



بنك الإمارات دبي الوطني
Emirates NBD

Economics
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UAE GDP growth slowed to 0.8% in 2017

The Federal Competitiveness and Statistics Authority has recently released updated estimates for the UAE's economy. **The latest data show real GDP growth of just 0.8% last year, down from 3.0% in 2016.** This is lower than the initial estimate released earlier this year of 1.5% real growth in 2017. The key changes are a deeper recession in the oil & gas sector (-3.0% y/y) than initially estimated and a downgrade of non-oil GDP growth to 2.5% (from 3.0% in the preliminary figures).

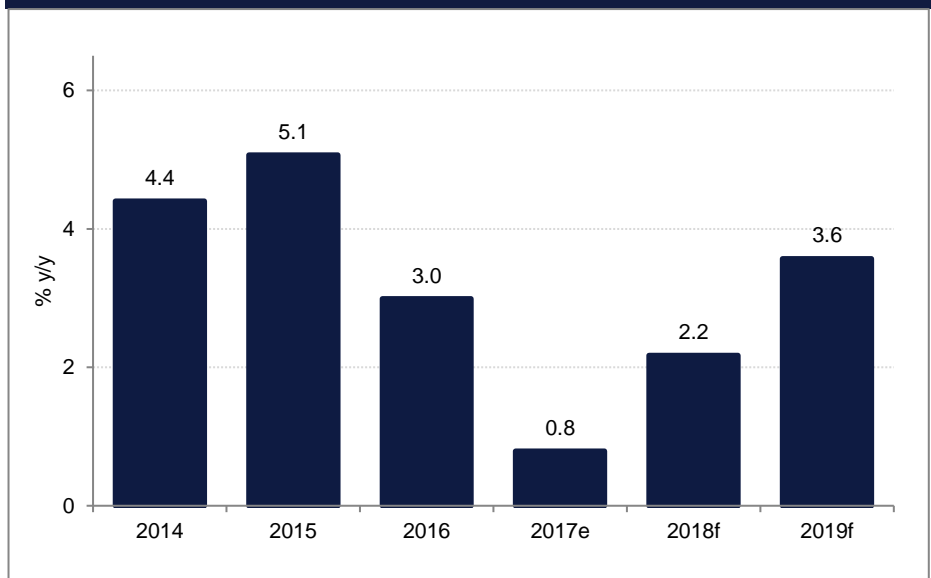
While the economy's performance last year was significantly below our expectations (we had forecast 2.0% growth), we note that this was in large part due to deeper than expected cuts to oil production last year. The non-oil sectors did grow, albeit by less than we had expected. The latest official estimates are still subject to revision.

Key non-oil sectors slowed last year

Looking at the details of the release, the UAE's biggest sectors remain wholesale & retail trade (11.7% of GDP), followed by finance & insurance (8.6%), construction (8.4%) and manufacturing (8.3%). Growth in the wholesale & retail trade sector slowed sharply last year to just 0.3%, compared with average growth of 4.5% over the prior five years, while finance & insurance growth slowed to 2.0% y/y. The construction sector contracted -1.6% y/y while manufacturing grew 3.4%, the slowest rate of growth in this sector since 2012.

The sluggishness in the larger sectors was offset by strong growth in accommodation & food services, which grew 8.5% in 2017, the fastest growth in three years. Utilities also grew 8.0%, up from 5.45 in 2016. Public administration, defence and social security expanded 6.2% in 2017, more than double the growth rate seen in 2016.

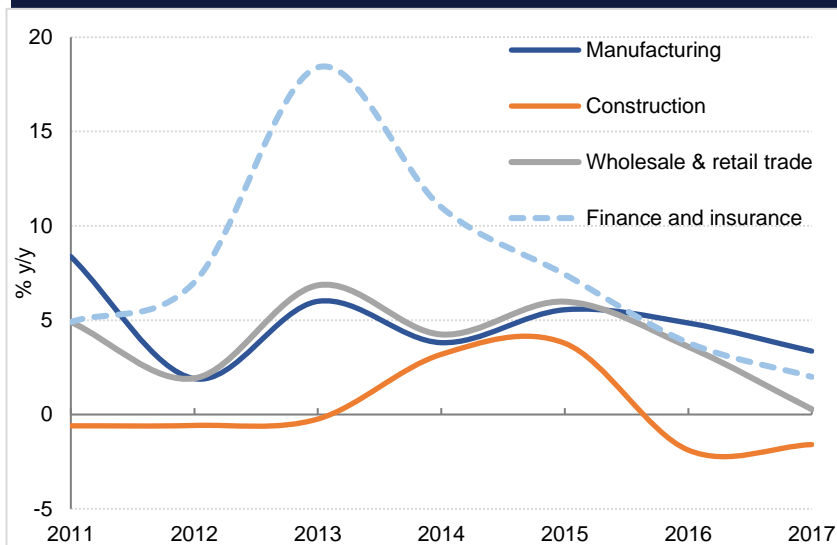
UAE real GDP growth



Source: Haver Analytics, Emirates NBD Research

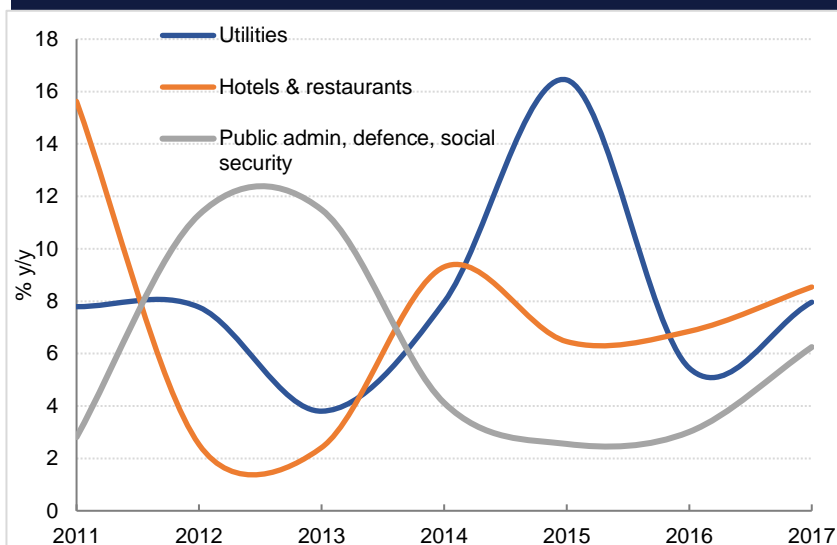
Khatija Haque
Head of MENA Research
+971 4 230 7803
KhatijaH@emiratesnbd.com

Key sector growth rates



Source: Haver Analytics, Emirates NBD Research

Fastest growing sectors



Source: Haver Analytics, Emirates NBD Research

Data year-to-date is encouraging

Oil sector growth forecast revised higher

The UAE has increased oil production to 2.96mn bpd in July (Bloomberg estimates) from the low of 2.8mn bpd in February 2018. If production is maintained at this level through the rest of H2, then average oil output for the UAE will be unchanged relative to 2017, whereas we had assumed a decline of -2.0% in our GDP forecast. We have thus revised up our forecast for oil sector growth to 0%.

Non-oil growth forecast revised lower

We had expected non-oil sector growth to accelerate this year, driven by increased government spending both on infrastructure and on wages and social spending. The government announced a stimulus package only towards the end of Q2, so the impact may not become evident until later this year.

The PMI survey data also suggests that the UAE's non-oil sector grew at a similar pace in H1 2018 as H1 2017, rather than accelerating. While we remain cautiously optimistic that higher oil prices, rising oil production and increased government spending will boost non-oil sector growth through H2, we recognise that our non-oil GDP growth forecast of 4.0% now looks too ambitious, and we have revised it down to 3.1%.

2.2% GDP growth is still achievable in 2018

The upwards revision to oil sector growth effectively offsets the downward revision to non-oil GDP growth estimates for this year. As a result, we retain our headline GDP growth forecast for 2018 at 2.2%. We expect growth to accelerate to 3.6% in 2019, both on (sharply) higher oil production and faster non-oil sector growth.

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
 General Manager Wholesale Banking
 JonathanM@emiratesnbd.com

Aazar Ali Khwaja
 Senior Executive Vice President
 Global Markets & Treasury
 +971 4 609 3000
 aazark@emiratesnbd.com

Tim Fox
 Head of Research &
 Chief Economist
 +9714 230 7800
 timothyf@emiratesnbd.com

Research

Khatija Haque
 Head of MENA Research
 +9714 230 7803
 khatijah@emiratesnbd.com

Anita Yadav
 Head of Fixed Income Research
 +9714 230 7630
 anitay@emiratesnbd.com

Aditya Pugalia
 Director, Financial Markets Research
 +9714 609 3027
 adityap@emiratesnbd.com

Athanasios Tsetsonis
 Sector Economist
 +9714 230 7629
 athanasios@emiratesnbd.com

Edward Bell
 Commodity Analyst
 +9714 230 7701
 edwardpb@emiratesnbd.com

Daniel Richards
 MENA Economist
 +9714 609 3032
 danielricha@emiratesnbd.com

Mohammed Altajir
 FX Analytics and Product Development
 +9714 609 3005
 mohammedtaj@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
 Tariq Chaudhary
 +971 4 230 7777
 tariqmc@emiratesnbd.com

Saudi Arabia Sales
 Numair Attiyah
 +966 11 282 5656
 numaira@emiratesnbd.com

Singapore Sales
 Supriyakumar Sakhalakar
 +65 65785 627
 supriyakumars@emiratesnbd.com

London Sales
 +44 (0) 20 7838 2241
 vallancel@emiratesnbd.com

Egypt
 Gary Boon
 +20 22 726 5040
 garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
 CEO- Emirates NBD Capital
 AhmedAQ@emiratesnbd.com

Hitesh Asarpota
 Head of Debt Capital Markets.
 +971 50 4529515
 asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
 +9714 230 7805
 patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
 +9714 609 4113
 ibrahims@emiratesnbd.com

Claire Andrea
 +9714 609 4143
 clairea@emiratesnbd.com