**UAE growth to slow as oil output levels off…non-oil growth seen steady, but below trend**

**In NBK’s latest GCC Brief**:

Economic activity measures – notably the private sector Purchasing Managers’ Index – eased back in 2H 2011, likely reflecting a mixture of seasonal factors and a deteriorating international environment. Meanwhile, credit growth remains stubbornly weak, concerns linger over the refinancing of Dubai Inc. debt and large corporations are still in consolidation mode. Unlike in other GCC states, government spending is also being rationalized. In aggregate, budgeted spending of the Dubai and Federal governments will fall by 1% in 2012, while project spending in Abu Dhabi is being reined-in to reflect the more sober business climate.

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| **UAE forecast summary:** | |  |  |
|  |  | 2011e | 2012f |
| **Real GDP** | %y/y | 4.6 | 2.4 |
| * **Non-oil** | %y/y | 3.5 | 3.5 |
| **Inflation (yr avg)** | % | 0.9 | 2.0 |
| **Budget balance** | % GDP | 5.0 | 5.0 |
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| **Real GDP**  **(% y/y)** |
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*Source: National Bureau of Statistics, NBK forecasts*

Against this backdrop, real growth in non-oil GDP is expected to remain below trend at 3.5% in 2012, following similar growth in 2011. This will be amongst the weakest performances in the region. But there are some silver linings: High oil prices will sustain confidence while the consolidation phase runs its course; strong regional growth will support internationally-exposed sectors (such as trade, tourism and finance) if activity elsewhere in the world weakens; and another year of low inflation and soft real estate prices will boost Dubai’s cost competitiveness versus the rest of the GCC, helping to support the medium-term outlook.

Growth in hydrocarbon sector output in 2011 is estimated at 7%, in line with our previous forecast. Crude oil output increased by 226,000 barrels per day (bpd), or 10%, to 2.56 mbpd in the year to October 2011, as key OPEC members moved to offset the collapse in Libyan output. As Libyan output returns and oil prices remain firm, the UAE’s production could edge down from current levels in 2012, but remain flat-ish for the year as a whole. Overall, real GDP growth is seen slowing to 2.4% this year from 4.6% in 2011.

From a peak of 1.6% y/y in January 2011, consumer price inflation fell back into deflation territory, reaching -0.1% by November. The decline was the result of more aggressive falls in housing rents, and a sharp deceleration in transportation costs. Food price inflation on the other hand – unlike in other GCC economies – has proved quite sticky. A combination of sluggish economic activity, weak credit growth, softer global food prices and the impact of a stronger US dollar on UAE import prices will keep inflation very low this year, at an average of 2.0%.

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| **Consumer Price Inflation**  **(% y/y)** |
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*Source: National Bureau of Statistics, NBK forecasts*

IMF data suggests that the consolidated UAE budget was pushed into deficit in 2009 and 2010 – a cumulative AED 153 bn ($42 bn) – partly on the back of financial support provided to corporates and banks. Financing is thought to have come from a combination of asset sales, debt issuance and the government’s massive financial reserves. We see the budget returning to comfortable surplus in 2011 and 2012, in the range of 5% of GDP if profits from state oil company ADNOC are included. This is based upon very modest spending growth (all from Abu Dhabi) and oil prices of around $110 pb in both 2011 and 2012, which generates a surge in hydrocarbon revenues in 2011. The current account should see even larger surpluses.

Note: Full country-by-country analysis and forecasts for the GCC region appears in our latest GCC Outlook publication, which can be found on our website at <http://www.nbk.com>