



بنك الإمارات دبي الوطني
Emirates NBD

Economics
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Dubai 2018 budget highlights

The 2018 Dubai budget supports our view that public investment and spending, particularly on infrastructure, will be a key driver of economic growth in the emirate next year. The budget makes provision for AED 56.6bn of total expenditure, up nearly 20% y/y (on 2017 budgeted figures, not actual expenditure which has not been released). Revenue is expected to rise 12.5% y/y to AED 50.4bn, giving a projected budget deficit of AED 6.2bn (-1.6% GDP), up from an estimated AED -2.5bn in 2017.

Economy, transport, infrastructure account for 43% of spending

The budget has allocated 43% (AED 24.3bn) to the key sectors of economy, transport and infrastructure in 2018. Infrastructure spend is projected to rise by nearly 47% to an estimated AED 11.9bn next year, which includes more than AED 5bn on Expo 2020 projects alone.

The infrastructure allocation will cover the development of the main expo building and supporting service projects such as roads, bridges, sewage, transport and metro lines as well as preparing the area for post-expo events, according to the budget statement. The total value of Expo 2020 investment (over several years) is AED 25bn, while the metro expansion project is estimated to cost AED 10.6bn in total, again spread over several years.

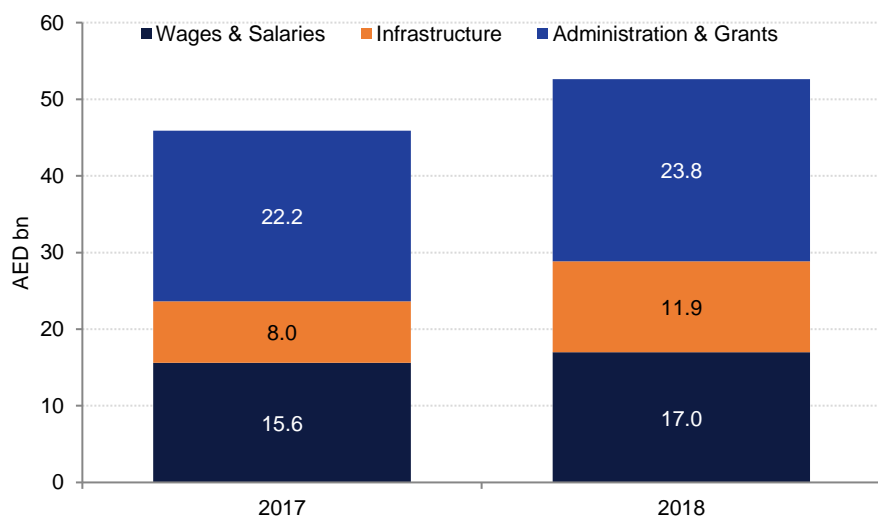
33% (AED 18.7bn) of the budget has been allocated to human and social development sectors including health, education, housing, community development and innovation. A further 16% (AED 9.1bn) is set aside for safety and security services. The remaining AED 4.5bn has been allocated towards government initiatives to boost performance and innovation.

Current expenditure declines as a share of total spending

The functional breakdown of the budget shows that the share allocated to wages, salaries, general administration, grants and support has declined to 72% from 80% in the 2017 budget (our estimates based on budget statements).

Capital or development spending will account for 21% of total expenditure in 2018, up from 17% in 2017. We have assumed that the remaining expenses are related to debt service, although this has not been made explicit in the budget statement. This implies a rise in debt service costs to AED 4.0bn in 2018 from AED 1.4bn in 2017.

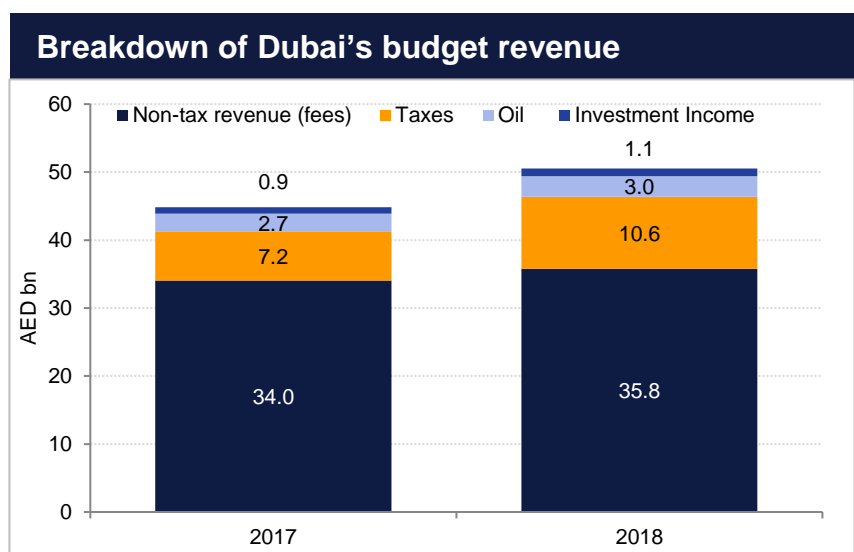
Breakdown of Dubai's budget spending



Source: Dubai Media Office, Emirates NBD Research

Budget revenue to rise 12% in 2018

Total budget revenue is forecast at AED 50.4bn in 2018, up from AED 44.8bn in the 2017 budget. The main source of revenue remains non-tax revenues (fees), and this component is expected to grow 5% from 2017 to reach AED 35.8bn. Tax revenue is forecast at AED 10.6bn (up more than 47% y/y). While it has not been made explicit in the budget statement, we expect the higher tax income estimate is due to the introduction of VAT from the start of next year, and expected proceeds from this. Oil revenue is estimated to reach AED 3.0bn (12.5% y/y). Government investment income is also expected to rise in 2018 but remains a small contributor to overall budget revenue at just AED 1.1bn.



Source: Dubai Media Office, Emirates NBD Research

Budget deficit forecast at -AED 6.2bn in 2018

The official projections show an overall budget deficit of -AED 6.2bn next year, or -1.6% of Dubai's GDP. This is significantly higher than the estimated deficit for 2017 (-AED 2.5bn) but at USD 1.7bn is relatively manageable in our view.

The official statement does not clarify how the deficit will be financed, except for a reference to a AED 5.5bn financing agreement for Expo 2020 related construction projects (including the metro extension). The financing is based on export credit guarantees and is reportedly close to being finalized.

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