

What perspectives for the United Arab Emirates after COVID-19?

Sydney, September 7, 2021 –The UAE’s economy was hit by a double shock in 2020: the collapse in oil prices and the COVID-19 pandemic. According to preliminary estimates, the UAE’s economy shrank by 6.1% in 2020. However, the outlook is brighter for 2021. Coface expects growth at 3.1% thanks to a fast vaccination campaign, a sharp recovery of the global economy and the rebound in energy prices.

The extent of this recovery will however vary across sectors. We expect performance in tourism, construction and retail to be in step with new variants of the virus. COVID will also be determinant for the retail sector, one of the most diversified & developed in the region.

Oil & transport will benefit from the sharp global and regional economic recovery. In July, the UAE agreed with the OPEC+ group to increase their baseline oil production reference. Despite challenges, the outlook remains positive for the UAE oil sector, in line with some investment projects. The position of the UAE as the regional trade hub will support their transport sector.

Under these circumstances, the normalization of relations between the UAE and Israel will be profitable in terms of trade and investments across a variety of sectors. Some unexpected tensions may arise with Saudi Arabia over competition for the regional hub status, but should remain limited to the economic sphere.

“The UAE is one of the most diversified economies in the region and plays an important role as the regional trade hub. We expect the growth to be supported by the rise in oil prices, strong vaccination campaign in the country and the recovery in global trade volumes. These factors will result in a direct improvement in operational conditions in a number of sectors such as tourism, energy and retail, although the pace of recovery will vary. The organization of Expo 2020 will help the country to attract tourists, which in return would support the construction sector and real estate. However, the latter will need more time to return to its pre-Covid performance. Indeed, working from home policies and the decline in expatriate population following the crisis will continue to put pressure on real estate prices. In this sense, the authorities’ willingness to follow fiscal discipline would also weigh on completion of new projects. Building new regional alliances has become more important for the UAE given rising competition to its regional hub position from Saudi Arabia and Qatar. The normalization of relations with Israel is expected to offer important opportunities for both countries in terms of trade and investments in a wide range of areas such as tourism, agriculture, defense and energy.” commented **Seltem İYİĞÜN**, Economist at Coface.

A sustainable recovery after COVID-19?

- Following the **oil price war** between Saudi Arabia & Russia in March 2020, oil prices fell to USD 20 per barrel, from around USD 70 at the beginning of the year. According to preliminary estimates, the **UAE’s economy shrank by 6.1% in 2020**, in line with the **contraction of the global economy**. The non-oil economy contracted by 6.2%, with accommodation & food services declining by 23.6%, wholesale & retail trade by 13%, and construction by 10.4%. However, **growth outlook is brighter for 2021 and is expected at 3.1%** due to several reasons: the base effect, higher oil prices, one of the world’s highest vaccination rate and the faster-than-expected recovery of the global economy.

- **The 1st impact of this quick vaccine rollout and lifting of health restrictions will be felt in the tourism sector**, which accounted for 7-8% of GDP in 2019. International arrivals in the UAE are estimated to have collapsed by around 70%. Thanks to the vaccine, authorities have allowed hotels to reoperate at full capacity. This should allow the emirate to **maximize the Dubai Expo, a much expected six-month long event scheduled to start in October 2021**. Around 35% of total tourist arrivals in the UAE are from Asia Pacific, 27% from Europe and 26% from the Middle East. Once these countries reopen and visitors are vaccinated, the tourism sector will rebound.

Pre-COVID-19 performance is not expected to return immediately. The 12 million tourists expected in 2021 will be below pre-crisis levels, generating **revenues of USD 15 bn versus USD 35 bn in 2019**. The recovery will follow the pace of vaccination in originating countries, travel restrictions, and persistent health risks across the world. Moreover, the federal authorities' decision to implement fiscal discipline by cutting expenditure by 5.3% in 2021 will weigh on the completion of new projects in the tourism and hospitality sectors.
- **This fiscal discipline will slow the recovery in real estate and construction, which contracted in 2020.** In Q1 2021, average sales prices & rental rates in Dubai were still down by 5% and 10% from a year earlier. In Abu Dhabi, average sales prices seem to have stabilized in the first quarter of 2021, while average rental rates were still 3.5% below their level in 2020. **Nevertheless, the UAE remain an attractive hub thanks to their political stability and business-friendly environment.** The authorities have recently allowed 100% foreign ownership of local companies to encourage foreign direct investments and implemented new initiatives regarding visas for expatriates. However, the COVID-19 pandemic has caused a flight of expatriated professionals from the UAE.
- **Vaccination and recovery in tourism flows will positively affect retail sales**, albeit gradually. After plunging by 14.3% in 2020, **private consumption is expected to grow by 1.1% in 2021, supported by government stimulus.** The measures include federal support by reducing fees, taxes and other charges on companies, credit guarantees, tax reimbursements. For households, the government introduced payment deferrals on outstanding instalments and interests on loans and credit cards, water and electricity subsidies, as well as various banking facilities.

Food and non-alcoholic spending should increase by 3.3% in 2021 vs 2020. Household goods is another segment that will benefit from the recovery: sales are expected to increase by 4.9% in 2021, after declining by 9.2% in 2020, supported by pent-up demand as consumers postponed their big ticket purchases during the pandemic.

Oil and transport are surfing on the recovery of the global economy and trade

- **Rising oil prices will also help the UAE's economic recovery as oil accounts for around 30% of GDP and 50% of fiscal revenues.** So far, in 2021, oil prices have increased by nearly 50% from end-2020 to reach USD 73 per barrel on the back of rising global demand and some supply disruptions. The UAE exports around 90% of their oil to Asia. Economic recovery in Japan, South Korea and China, will thus be crucial for the UAE's export revenues. The terms of the OPEC+ deal agreed in April 2020 - to cut oil part of the production to support oil prices - were penalizing the UAE.

After a breakdown in talks, the UAE and Saudi Arabia agreed on a new production baseline from May 2022 onwards. The UAE need their oil revenues to finance their economic diversification strategy and expand their capacities into other segments.

Despite these short-term challenges, the outlook remains positive for the UAE oil sector, in line with some investment projects aiming at expanding the country's production capacity.

- The **resilience of the economic recovery will also depend on the continuity of the regional hub role of the UAE**. The rise in international trade volumes thanks to the reopening of economies and the global vaccination efforts will support the UAE's trade, which is expected to reach USD 540 bn in 2021 versus USD 478 bn in 2020. Hydrocarbon accounts for around 20% of total merchandise export revenues. As the country's key reexported goods consist of mineral products, plastics, chemicals, metals and transport vehicles, they are very sensitive to global commodity prices. The recovery in all of these categories will increase road freight. Airfreight is also expected to grow in link with the stronger domestic demand, the organization of the Expo 2020 and the transportation emergency healthcare products.

Under the new economic conditions, building alliances has become more important to seize opportunities. The efforts for normalization of the relations between the UAE & Israel and the recent disagreements with Saudi Arabia during the OPEC+ talks have thus to be analysed.

Regional opportunities and challenges

- In September 2020, the **UAE became the 3rd Arab country agreeing to normalize its relations with Israel**. The deal represents **important opportunities for both countries in terms of trade and investments**. For the UAE, this could be a key step to boost its diversification efforts. Tourism, defense, agriculture and energy would be the main beneficiaries. Israel's crude oil & other liquids imports could be up 5.9% from a year earlier. The deal would allow the UAE to take a share of this extra demand. The normalization of the ties would also allow the UAE to benefit from the Israeli technological and innovation capacity. In April 2021, the UAE announced the structuring of a USD 10 billion investment fund to invest in strategic sectors in Israel including energy, water, manufacturing, space, agro-tech and healthcare. Both countries also signed a bilateral agreement on economic and trade co-operation in June. Authorities said that bilateral trade reached USD 675 million within 10 months of the signing of the deal normalizing the relations.
- The **main reason behind the conflict between the UAE and Saudi Arabia is actually related to their willingness to diversify their economies away from oil**. Currently, the UAE holds the **status of regional trade hub**. On the other hand, Saudi Arabia, whose economy depends more heavily on oil than the UAE, has implemented a strategy that aims at a national transformation to become a business & trade hub. The conflict should however remain limited to the economy as on the political front, they are expected to continue being allies, particularly in an era marked with uncertainties over regional stability. The ties between the GCC countries and the U.S. administration seem to be cooling down. Furthermore, the U.S. consider returning to the nuclear agreement with Iran, from which it withdrew in 2018. These uncertainties should prevent a breakup of political ties between the two heavyweights of the region.

Find the full study [here](#).



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