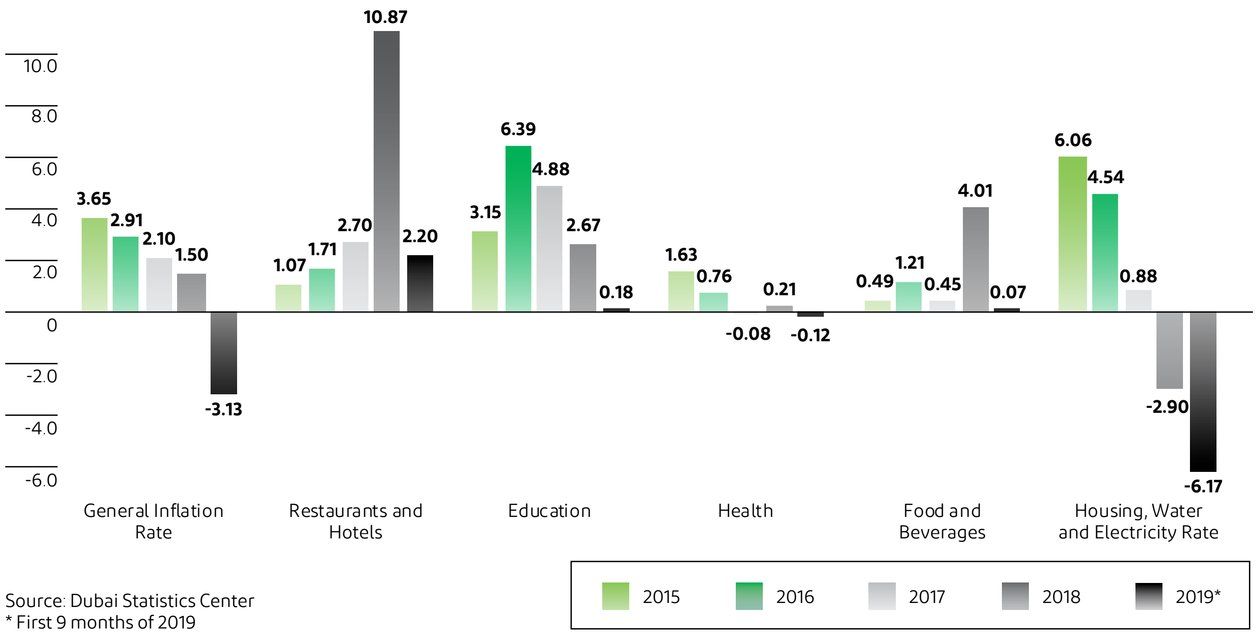
Total employment in Dubai has risen steadily since 2010 after falling by 2.8 per cent as a result of the global financial crisis in 2009. According to the most recent annual Dubai Labour Survey, the employed workforce has risen by 36.4 per cent to reach 2.78 million by 2018, a relatively high labour participation rate. The ten largest sectors in terms of employment of the total labour force in percentage and by gender in 2018are shown in (Figure 2.5).

These ten sectors accounted for 88.1 of the total workforce in 2018 and 90.4 per cent of the male workforce, but only 78.8 per cent of the female workforce. There are significant differences between sectors in terms of employment by gender. Employment in the construction industry, the largest sector measured in terms of employment in Dubai in 2018 accounted for 27.0 per cent of the total employed workforce, has an almost exclusively male profile. Construction relies heavily on expatriate workers and employed nearly a third of the total male workforce in 2018, but only 2 per cent of all females employed. There was a similar gender imbalance in manufacturing which employed 10.9 per cent of the male employed workforce and only 2.7 of all females employed.

In contrast, the sector classified as "activities of households as employers and other undifferentiated activities" employed 25.8 per cent of all female workers and only 1.4 per cent of males. In the remaining sectors outside of the largest ten listed in Figure (2.5), the proportion of female workers dominated in service sectors such as education, health and real estate employing 9.7 per cent, 6.5 per cent and 3.1 per cent of the total female workforce and only 0.7 per cent, 1.0 per cent and 2.5 per cent of employed males.

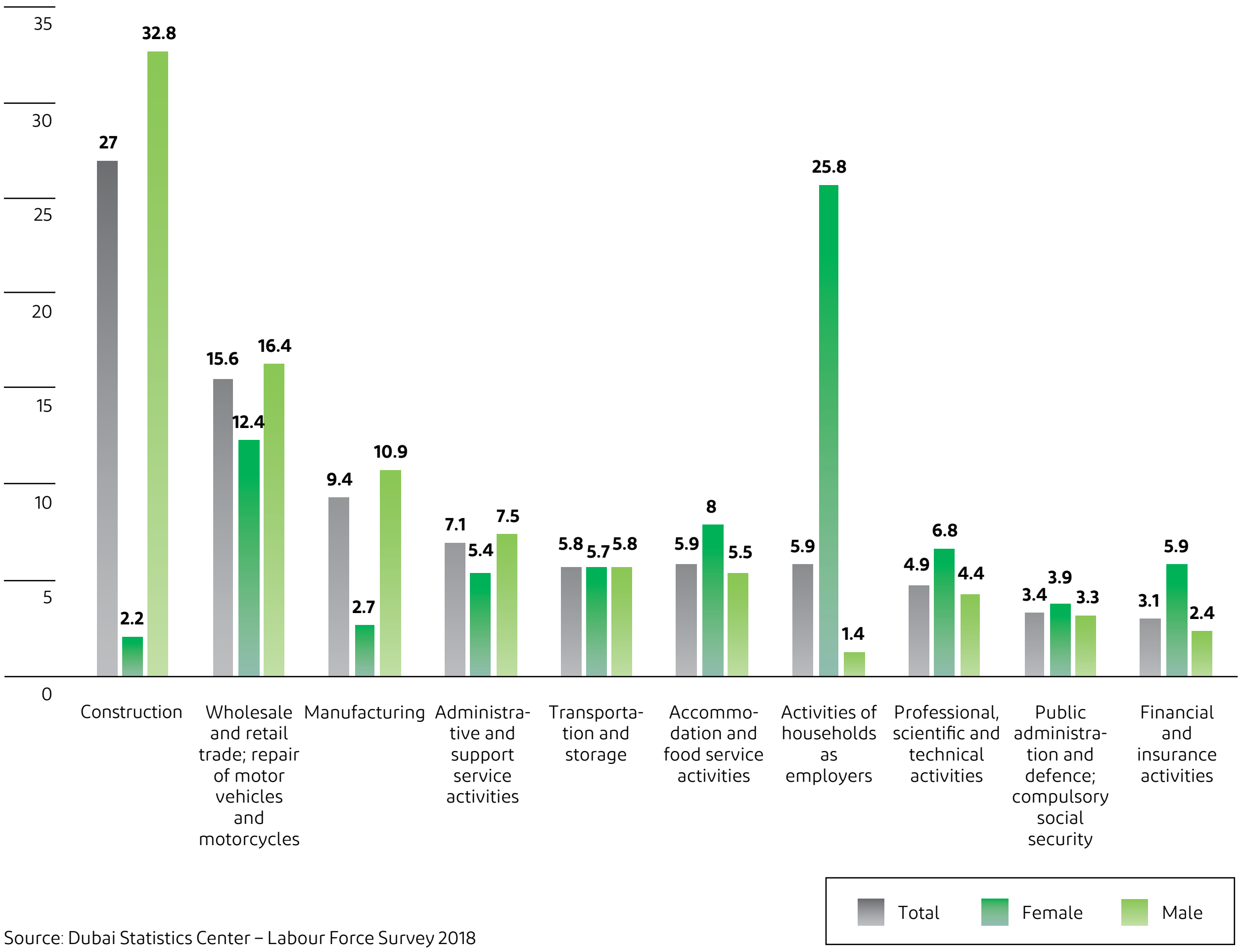
2.10 The average annual gross compensation paid to Dubai's workforce per employee was AED 69,317 in 2018, and differed across sectors from AED 294,726 in financial services and insurance to AED 30,658 in construction. In the activity "Households as employers and other undifferentiated activities", compensation per worker averaged AED 15,606. The range in compensation per employee in AED ('000) across the main sectors in 2018 is shown in (Figure 2.6).

Figure 2.4: Annual Inflation Rate by Main Expenditures Groups (%)



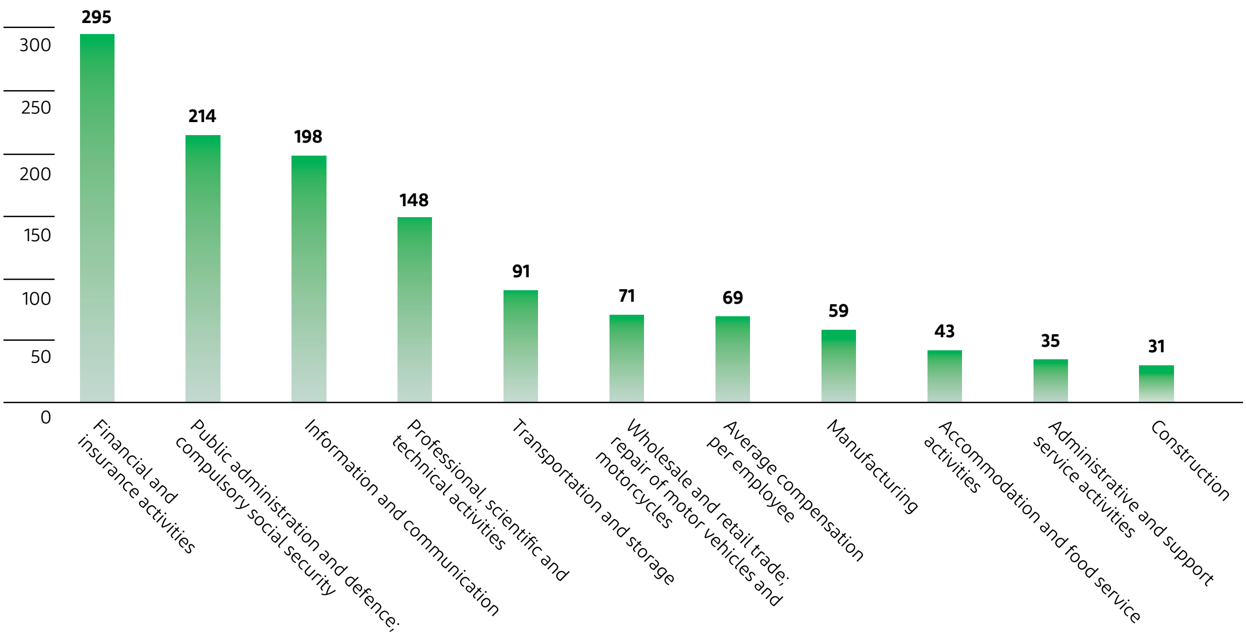
Source: Dubai Statistics Center
* First 9 months of 2019

Figure 2.5: Employment Distribution by Sector and Gender 2018 (%)



Source: Dubai Statistics Center – Labour Force Survey 2018

Figure 2.6: Compensation per Employee in 2018, AED ('000)



Source: Dubai Statistics Center – Labour Survey

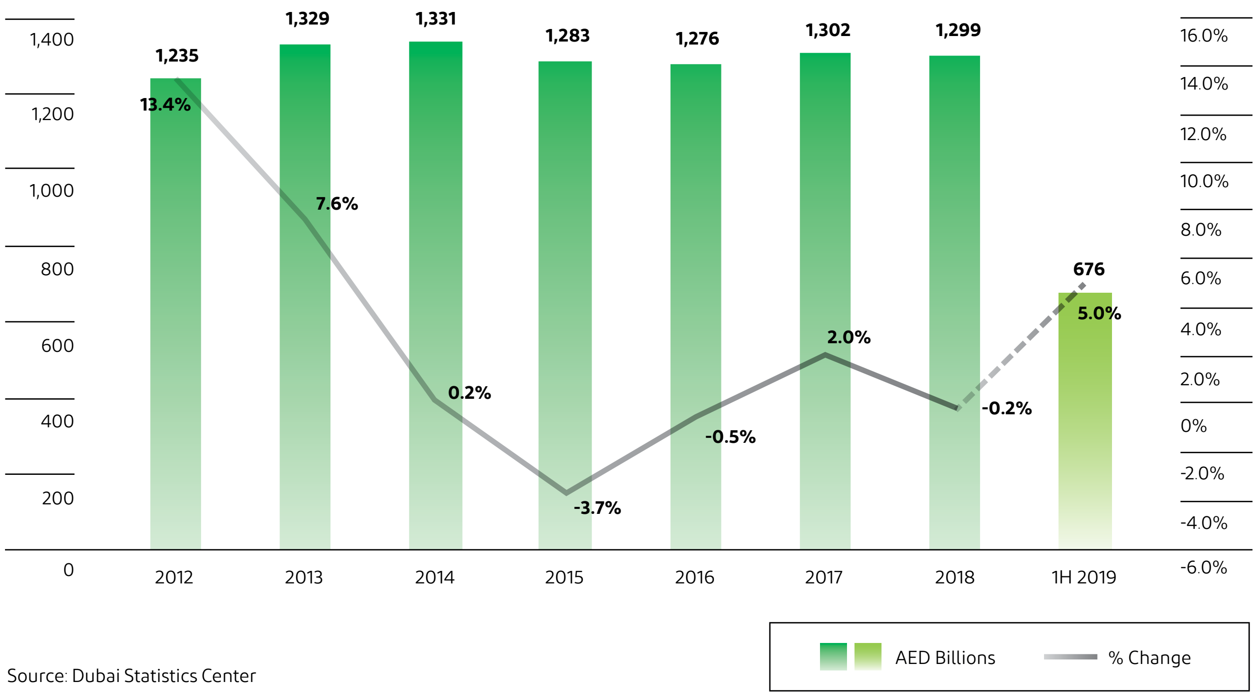
Dubai's Foreign Trade

2.11 Dubai is among the most open economies in the world relying heavily on foreign trade for the generation of its income and wealth with total trade flows (exports plus imports) in merchandise trade over three times greater than the net value added generated in the Emirate. Dubai's geographical position between Asia and Europe, its excellent air and shipping links and free zones makes it attractive to companies as a location suitable for participation in Global Value Chains (GVCs).

In 2018, Dubai's total foreign trade value of exports and imports attained AED 1.3 trillion, down by only 0.2 per cent on the year before, despite the slowdown in the rate of growth of trade in the global economy. In value terms in 2018 compared with 2017, imports fell by 3.5 per cent while exports dropped by 11.7 per cent. However re-exports grew by 11.8 per cent. Dubai foreign trade performance improved in the first half of 2019 with the value of total trade rising by 5.0 per cent compared to the first half of 2018. The value of exports grew by 17.7, that of imports by 3.9 per cent and of re-exports by 2.9 per cent, (Figure 2.7).

2.12 The decline in the value of exports in 2018 can be attributed mainly to slower external demand, particularly in other GCC nations and neighbouring countries (Saudi Arabia, Oman and Turkey) and to the price volatility in international markets for primary and semi-manufactured products. These products dominate the composition of Dubai's exports in products such as aluminium and sugar. In contrast, the growth recorded in Dubai's re-exports in 2018 can be imputed to the composition of re-exports' main products comprising chiefly spare parts, machinery equipment and precious gemstones. These manufactured products are usually less affected by international price fluctuations or demand fluctuations than primary and semi-manufactured products In order to boost Dubai's exports, the government established a knowledge platform to enable exporters to search for export opportunities worldwide, (see Box 2.1).

Figure 2.7: Dubai Total Trade Performance (AED Value changes %)



Source: Dubai Statistics Center

BOX 2.1

Exporters Gateway

The Government of Dubai is active in stimulating trade and has been supporting local businesses to meet potential partners inside and outside of the Emirate, while cooperating with the Federal Government to lower trade barriers in countries and sectors with high growth potential.

In February 2019, Dubai Exports, the export promotion agency of the Department of Economic Development, launched the 'Exporters Gateway,'[1] a digital knowledge platform that provides vital economic and trade data for the UAE and Dubai as well as information on the most sought-after UAE products. The platform provides exporters with detailed data at country, sector and product levels to enable exporters to search for and identify opportunities across 60 products in seven key sectors across more than 40 target markets globally. The portal assists exporters in overcoming major challenges in marketing their product, searching for partners, selecting the ideal partner, and estimating their export costs.

For example, the Exporters Gateway, which is in Arabic and English, provides potential exporters with key information about import markets across the world through a digital country-by-country atlas. Vital information is provided covering topics such as nature of trade agreements, rules and procedures, export related forms, standard packaging and labelling requirements, Visitors can also access information on key government agencies, the current state of trade relations including trade statistics between the country and Dubai, as well as the general ease of doing business. The Exporters Gateway provides users with a broad range of freely accessible information on upcoming trade shows and exhibitions across the world and regularly updated news on international trade. More detailed information about potential buyers or export comparisons can be accessed only by registered Export Members.

By launching Exporters Gateway Dubai is tapping into an important and efficient worldwide trend. Many countries around the world have recognised the importance of governments' providing information to assist exporters in finding markets and partners, since this service reduces transaction and search costs particularly for Small and Medium Enterprises (SME). Extensive economic research confirms that exporters tend to grow faster than non-exporters in terms of both shipments and employment and benefit from higher levels of productivity. Exporting, therefore, is associated with the reallocation of resources from less efficient to more efficient productive units, which aids GDP growth.

Many advanced countries have used digital technology to build export support platforms like Dubai's Exporters Gateway. The United States has a detailed platform, export.gov, operated by the US Commercial Service that provides SMEs with advice on how to export and information on potential markets. The United Kingdom, for example, launched an online platform[2] in 2016 to assist exporters as a single destination for trade and inward investment information. In its first year the UK's portal received 2.7 million visitors.

1 https://exportersgateway.com/
2 https://www.great.gov.uk/

Monetary Policy

2.13 Monetary conditions in Dubai depend on interest rate decisions taken by the Central Bank of the UAE which cannot adopt an independent monetary policy because of the commitment to peg the Dirham to the US dollar at AED 3.6725 per US$1. This implies that all of the UAE, including Dubai, faces an official interest rate that is heavily influenced by the interest rate set by the United States Federal Reserve Board. The UAE Central Bank has mirrored the Federal Reserve's policy of normalising interest rates from the last quarter of 2016 until the end of 2018 and of the subsequent reduction of rates until September 2019. This is illustrated in Figure (2.8) alongside the level of the US policy rates.

Interest Rates

2.14 As the US Federal Reserve increased the Federal Funds rate to 2.5 per cent on December 19th 2018 the UAE Central Bank raised its policy rate by 25 basis points to 2.5 per cent. In December 2018, the Federal Reserve also signalled that it would slow down the normalisation of rates by the end of 2019. On 31 July 2019, fears of a slowdown in the US economy led the Federal Reserve to cut the policy rate to 2.25 per cent. The rate was cut again by a further 25 basis points on September 19. The UAE Central Bank adjusted its policy rate immediately after (Figure 2.8).

Domestic Liquidity

2.15 The rate of growth of financial liquidity (the supply of money) in the UAE had slowed down in 2018 largely resulting from the Emirates Interbank Offered Rate (EIBOR) increase as bank credit tightened. M1[3] displayed negative growth while M2[4] increased due to the relatively high interest rates paid on time and saving deposits, resulting in a switch from monetary to quasi-monetary deposits and thus to the divergence between M1 and M2. The third measure of money supply, M3[5], increased at higher rates than the first two monetary aggregates as result of the government rebuilding its deposits, leading to significantly higher growth in M3 compared to M1 and M2. The measure of money supply that is the most correlated with nominal GNP, which is the main determinant of the demand for liquidity in the economy, is M2. (Table 2.2) shows, the growth rates of the three main monetary aggregates from 2014 to 2018.

Banks' Credit

2.16 The total value of loans has been on an upward trend over the period 2013-2018 and up to the first half of 2019. In 2018, domestic credit increased by 3.9 percent compared to 2017. The volume of loans to non-residents has increased at over 15 percent in 2018, although it accounts for a small share in total bank credit. Loans to private businesses rose by 5.9 percent while credit to GREs dropped and loans to individuals hardly changed from the year 2017 to 2018, (Figure 2.9) and (Table 2.3).

Table 2.2: Growth in Domestic Liquidity (%) in UAE

Y-o-Y % growth	2014	2015	2016	2017	2018
M1	14.9	4.8	3.8	3.9	-1.4
M2	7.9	5.5	3.3	4.1	2.5
M3	9.1	2.2	5.1	5.4	7.8
Non-oil GDP (current prices)	7.9	5.4	2.9	3.6	2.9

Source: UAE Central Bank

Table 2.3: UAE Banks' Credit Growth by Type of Customers

Y-o-Y % growth	2014	2015	2016	2017	2018
Domestic credit	6.1	8	5.2	1.4	3.9
Private business	14.1	7.6	5.9	2.8	5.9
Individuals	6.6	10.2	4.7	3.5	-0.1

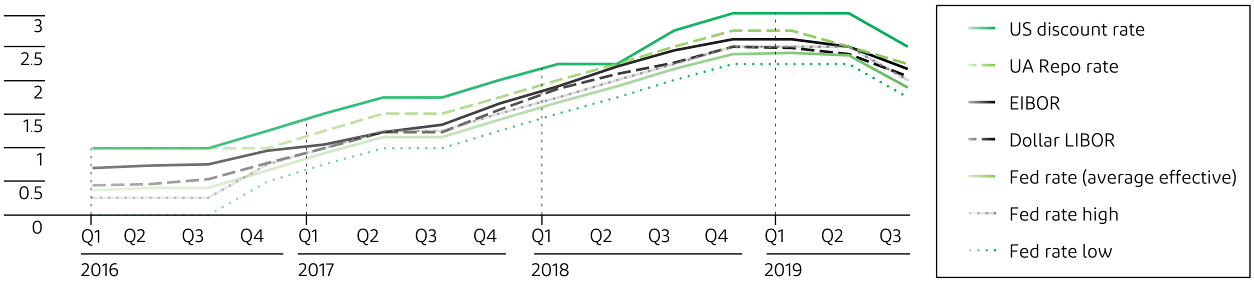
Source: UAE Central Bank

3 M1 = Currency in circulation + monetary deposits
4 M2 = M1 + Quasi-monetary deposits (residents' time and saving deposits in local currency plus residents' deposits in foreign currency)
5 M3 = M2 + Government deposits

Bank Credit by Economic Activity

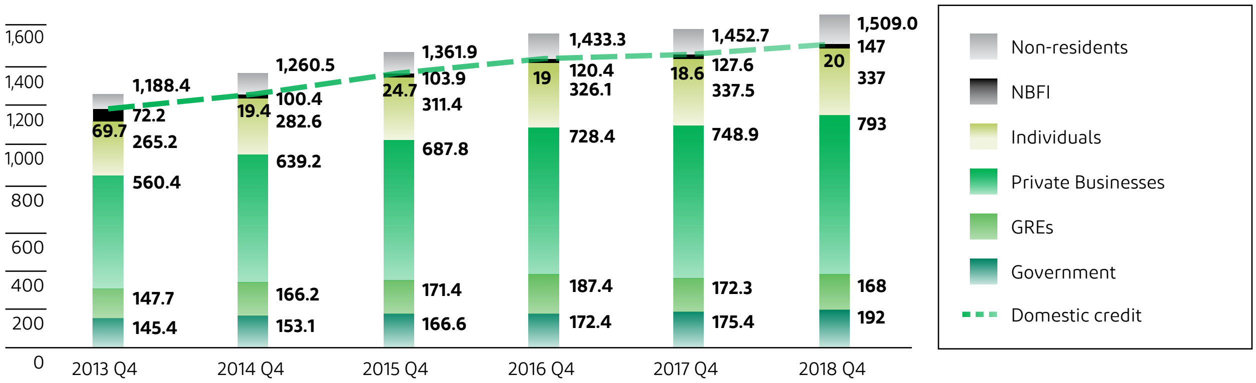
2.17 Total credit to economic activities steadily increased throughout the years 2014 to 2018, although the pace slowed down in 2017 and 2018 compared to the earlier years and became even negative for some important activities. Credit to real estate rose faster than for all other sectors, leading to an increasing share in total credit from about 20 percent in 2014 to nearly 27 percent by the end of 2018. In contrast, the volume of loans to the wholesale and retail trade sector increased moderately in 2018 following a decline in the years 2016 and 2017, resulting in a drop in its share in total credit from nearly 21 percent in 2014 to about 17 percent in 2018. Transportation, storage and communications are the other main activities that experienced declining credit in 2017 and 2018, (Figure 2.10).

Figure 2.8: Policy Interest Rates Q1 2016 to Q3 2019



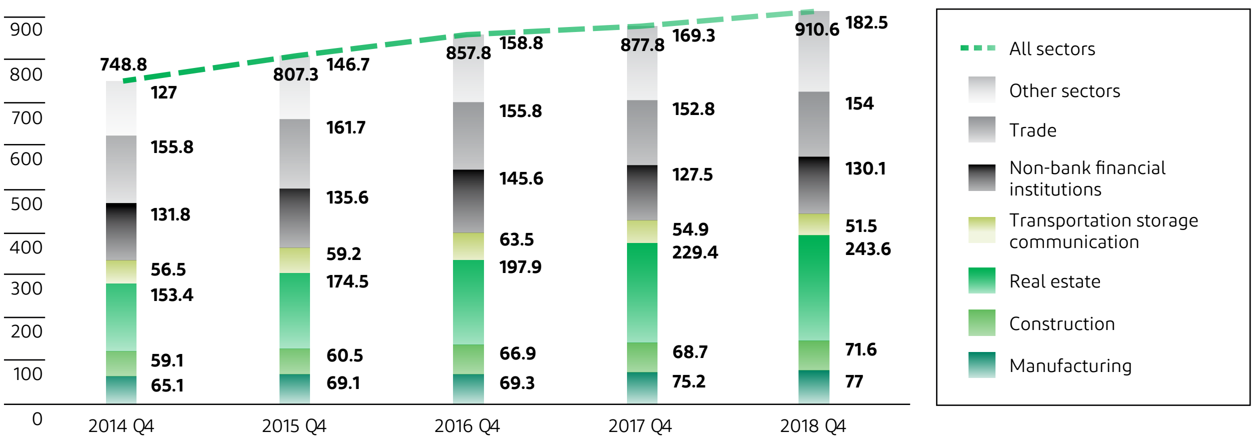
Source: UAE Central Bank and IMF

Figure 2.9: UAE Banks' Credit by Type of Customers (AED billion)



Source: UAE Central Bank

Figure 2.10: UAE Gross Domestic Credit by Economic Sector in AED billion (2014-2019)



Source: UAE Central Bank

Public Finance

The Budget of Dubai's Government: Overview

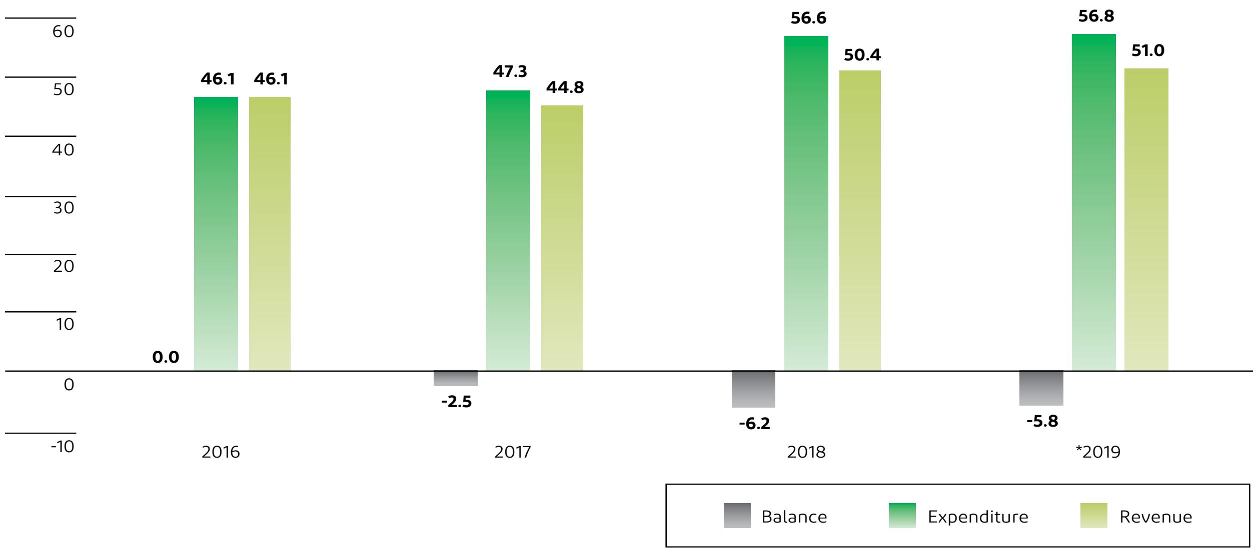
2.18 The government of Dubai's fiscal policy has focussed on strengthening the emirate's financial accounts while further investing in infrastructure projects to foster sustainable growth, improve the welfare of its population and make adequate preparations for special events such as Expo 2020. In addition, as monetary policy is the responsibility of the UAE federal authorities, the government of Dubai has been prepared to take necessary corrective countercyclical fiscal measures in response to macroeconomic conditions stemming from external factors. From 2009 to 2011, for example, the government maintained public sector deficits to stimulate the economy to offset the deflationary impact of the global recession stemming from the financial crisis in the advanced economies.

The public finances of Dubai were subsequently balanced in 2015 and 2016 as a result of a drop in public investment spending attributable to the completion of many major projects. In 2017, expenditure increased by almost 3 per cent to AED 47.3 billion, while government revenues fell by 2.8 per cent to AED 44.8 billion producing a budget deficit of AED 2.5 billion, or 0.6 per cent of GDP. In 2018 public expenditure rose by nearly 20 per cent to AED 56.6 billion while government revenues increased by 12.5 per cent to AED 50.4 and the public sector deficit rose to AED 6.2 billion, or 1.5 per cent of GDP. In 2019, public spending is forecast to rise marginally by 0.4 per cent to AED 56.8 billion while revenue is expected to increase by 1.3 per cent to AED 51.0 producing a public sector deficit of AED 5.8 billion. The overall fiscal position of the government of Dubai from 2016 to 2019 is shown in (Figure 2.11).

Public Revenues

2.19 Government revenues in Dubai are derived from tax and non-tax sources. Customs revenues are the main source of tax revenues accounting for 85 per cent of this category of government revenue in 2017 while fees and fines accounted for 90.4 per cent of non-tax revenues in the same year. Starting in 2018, a significant change took place with the introduction of a 5 percent federal value-added tax (VAT).The remainder of non-tax revenues is derived from oil revenues and income from investment.

Figure 2.11: Budget Structure of the Government of Dubai (AED billion)



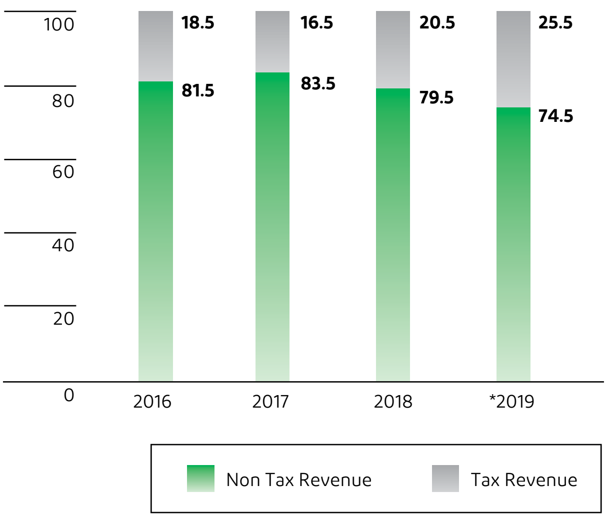
Source: Dubai Department of Finance
*Announced

VAT Introduction

2.20 The most significant public finance reform was the implementation of Value Added Tax (VAT) in January 2018 at the rate of 5 per cent on all but specified exempt or zero-rated purchases. This will broaden Dubai's public revenue sources since the UAE authorities have agreed that 30 percent of collected VAT revenue will be allocated to the federal government and 70 percent to Emirate local governments. The VAT base has been narrower than expected since there are exemptions for most real estate and financial services transactions, trade in free zones, local passenger transport and charitable organizations. In addition, a zero rate applies to certain transport, telecom, health and education services, as well as exports, medical equipment, oil/gas, and investments in precious metals. Annual VAT revenues are projected to reach 2 percent of GDP in the next few years.

2.21 The ratio of non-tax revenues to total revenues has fluctuated in recent years between a minimum of 76.8 per cent in 2013 and a maximum of 83.5 per cent in 2017. The implementation of public finance reforms has had an impact on the structure of government revenues. The ratio of non-tax revenue to total revenue fell to 79.5 per cent in 2018 and is expected to continue falling to 75.0 per cent in 2019, (Figure 2.12).

Figure 2.12: Government Revenue Structure in Dubai (%)



Source: Dubai Department of Finance
*Announced

Government Initiatives to Boost Growth

2.22 In April 2018, the government of Dubai has instituted a number of fiscal reforms to boost economic growth in the last quarter of 2018, into 2019 and beyond. The main fiscal measures, taken in 2018, include a waiver on penalties for late renewal of licenses, a freeze on registration fees for the three years, reduction in municipality fees on businesses from five to 2.5 percent and in fees on hotel rooms from 10 to 7 percent.

Dubai's Department of Economic Development (DED) has also implemented a number of initiatives with the objective of improving the business climate in the emirate in order to encourage growth, productivity and innovation throughout the economy. These initiatives have included increasing the flexibility of the licensing process and extending the scope of immediate licensing to all commercial licenses. The DED now operates a new instant license e-service for commercial licenses processing applications in 5 minutes through its website.[6] These changes along with recovering growth has produced a significant increase of 29 per cent in the number of new business licences issued in the first three months of 2019 to 6,709 licenses.

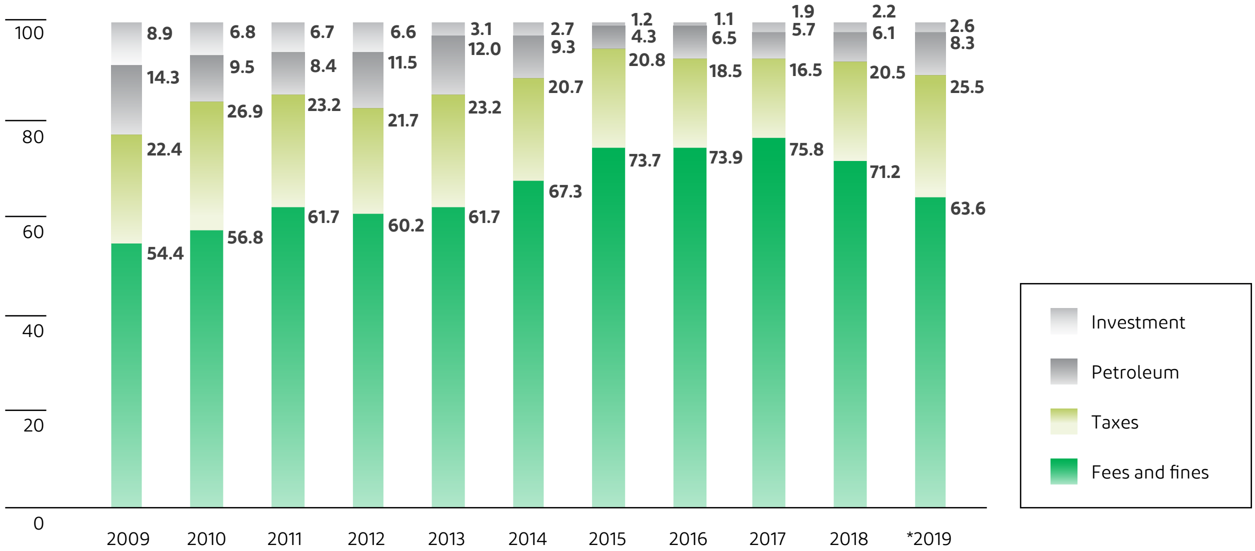
2.23 The tax revenue forecast is also supposed to take into account the new proceeds from VAT, based on the revenue collected from companies operating in Dubai and on the 70 - 30 percent allocation rule between the local and federal budgets. As a result, the share of taxes in total revenue jumped from 16.5 percent in 2017 to about 20.5 percent in 2018 and to more than a quarter of the total revenue expected for 2019. In contrast, the share of fees drops for the first time since 2006, from almost 76 percent in 2017 to 71 percent in 2017 and further down to about 63.5 percent in 2019. The other sources of revenue are petroleum and government investment, both of which have fluctuated, depending on oil prices and production for the former and on profits generated by state-owned enterprises for the latter. In the last three years, their shares averaged 6.7 and 2.2 percent respectively, (Figure 2.13).

Public Expenditures

2.24 In 2018, Expo related investment expenditures and the need to counteract the slowdown in the economy stemming from falling external demand has resulted in the government adopting an expansionary fiscal policy stance. There has been increased public investment expenditure on infrastructure related to the needs of Expo 2020 whose total investment value is estimated at AED 25 billion and also the expansion of the Dubai Metro's Route

6 https://eservices.dubaided.gov.ae/Pages/Anon/GstHme.aspx?LID=1

Figure 2.13: Composition of Dubai's Government Revenue by Source (% of total)

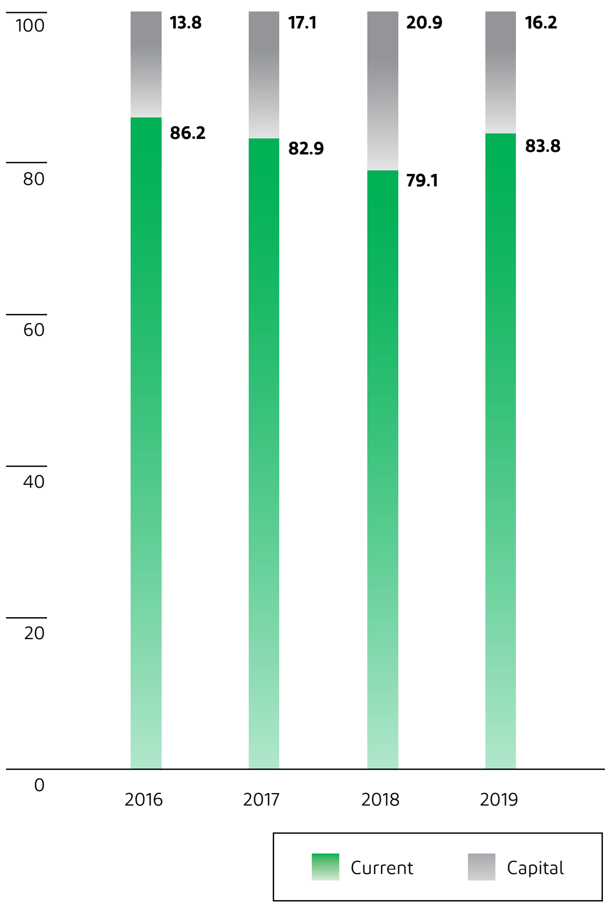


Source: Dubai Department of Finance
*Announced

2020 with a project value of AED 10.6 billion. In consequence, total public capital expenditure has continued to rise from AED 6.38 billion in 2016 to a level of AED 11.81 billion in 2018 and is forecast at AED 10.79 billion in 2019. Capital expenditure has risen from 13.84 per cent of total public spending in 2016 to 20.88 per cent in 2018 and is budgeted to fall again reaching16.2 per cent in 2019, (Figure 2.14).

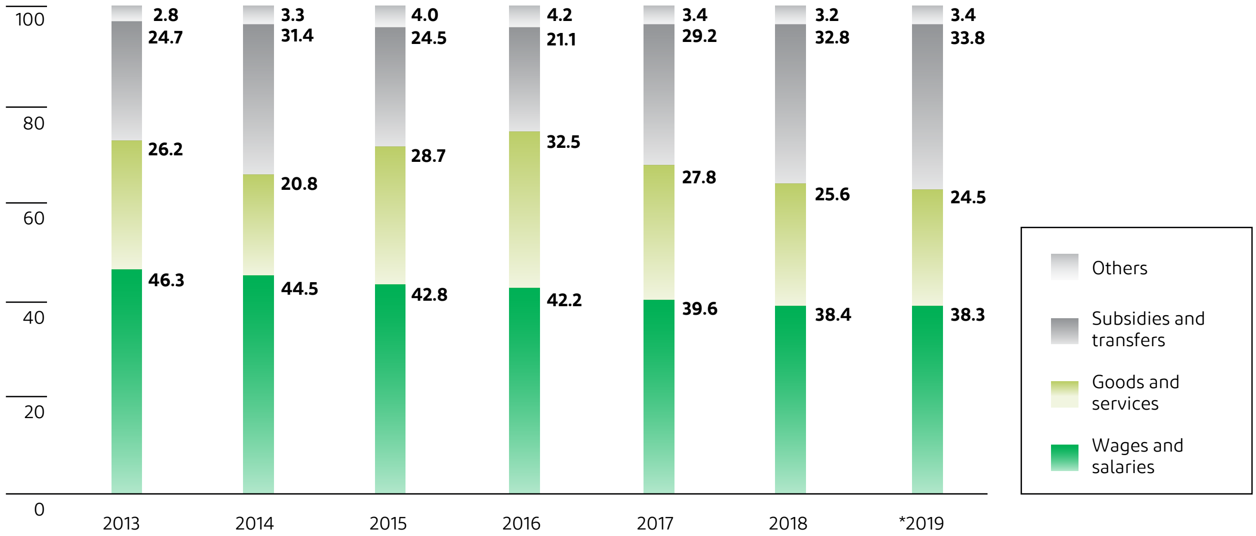
2.25 Current public spending has steadily increased throughout the period 2006-2019, from 4.8 percent of GDP to 10.9 percent in 2019. The big break took place during the 2009 recession when this share jumped from an average of about 5 percent of GDP in the years 2006-2008 to 8.5 percent in 2009 and to higher ratios in the last three years. The breakdown of current spending in its main components shows that subsidies and transfers account for the largest share of the increase over the last ten years, with their share rising from about 20 percent of total current spending on the average in the years 2009-2011 to 32 percent in the last three years. This component includes interest payments, the contribution to the federal budget, as well as different social and cultural transfers. Between the same two periods, the share of wages and salaries has declined from an average of about 47 percent in the earlier period to less than 39 percent in the recent period while that of goods and services remained more or less stable at less than 27 percent. Relative to GDP, spending has increased for the three components, although subsidies and transfers account for more than 70 percent of the rise in the ratio of current expenditures to GDP while the salaries to GDP ratio has barely changed, (Figure 2.15).

Figure 2.14: Structure of Dubai's Government Expenditures



Source: Dubai Department of Finance
*Announced

Figure 2.15: Composition of Government Current Expenditures



Source: Dubai Department of Finance
*Announced

Dubai Public Finance is at the discretion of Dubai's government, which makes decision over current and capital spending and has control of those revenues not stemming from UAE federal policies such as customs duty and taxes on foreign banks operating from Dubai

Outlook for the Performance of Dubai's Economy

2.26 Real GDP growth in Dubai is expected to recover to an annual rate of 2.1 per cent in 2019 rising strongly to 3.2 per cent for 2020 with the positive impact expected from hosting Expo 2020 on the economy bearing fruit. The outlook for 2019 is predicated on a favourable global and regional outlook prevailing although as discussed above there are a number of down-side risks that could veer growth off-course. The real growth rate forecasts for the main economic sectors for 2019 and 2020 are shown in (Figure 2.16).

The Impact of Expo 2020

2.27 The government of Dubai has taken positive policy initiatives to strengthen the private sector to stimulate economic growth in the emirate alongside the strategic investments needed to prepare for Expo 2020. Expo 2020 Dubai is an international mega event that will be hosted in the emirate between October 2020 and April 2021. In the run up to the event real GDP growth is expected to strengthen from 1.9 per cent in 2018 to 2.1 in 2019 and is predicted to rise to 3.2 per cent in the following year.

Expo 2020 is a global event celebrating innovation, promoting both technical and social progress and facilitating international cooperation and business

Expo 2020 is a global event celebrating innovation, promoting both technical and social progress and facilitating international cooperation and business. Expo 2020 Dubai will be the most inclusive Expo event ever and 192 countries are expected to participate attracting an estimated 25 million visitors to the emirate. The economic impact of Expo 2020 on Dubai's economy and on the entire UAE in terms of higher value added is spread before the event, during the event and for a number of years afterwards.

2.28 A study by consultants EY estimates that a total of AED 40.1 billion will have been invested as a result of Expo 2020 in event specific assets and in infrastructure most of which will be retained for future use.[7] The study estimates that the long run multiplier effect of the Expo related investment will have contributed AED 122.6 billion in gross value added to the UAE economy between 2013 and 2031 with a peak impact equal to 1.5 per cent of the UAE's GDP during the half year that the exhibition is open. EY also estimate that the impact of Expo on the UAE's labour market will also be large with the creation of around 905,200 full-time equivalent jobs (FTE) over the eighteen year period.

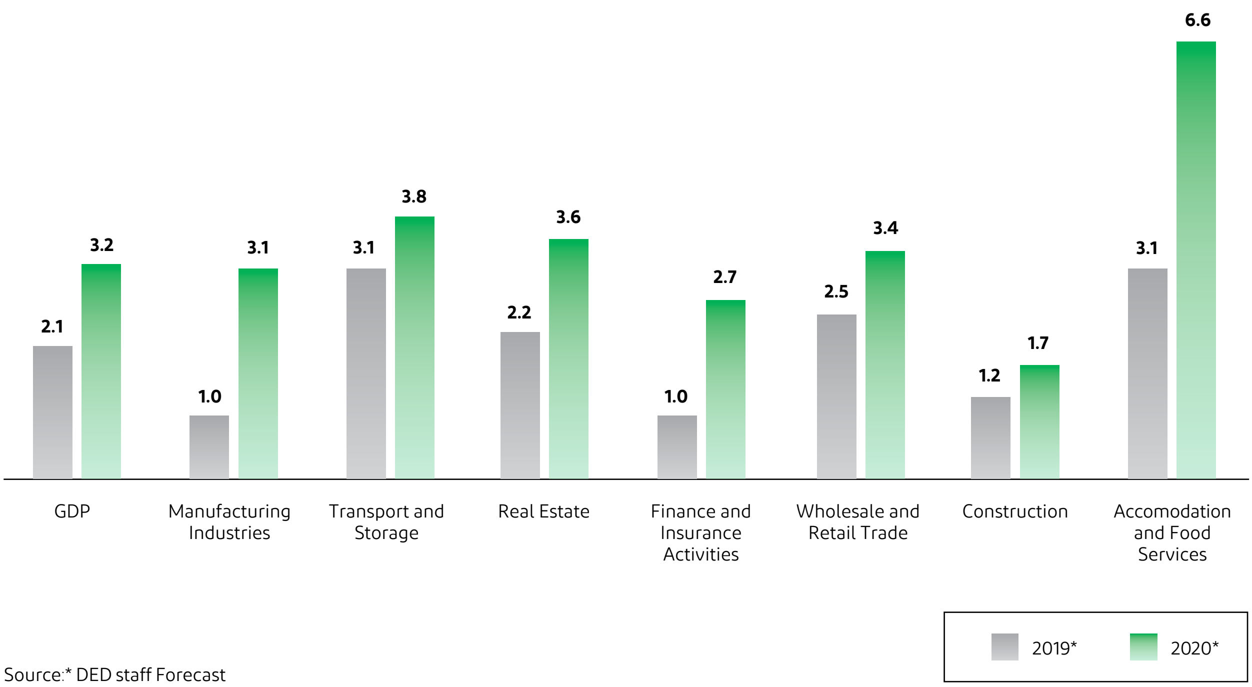
Expo 2020 Dubai has been an important strategic long-term investment for the emirate of Dubai and for the UAE. The expected impact of this investment on gross value added and on employment can be split into three phases: Pre-Expo (2013- 2020; During-Expo (2020-2021) and the Legacy (2021-2031). The distribution and size of the economic benefits estimated during these periods is shown in (Table 2.4).

Table 2.4: Expo 2020 Distribution of Economic Benefits

Impact	Pre-Expo	During Expo	Legacy
Gross Value added AED billion	37.7	22.7	62.2
Average jobs supported per annum	37,500	94,400	53,800

Source: EY, The Economic Impact of Expo 2020 Dubai (technical report), April 2019

Figure 2.16: Projected Growth Rates of Main Sectors in Dubai's Economy (%)



Source:* DED staff Forecast

7 https://www.ey.com/Publication/vwLUAssets/ey-the-economic-impact-of-expo-2020/$File/ey-the-economic-impact-of-expo-2020.pdf