



UNITED ARAB EMIRATES
MINISTRY OF ECONOMY



Annual Economic Report 2016

24th Edition

Vision

“Internationally competitive and diversified economy under the leadership of efficient and knowledgeable nationals”

Mission

“To develop the national economy and create a pro-business environment that contributes to achieve balanced and sustainable development of the country, through the enactment and modernization of economic legislations, foreign trade policies, development of national industries and exports, promotion of investment, regulation of competition and Small and Medium Enterprises (SMEs) sector, protection of consumer and intellectual property rights, and diversification of economic activities, under the leadership of efficient nationals, in line with international standards of creativity, excellence and knowledge economies”.

Values

Transparency: to apply institutional governance principles, unambiguity of information, decisions, conducts, and all communication and interconnectedness mechanisms with customers from inside and outside the ministry.

Respect of Rights : to respect rights of employees, consumers and all customer classes as per applied economic legislations and work regulations.

Excellence : to provide services beyond customers' expectations and harmonize with best practices and international standards of excellence and exert efforts for uplifting the efficiency of human resources.

Team Spirit : to cooperate and teamwork, support all work groups of ministry 's employees and strategic partners to achieve excellence.

Participation : to manage with participation, consider all different ideas and contributions of related classes, hence adding value to work results.

Creativity : to create positive climate for supporting concerned classes inside and outside the ministry convert their ideas to applicable distinguished results serving ministry's vision and country's competitiveness.

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**His Highness Shaikh
Khalifah Bin Zayed Al Nahyan**

President of The United Arab Emirates



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**His Highness Shaikh
Mohammed bin Rashid Al Maktoum**

Vice President and Prime Minister of the UAE
and Ruler of Dubai



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Minister's Message

Over the past years, the UAE has witnessed sustained economic growth and made great strides in laying the foundation for its development despite the serious impact of the global economic slowdown.

The national economy has remained resilient and has been successful in mitigating the effects of challenging regional and global market conditions, including the much-discussed oil price fluctuations. As the second largest Arab economy after Saudi Arabia, the UAE has indeed proven its high economic diversity and flexibility.

The UAE has also achieved outstanding accomplishments based on numerous globally accepted economic indicators, proving once again its leadership in the Arab World and steady climb in the international stage. If anything, it shows the effectiveness of our economic approach adopted under the directives of our wise leaders and in accordance with the objectives of UAE Vision 2021. As we all know, UAE Vision 2021 aims to build a more sustainable, diversified, and competitive local economy led by our citizens equipped with world-class and up-to-date knowledge and innovative skills.

Recent statistics and data gathered from different sectors have proved the state's leading stature as a center for business and economic activities, highlighting once again its strong and stable financial position. The UAE, in fact, is now the number one Arab nation in terms of investment inflows and outflows, in addition to the country's significant foreign trade achievements and relatively low inflation rate compared with the rest of the region.

These increased investments in many economic projects are also seen to accelerate local growth, boost economic diversification activities, build human capacity, and support knowledge-driven economic growth brought on by innovation, scientific research, and modern technology development. The focus of these investments are mainly on the sustainable growth of value-added sectors, including small and medium enterprises (SMEs), industry, transport, renewable energy, and tourism, to name a few, as a means to fast-track the UAE's readiness in a post-oil economic era.

The Ministry of Economy is pleased to launch its comprehensive Annual Economic Report 2016, which contains the latest regional and global economic figures and statistics. The report reviews the UAE's national economic milestones and most prominent achievements over the past period, while analyzing its present status and exploring its future prospects using a scientific methodology. We are confident that this report will serve as an important addition to the efforts of policy makers, businessmen, and other stakeholders to take the most informed and knowledge-driven decisions in order to contribute to the country's overall prosperity and progress.

Eng. Sultan Bin Saeed Al Mansoori
Minister of Economy



Global Economic Conditions

Monetary Policy

On the level of monetary policy trends, the most US-related Arab countries have raised their overnight deposit rates by about 25 base points to face the increase in the interest rates in the USA. These countries still face the challenge of the disparity between their economic cycles and that in the USA.

The oil-exporting Arab countries encounter challenges of decreased oil income with the possibility of raising the interest rates according to the expectations of raising them in the USA in 2016 and 2017, which promotes the importance of the structured reforms in these countries. In the oil-importing countries, the decrease of the prices of basic goods has contributed to decreasing the inflation rates in most

Foreign Trade

The World Trade Organization has lowered its estimates of the world trade growth in 2016, warning that it will be "the slowest since the financial crisis".

The recent World Trade Organization (WTO) estimates state that the world trade will record growth of 1.7% in 2016, i.e. clearly less than the growth estimated at 2.8% in April 2016.

Arab Stock Markets

It should be mentioned that the losses of the Arab stock markets increased with the start of the decline in the world oil markets amounting to approximately 320 billion USD

The year 2015 represented a challenge for the Arab stock markets; their performance continued to decline since 2014 with the beginning of the decrease in world oil prices. In 2015, the Arab stock markets combined lost about 143.6

Regarding the economic growth trends in the gulf state, the Arab Economy Horizons report pointed out that the gulf economies in 2015 continued to be affected by the developments in the international economic environment especially in relation to the slow recovery of the world economic activity and international trade and the decline of the prices of basic commodities; the top of which is oil, whose

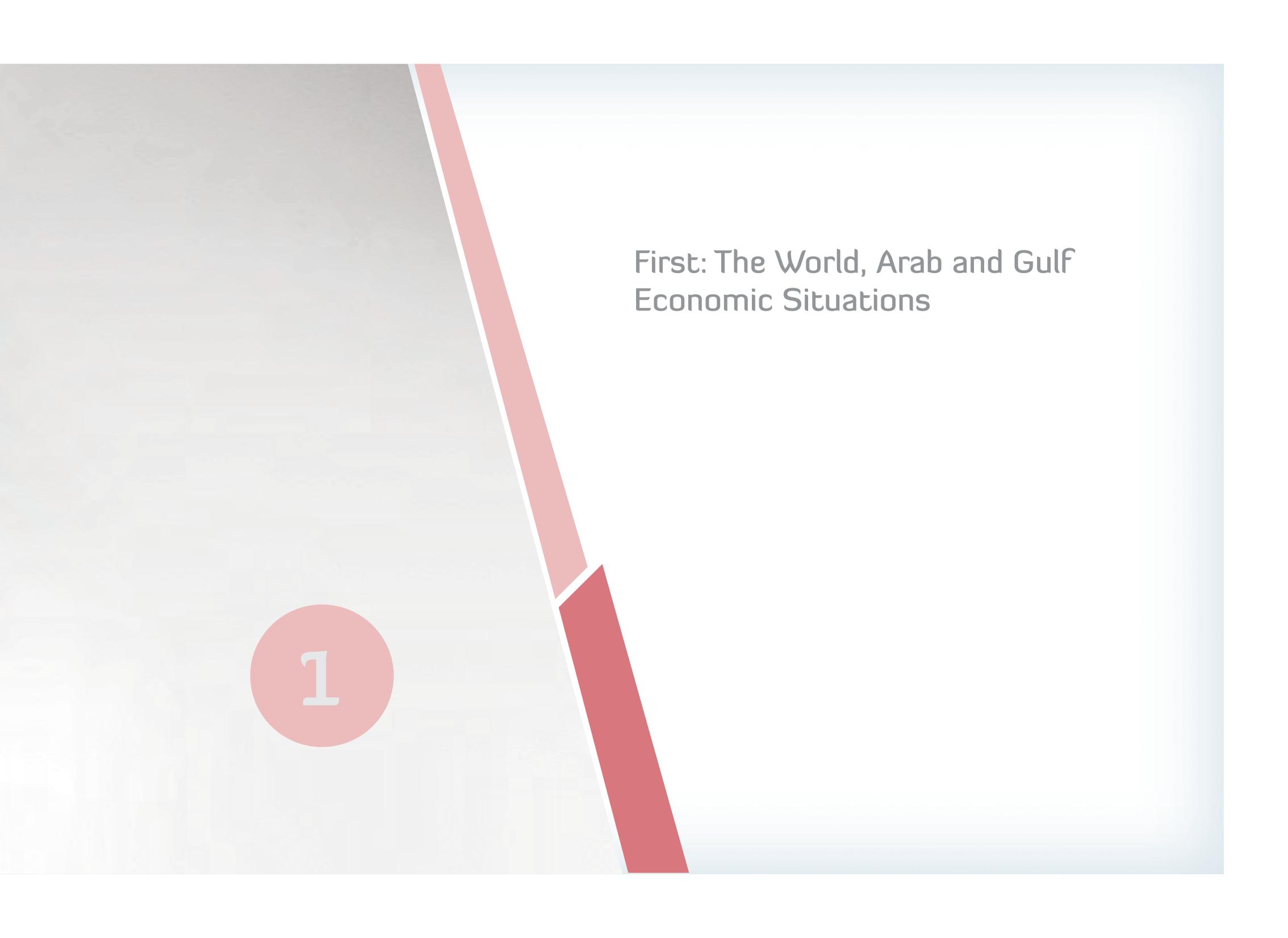
Gulf Economic Situations

This growth basically reflects the weakness of the economic activity in the previous years. On the other hand, the high rate growth is expected to continue in the oil-importing Arab countries; they are

Gross Domestic Product

On the level of the performance inside this group, the effect of the decline of world oil prices and the financial reform policies is expected to emerge in the GCC states in 2016. In this light, the growth rate of the GCC states is expected to decrease to 2.5% in 2016. However, the growth is expected to rise to 2.6% in 2017 supported by the expected increase of oil prices and the gradual regression of the effects

The GCC states depend mainly on oil revenues to finance huge programs for governmental spending, maintain a huge number of governmental employees and support the prices of energy, water and other services for their citizens.



First: The World, Arab and Gulf Economic Situations

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1. World Economic Situations

According to the world estimates, the world economic growth will increase by 2.7% as stated in an economic report by the Economist. The report stated that the emerging economies had been recently exposed to a strong shock especially in relation to corruption in countries such as Brazil, Russia and others.

The report indicated that the situation in China would be better. However, the growth in the Gross Domestic Product (GDP) of 2016 would not in any way be the same as in the period between 2005 and 2010.

Expectations indicate that the GDP growth in the Asian countries, except for Japan, will reach 5.4% whereas it will not exceed 1.7% in Japan.

The USA will lead the economy in the industrial countries with average growth of 2.3% whereas the average growth in west Europe countries will reach 1.8%. In east Europe countries, including Russia, the average growth will amount to about 1.2%. According to estimates, the situation in Australia will be better as the general growth for 2016 is estimated to be about 2.6%.

In Africa to the south of the desert, the average growth will reach 3.5%, which is slightly better than the average growth in the Middle East and North Africa countries, where the ratio will amount to 3.0%. In middle and South America countries, the average growth will not go higher than 0.6% as per estimates.

The Arab Monetary Fund's Arab Economy Vistas 2016 report pointed stated the challenges that the world economy would face during the coming two years. It is expected that the global oil market will recover to a state of balance due to the decline in the production of shale oil and the agreement of the OPEC countries not to increase the production again. The average oil price is expected to be 40\$ per barrel during 2016. However, in the long term, it may be unlikely that the world price will

exceed 60\$ per barrel because shale oil producers can go back to work without needing large investments. The biggest challenge to world growth is the performance of the emerging and developing economies under the decline of world trade and the decrease of capital inflows. The drop of oil price will positively affect the advanced economies, which could promote the growth opportunities of some oil-importing countries as their exports depend on the performance of their main commercial partners.

The focus in on the Chinese economy, which is witnessing a period of structural transformation in which the government is trying to promote the internal demand to contribute to the sustainability of the economic growth. There are still some European countries that need more structural reforms, like Spain, which has performed positively after inaugurating its reforms. The image is more challenging in the countries exporting basic commodities as the challenge of the Russian and Brazilian economies is expected to continue. In contrast, India is expected to carry on with its positive economic performance due to the economic reforms conducted by its government throughout the previous period. The US economy continues to grow despite the decrease in exports from their expected level. The increase of the US dollar may be the most affecting factor on the US exports in addition to the negative impact of this increase on the debt service in emerging and developing countries as part of their debts is evaluated in US dollar.

• Gross Domestic Product

Regarding the trends of the economic growth worldwide, it is expected that in 2016 the fragile recovery of the world economy and international trade and the stability of oil prices on relatively low levels will reflect on the performance of the total world economy. It is also expected that in the same year the impact of the financial correction policies will be represented in decreasing the

spending in a number of oil-exporting countries within the frame of their policies aiming at striking some kind of a balance between the considerations of supporting the economic growth and the achievement of financial regulation. Moreover, the internal developments witnessed by some countries in the region would affect the growth opportunities in 2016. On the other hand, the acceleration of the growth rate of the oil-importing countries will partly relieve the impact of the previously mentioned factors on the economic growth of the world countries as a whole. In this light, the Arab countries are expected to record growth about 2.8% in 2016 before rising again to 3.1 in 2017 in the light of the expectations of the increase of global oil prices and by supposing that the internal situations in some countries will improve and the world economic activity will recover.

On the level of the various Arab countries groups, it is expected that the disparity of the economic performance between the oil-exporting countries, whose growth is expected to slow down in 2016 and 2017, and the Arab oil-importing countries, which are expected to continue to achieve high-rate growth in this period. Regarding the oil-exporting Arab countries, their economies are expected to grow by about 2.6% in 2016 and increase to 3.1% in 2017.

• Inflation

In relation to the world price development trends, the inflation levels in the Arab countries in 2015 were affected by a number of contrasting factors. The decline of the world prices of oil and food and the increase of the US dollar value against the main currencies led to the decline of the imported inflation impact in some Arab countries. The decrease in the economic performance and the regulated monetary policies in a number of Arab countries also reflected on the inflation rates in these countries. However, on the other hand, some Arab countries witnessed inflation pressures resulting from procedures of reforming the main commodities

support systems. The internal situations witnessed by some Arab countries also led to increasing the inflation pressures resulting from the increase of demand levels. Consequently, 2015 witnessed a decrease in the inflation rate in the Arab countries as a group to about 6.5% in comparison to 8.1% in the previous year.

As for the expected inflation rates in the Arab countries in 2016, the report expects that the inflation rate will increase in the Arab countries as a group to about 7.4%. This is mainly attributed to the increase in the general level of prices because the governments continue to review and assess the governmental support including the modification of the system of supporting energy, water and electricity products. Furthermore, the rates of the inflation driven by the demand attraction factors are expected to rise in some Arab countries in 2016 due to the expected increase in the employees' salaries. The continuing decrease in the supplied commodities and services in the countries witnessing internal developments would affect the general level of prices in these countries. In addition, the exchange rate market in some countries is being exposed to pressures due to the lack in foreign currencies and the governments' trends to increase the levels of exchange rate flexibility levels. This would contribute to increasing the impact of the passing resulting from the decline in the value of the local currency to inflation rates. On the other hand, the continued decline in oil world prices and the decrease in the execution rate of the investment projects in several countries would bring down the severity of the inflation pressures in some Arab countries in 2016.

In 2017, in the light of the expectations of the relative increase of the world price of oil and some raw materials due to the expectation of improved world economic performance, the inflation rate in the Arab countries as a group is expected to increase to about 8.1%.

The inflation rate was noticed to have increased in the Eurozone in September 2016 while the impact of the



decrease in energy prices receded. The basic inflation rate observed by the European Central Bank has not changed for the fourth consecutive month according to the estimates and statistics of the European Union indicating that the inflation in the Eurozone, which includes 19 countries, amounted to 0.4% in September 2016 compared to 0.2% in August 2016. The decline in the energy prices was not as severe as that witnessed in the previous month. However, the prices of unprocessed foods increased slightly less. The inflation rate goes along with the market expectations in a survey conducted by Reuters on the opinions of 48 economic experts. The basic inflation rate, excluding the prices of unprocessed foods and energy which are more fluctuating according to the European Central Bank's definition, settled at 0.8%. The energy prices decreased by 3% on an annual basis compared to a decrease of 5.6% in August 2016. The prices of foods and tobacco rose by 0.7% from 1.3% in August. In the services sector, which is the biggest sector of the Eurozone economy, the prices increased by 1.2% on an annual basis in September 2016 compared to 1.1% in August in the same year.

• Monetary Policy

On the level of monetary policy trends, the most US-related Arab countries have raised their overnight deposit rates by about 25 base points to face the increase in the interest rates in the USA. These countries still face the challenge of the disparity between their economic cycles and that in the USA.

The oil-exporting Arab countries encounter challenges of decreased oil income with the possibility of raising the interest rates according to the expectations of raising them in the USA in 2016 and 2017, which promotes the importance of the structured reforms in these countries. In the oil-importing countries, the decrease of the prices of basic goods has contributed to decreasing the inflation rates in most of these countries especially those which

released the energy prices from the support completely. However, the challenge for some of these countries is the continued decline in their currency exchange rates, which adds more inflation pressures in the reversing direction.

On the level of bank developments, the oil prices decline and the expected deceleration of oil-producing countries' economies are expected to affect negatively on the growth rate of the deposits in the Arab banking sector due to the relative volume of the banking sector in these countries. The challenge in the coming years is still represented in maintaining a low level of bad debts. Here stands out the need for continued governmental spending, which could push these countries to carry out structural and financial reforms contributing to maintaining the public spending levels close to their current levels.

• Financial Policy

On the level of financial situations, the changes in the global oil prices had effects on the balance sheets of the Arab countries in 2015, albeit being different effects according to the various country groups. On the one hand, the oil-exporting Arab countries were affected because of the decline in global oil prices, which considerably reflected on the oil revenues of the main oil-exporting Arab countries, which contribute to the largest extent to the public revenues which decreased by 42% in 2015.

On the other hand, the oil-importing Arab countries benefitted from oil price decline, relieving the pressures on the balance sheets especially in the light of the increase of the items of the basic goods support in the balance sheets of these countries. This reflected positively on the public finance status. As a result, it is expected that the deficit in the total balance sheet of the Arab countries would increase from 2.8% of the GDP in 2014 to 11.4% in 2015 as per estimates. The most prominent feature of the financial policy in the Arab countries in 2015 and 2016, whether oil-exporters or oil-importers, focusing mainly on executing

wide-extent packages of public financial reforms targeting public spending and supporting revenues to regulate the situation of the balance sheets and ensuring their sustainability especially in the light of the challenges that the financial policy is facing in these countries.

In this context, the tax reform has been the top priority of the financial policy makers as they have exerted several efforts to support the tax revenues and ensure the justice and efficiency of the tax system through reviewing the tax brackets on income and companies' profits. Moreover, the added value taxes have been adopted or reformed and the tax system has been directed to support the small and medium enterprises and promising areas. On the other hand, the attention has been directed towards regulating the public spending items through rationalizing the current spending by way of regulating the salary expenditures, moving forward in reforming the system of supporting basic commodities and increasing the efficiency of the investment spending. The Arab governments have also paid considerable attention to increasing the levels of transparency and efficiency of the balance sheet management and decreasing the deficit. This has been accompanied by efforts to raise the efficiency of the processed of public debt management and the keenness on increasing the average dues of its issues and finance from sources ensuring financial sustainability.

In 2016, the deficit in the combined balance sheet of the Arab countries is expected to witness a slight increase to about 11.6% in the light of the expectations of global oil prices remaining at low levels. This will in turn reflect on the expected oil revenues. The tax revenues are expected to be affected by the continuous weak growth on the international and regional levels; on the other hand, the expected decrease of the public expenditures of 6% in 2016 will have a positive effect in the light of the continuous execution of a number of financial regulation policies. In 2017, the situations of the Arab balance sheets are expected to witness noticeable improvement, which

will help decrease the deficit of the combined balance sheet of the Arab countries as a ratio of the GDP to 7.8% in the light of the expectation of the increase of public revenues due to the expected recovery of the global oil prices by 15% and the increase of the tax revenues because of the anticipated improvement of the economic activity in the Arab countries and a number of their main commercial partners. Moreover, the effect of the multiple public financial reforms carried out according to time frames extending to 2020 has begun to appear.

• Foreign Trade

The World Trade Organization has lowered its estimates of the world trade growth in 2016, warning that it will be “the slowest since the financial crisis”.

The recent World Trade Organization (WTO) estimates state that the world trade will record growth of 1.7% in 2016, i.e. clearly less than the growth estimated at 2.8% in April 2016. This deceleration comes after a more decrease than expected in the volume of goods trade and a lesser recovery than expected. The WTO sees that the reason is in particular the slowing down of the GDP and trade in the developing economies, such as China, Brazil and North America. The Organization has lowered its estimates for 2017 also, indicating that the trade growth will range between 1.8% and 3.1% against 3.6% in the previous estimates.

On the other hand, the WTO expects that the real GDP worldwide will increase by 2.2% in 2016. Several indicators prove the improvement of the world trade in the second half in 2016 including the container port movement or the increase in export orders in the USA.

Regarding the external sector situations, it is expected that during 2016 the performance of the current transactions balance of the Arab countries as a group will continue to be affected with the continuous decline in global oil prices.

The relative improvement of the performance of the EU countries' economies is expected to affect the non-oil exports of the Arab countries positively. Moreover, the expected increase of the world interest rates will positively affect the outcome of the investment income in the Arab countries as a group. As a result, the deficit in the current balance of the Arab countries as a group is expected to continue in 2016; the deficit is expected to amount to 137.8 billion USD (representing 5.5% of the GDP) compared to a deficit of 105.7 billion USD in 2015.

As for the expectations of 2017, the deficit in the current balance of the Arab countries as a group is expected to amount to about 97 billion USD, which represents 3.6% of the GDP in the light of the expected relative improvement of oil prices next year.

Regarding the performance on the level of the Arab countries groups, it is expected that in 2016 the performance of the current accounting balance of the oil-exporting countries will continue to be affected by the decline of the global oil prices and the oil production quantities will continue to be affected by the internal developments witnessed in some other oil-exporting Arab countries. Furthermore, the prices of food products and raw materials remaining on low levels, in addition to the expected effect of dollar value rising, would reduce the imports level of the group countries. The expectation of the upward trend of the world interest rates will support the investment income levels and limit the deficit in the services and income balance. On the other hand, the commodity exports of the oil-importing Arab countries are expected to improve somehow in 2016, which is likely attributed to expected relative improvement in the performance of the Eurozone countries, which are the most prominent commercial partners, and the increase of the level of extractive industries and manufactured commodities exports.

The imports are expected to go back being due to the expected positive effect of the world prices of oil and raw

materials and some countries adopting policies limiting the increase of imports of unnecessary commodities. As a consequence of the previous developments of the exports and imports, the deficit recorded in the trade balance in 2016 is expected to shrink.

As for the services and income balance, it is expected to be affected by the performance of the tourism sector outcomes in addition to the decline in some resulting services payment items.

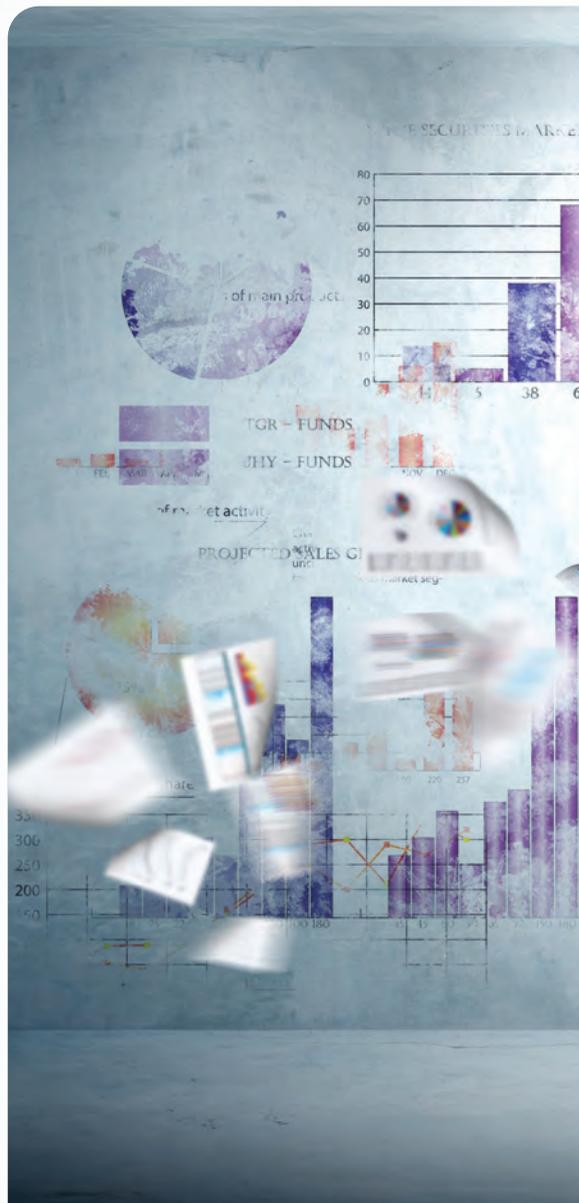
2. Arab Economic Situations

• Economic Growth

The Arab economies continued to be affected in 2015 with the slow recovery of the world economic activity and the international trade and the decrease of global oil prices by about 49% compared to 2014. Moreover, a number of Arab countries have been affected by the internal developments which are still representing an impact on their economic stability, imposing pressures on their internal and external economic balances and affecting their growth march.

To face all that, the oil-exporting Arab countries, on the top of which the GCC countries, have resorted to adopting policies targeting driving the economic growth and reducing the severity of the impact of these developments on their economic performance. These policies are represented in rationalizing the current spending and maintaining the investment spending at growth-supporting levels to motivate the total demand while focusing on the material and human basic structure projects and supporting the initiatives aiming at increasing the levels of income sources diversification.

On the other hand, the oil-importing Arab countries continue to benefit for the second year consecutively from the gradual improvement of their internal situations and the resulting support of the consumption and



investment levels in some of these countries in addition to the appropriate effect of the decrease of the global oil prices, which increased the purchasing power levels. The oil price decline has provided the governments of these countries with financial room to help them support the spending on the education and health sectors. The group countries have benefitted from the positive effect of the economic reforms, some of which began to be adopted in 2011, targeting the maintenance of the internal and external economic balances; however, the economic performance of some of these countries is still affected by the pressures it is facing as a result of either the internal developments they are witnessing or being continuously affected by the developments in neighboring countries. The flow of a big number of displaced people from these countries generates pressures on the hosting countries and raises challenges relating to their capability of providing the basic services effectively. The Arab countries as a group are expected to record an estimated growth rate of about 3.2% in 2015 developing to 2.8% in 2016 and then increasing again to about 3.1% in 2017 benefitting from the re-increase of global oil prices, the continuous improvement of the internal situations in a number of Arab countries and the improvement of the world economic activity. According to the estimates, the GDP of the Arab countries combined is expected to amount to 2406.9 billion USD in 2015 developing to 2499.8 billion USD in 2016 and then to 2699.0 billion USD in 2017.

• Median Personal Income

The median share of an Arab citizen from the Arab GDP is estimated to decline in 2015 to about 6140 USD with big disparity between the Arab countries in this regard. This is attributed to the decline of oil revenues, the impact on the economic growth and the increase of the Arab world population in 2015 according to the 2015 estimates of the World Bank to about 392 million people.

• Inflation

The inflation level in the Arab countries as a group was affected in 2015 by a number of factors: the decrease of the imported inflation component due to the decline in prices of oil and food products and some US-dollar-related Arab countries benefitting from the increase of the US dollar value against the other main currencies. The effect of the decrease of the economic performance and the regulated monetary policy in a number of Arab countries reflected on their inflation rates. On the other hand, the severity of the decline in price levels was relieved by the procedures adopted by some countries to decrease the energy support. Furthermore, the internal circumstances witnessed by some Arab countries led to increasing the inflation pressures resulting from the rise in the demand on the supplied commodities and services. As a result of these developments, the inflation rate in the Arab countries as a group declined to about 6.5% in 2015 compared to about 8.1% in 2014. It is expected to increase to 7.4% in 2016, reflecting the effect of the expected increase of global oil prices and some possible inflation pressures due to the accelerated local demand in light of the expected improvement in the economic activity in a number of Arab countries. This is also caused by the accelerated rate of executing a number of huge investment projects in some other countries and the reform of the energy support systems carried out by some Arab countries, including oil-exporting ones, leading to an increase in the general level of prices; on the other hand, some inflation pressures may rise resulting from the possible decline in the value of some Arab currencies against the US dollar.

• Arab Balance Sheets

The general revenues in the Arab countries in 2015 witnessed a 31% decrease, reflecting the decrease of the general revenues in the oil-exporting Arab countries due to the decline in the oil revenue level by about

42%. The increase of the general revenues in the oil-importing Arab countries by about 7% contributed to limiting the effect of the decline of the general revenues in the main oil-producing Arab countries. The estimates indicate that the general revenues in the Arab countries combined in 2015 amounted to 651.3 billion USD. On the other hand, the general spending on the level of the Arab countries combined declined in 2015 by about 9% from 2014 reaching as estimated 924.73 billion USD. The deficit in the Arab balance sheets combined is expected to reach 273.43 billion USD (by a ratio of -11.4 %) of the GDP of the Arab countries combined. The deficits in the oil-exporting Arab countries were financed through withdrawing from the financial surpluses and some local debt issues; in the oil-importing Arab countries, the deficits were financed mainly through the local debt issues and some foreign currency issues.

The deficit in the combined balance sheet of the Arab countries in 2016 is expected to witness a slight increase to about -11.6% in the light of the expectations of the global oil prices remaining at low levels. The combined Arab revenues are expected to rise to 581.76 billion USD, the general spending is expected to amount to approximately 871.99 billion USD and the deficit about 290.23 billion USD. In 2017, the situations of the Arab balance sheets are expected to witness improvement in the light of the expectations of an increase in the general revenues due to the expected recovery in the global oil prices by 15% and the increase of the tax revenues because of the anticipated improvement of the economic activity in the Arab countries and a number of their main commercial partners. Moreover, the effect of the multiple general financial reforms carried out as per time frames extending until 2020 has begun to emerge, aiming at 657.87 billion USD as per the estimates, with the public expenditures declining to 867.85 billion USD. This would help decrease the combined balance sheet of the Arab countries to 209.98 billion USD by -7.8% of the gross Arab product.

• Arab Foreign Trade

The deficit in the trade balance of the Arab countries as a group is expected to continue in 2016 reaching about -137.8 billion USD (representing 5.5% of the GDP) compared to a deficit of -105.7 billion USD in 2015. The deficit in the trade balance of the Arab countries as a group in 2017 is expected to decline to about 97.0 billion USD (about 3.6% of the GDP) in light of the expected relative improvement of oil prices.

• Arab Unemployment

According to the Arab Monetary Fund 2015 report, the volume of working force in the Arab countries in 2014 was estimated at about 124 million workers, and the unemployment rate in the educated youth reached about 11.4%. The Arab countries faced a number of challenges in 2015, on the top of which the decrease growth rate and the slowing down of executing a number of structural reforms, which prevented the realization of a tangible achievement on the level of reducing the unemployment rate, which represents one of the most important of their economic challenges.

• Arab Stock Markets

The year 2015 represented a challenge for the Arab stock markets; their performance continued to decline since 2014 with the beginning of the decrease in world oil prices. In 2015, the Arab stock markets combined lost about 143.6 billion USD of their market value reaching at the end of the year 1059.5 billion USD or 38% of the Arab countries GDP compared to 1203.1 billion USD, i.e. about 44.3% of the GDP at the end of 2014. It should be mentioned that the losses of the Arab stock markets increased with the start of the decline in the world oil markets amounting to approximately 320 billion USD (about 24% of their market value).

The impact of the decline in world oil prices was the most prominent factor in the regression of the Arab

stock markets performance in 2015 especially in oil-exporting Arab countries. However, it was not the only factor; the slow recovery of the global economy, the regression of the performance of emerging economies, especially in China, and the consequences of raising the US interest rates reflected negatively on the performance of the stock markets in the emerging and developing markets, including the Arab countries' economies. The price indices of the Arab stock markets, including the gulf markets, decline in 2015 in various ratios. On the other hand, the performance of Abu Dhabi Securities Exchange was relatively the best among the GCC countries. The complex index of the Arab Monetary Fund, which measures the performance of the Arab stock markets combined, reflected these developments during 2015 recording a decrease of 14.1%.

During 2015, the Arab markets experienced a lack in liquidity as expressed by the trading indices; the value of traded stock during the current year amounted to about 500.5 billion USD with a decline ratio of about 48.0% in comparison to the same value recorded in 2014 reaching approximately 835.3 billion USD. Thus, the trading rate of Arab stocks decreased from about 69.4% in 2014 to about 44.3% in 2015.

• Arab Indebtedness

Based on the report of the Inter-Arab Investment Guarantees Corporation, the Arab foreign debt is expected to increase to 922 billion USD in 2015 and 974 billion USD in 2016. The foreign debt index is expected to reach 43.4% in 2015 as a ratio of the GDP. The total foreign Arab indebtedness was about 891.3 billion USD in 2014.

3. Gulf Economic Situations

• Gross Domestic Product

Regarding the economic growth trends in the gulf state, the Arab Economy Horizons report pointed out that

the gulf economies in 2015 continued to be affected by the developments in the international economic environment especially in relation to the slow recovery of the world economic activity and international trade and the decline of the prices of basic commodities; the top of which is oil, whose price declined by about 49% compared to 2014. In addition, a number of the Gulf States were affected in 2015 by the internal developments which are still affecting the economic situations in these countries. To face these developments, the GCC states resorted to maintaining the public spending at growth-supporting levels while focusing more on the consideration of financial sustainability. Some of them also resorted to increasing the quantities of oil production to alleviate the effect of the oil price decline on their internal and external economic balances. ON the other hand, the oil-importing Arab countries continued for the second consecutive year to benefit from several factors, the most important of which is the gradual improvement of the internal situations and the ensuing support of the consumption and investment levels. Also, the decline of oil prices and the economic reforms which these countries began to adopt since 2011 had a positive effect. Based on the foregoing, the estimates indicate that the Arab countries as a group recorded a growth rate of about 3.2% in 2015, supported mainly by moderate growth in the GCC states and the oil-importing Arab countries. This would alleviate the effect of the slow growth rate of the group of the other Arab oil-exporting countries.

On the level of the performance inside this group, the effect of the decline of world oil prices and the financial reform policies is expected to emerge in the GCC states in 2016. In this light, the growth rate of the GCC states is expected to decrease to 2.5% in 2016. However, the growth is expected to rise to 2.6% in 2017 supported by the expected increase of oil prices and the gradual regression of the effects of the financial reform policies.

Table (1) Indicators of total economy of GCC states between 2014-2017 - annual growth %

| | Actual | | Expected | | | |
|---|--------|--------|--------------------|--------------------------|--------------------|----------------------|
| | 2014 | 2015/* | 2016 | | 2017 | |
| | | | Statistical Center | Average Expectations /** | Statistical Center | Average Expectations |
| Growth in GDP in fixed prices (100=2010) | 3.5 | 3 | 2 | 2.3 | 3.4 | 2.6 |
| Growth in GDP in current prices | 1.4 | -14.9 | -11 | - | 6.6 | - |
| Growth in non-oil GDP infixed prices (100=2010) | 5.2 | 4.3 | 3.5 | - | 3.9 | - |

Source: GCC Statistical Center

The other oil-exporting Arab countries are expected to grow by 3.8% in 2016 and by about 6.7% in 2017 assuming the improvement in the internal situations. This growth basically reflects the weakness of the economic activity in the previous years. On the other hand, the high-rate growth is expected to continue in the oil-importing Arab countries; they are expected to grow by 3.8% in 2016 and 4.3% in 2017 in light of the expectations of the internal situations in these countries moving towards stability and the recovery of the main economic sectors generating added value considering the expected growth in the world economy and international trade. Moving along with the execution of the economic reforms in these countries will represent a driver for growth especially in relation to the reforms of increasing the productive capacity and promoting competitiveness.

The International Monetary Fund expected in the Growth Horizons in the Middle East and Central Asia report that the average non-oil growth of the GCC states' economies will decrease to 1.75% in 2016 with intensification of the public financial policy and the decline of liquidity in the financial sector compared to growth by 3.75% in 2015. The non-oil growth in the GCC states is expected to improve to 3% in 2017 with a decreased financial austerity rate.

The GCC states depend mainly on oil revenues to finance huge programs for governmental spending, maintain a huge number of governmental employees and support the prices of energy, water and other services for their citizens. However, the decline of oil process since mid-2014 by about the half caused pressure on the gulf states' balance sheets, forcing them to adopt unprecedented austerity measures, including reducing the advantages and bonuses for the governmental employees, reducing the energy support and imposing new taxes to adapt to the declining oil prices.

The report clarified that in the medium term, the decline of the tax burden and the partial improvement in oil prices

Figure (1) General gulf inflation (non-residential)



Source: GCC Statistical Center

Table (2) National Inflation Rates

| States | Index Number, National Basis Year | | | Change (%) | |
|--------------|-----------------------------------|-----------|-----------|-----------------------|-----------------------|
| | July 2015 | June 2016 | July 2016 | July 2016 / June 2016 | July 2016 / July 2015 |
| UAE | 126.0 | 127.9 | 128.3 | 0.3 | 1.8 |
| Bahrain | 123.5 | 127.9 | 127.8 | -0.1 | 3.5 |
| Saudi Arabia | 133.0 | 138.0 | 138.1 | 0.1 | 3.8 |
| Oman | 102.7 | 103.8 | 104.1 | 0.3 | 1.3 |
| Qatar | 105.5 | 107.6 | 108.5 | 0.8 | 2.8 |
| Kuwait | 137.5 | 141.6 | 141.7 | 0.1 | 3.1 |

Source: GCC Statistical Center

are expected to lead to increasing the non-oil growth in the GCC states to 5.3%, which is much less than the average of the period between 2000 and 2014 amounting to 7%. The GCC states have been seeking for a long period to diversify their economies away from the oil and gas revenues on which they have depended for years.

The Fund added that the decline in oil prices and the continuous conflicts form a burden on the economy horizons in the Middle East, North Africa, Afghanistan and Pakistan. The Fund indicated that the uncertainty atmospheres resulting from the conflicts in Iraq, Libya, Syria and Yemen are causing a lack of trust whereas the decline of oil prices is affecting the exports and the economic activity in the oil-exporting countries. The Fund expected that the region will achieve modest growth in total by 3.5% in 2016 with expected slight improvement in 2017.

• Inflation

In 2016, the gulf inflation in the GCC states recorded a 1.8% increase in Mach 2016 compared to the same period in 2015.

The general gulf inflation depends on the national index number of the states; these figures are combined in a unified gulf figure using estimates equaling the purchase power of the relevant consumption expenses of the national families except for the “residence, water, electricity, gas and other fuel types.” Statistics point out that when comparing the gulf index number in March 2016 with last February of the same year, we notice that the gulf inflation has not recorded any significant increase.

Regarding the commodity groups in March 2016 compared to March 2015, the tobacco group recorded the highest gulf inflation of 13.9%, the transport groups recorded an increase ratio of 2.4%, the food and drinks group by 1.3%, but the prices of the restaurants and hotels group decreased by 0.6% in March 2016.

The national inflation index in the GCC states (including the residence group) recorded in March 2016 rates ranging from 0.1% in the Sultanate of Oman and 4.3% in the Kingdom of Saudi Arabia compared to the same

month in 2015 according to the latest statistics issued by the GCC Statistical Center.

The Kingdom of Saudi Arabia witnessed the highest inflation compared to the other GCC states; its inflation

Table (3) General Gulf Inflation

| Main Groups | Weights | Index number 2007 = 100 | | | Change (%) | |
|---|---------|----------------------------|-----------|-----------|------------------------|------------------------|
| | | July 2015 | June 2016 | July 2016 | July 2016 June 2016 | July 2016 June 2015 |
| Foods and drinks | 25.5% | 146.3 | 145.8 | 146.5 | 0.5 | 0.1 |
| Tobacco | 0.5% | 160.0 | 183.3 | 183.3 | 0.0 | 14.6 |
| Clothes and shoes | 11.0% | 110.3 | 114.8 | 114.3 | -0.4 | 3.6 |
| House equipment and usual house maintenance | 10.0% | 134.5 | 136.7 | 136.7 | 0.0 | 1.6 |
| Health | 2.6% | 115.7 | 120.7 | 120.9 | 0.1 | 4.5 |
| Transport | 15.0% | 117.8 | 123.9 | 124.2 | 0.2 | 5.4 |
| Telecommunications | 9.9% | 95.3 | 95.9 | 95.7 | -0.2 | 0.5 |
| Culture and entertainment | 5.2% | 120.1 | 120.6 | 121.1 | 0.4 | 0.8 |
| Education | 4.6% | 140.5 | 146.8 | 146.8 | 0.0 | 4.4 |
| Restaurants and hotels | 7.1% | 133.7 | 134.0 | 133.1 | -0.6 | -0.5 |
| Various commodities & services | 8.7% | 128.5 | 130.2 | 131.6 | 1.0 | 2.3 |
| All index number groups except residence | 100.0% | 127.1 | 129.4 | 129.6 | 0.2 | 2.0 |

Source: GCC Statistical Center

rate amounted to 4.3% followed by the Kingdom of Bahrain and the State of Qatar 3.3% for each, the State of Kuwait with 3.1%, the United Arab Emirates at 1.4% and the Sultanate of Oman with 0.1%.

When comparing the general index number of March 2016 with February 2016, we notice that the inflation recorded a slight increase in the State of Kuwait by 0.7%, in the Kingdom of Bahrain by 0.5%, the Kingdom of Saudi Arabia by 0.2% and in UAE by 0.1%. On the other hand, the Sultanate of Oman recorded a decrease by 0.3% whereas the prices in the State of Qatar settled at their previous levels.

The foods and drinks group recorded in March 2016, compared to March 2015, an increase in most GCC states; the prices increase in the State of Kuwait by 4.1%, followed by Bahrain by 3.9%, UAE by 2.7% and Saudi Arabia by 0.6%. On the other hand, a decrease was recorded in Qatar by 1.9 and Oman by 1.4%.

The group of residence, water, electricity, gas and other fuel types witnessed an increase in GCC states in March 2016 compared to the same month last year; Saudi Arabia recorded an increase of 8.5%, Kuwait by 6.3%, Qatar by 5.4%, Bahrain by 4%, UAE by 3.7% and Oman 0.4%.

The transport group recorded an increase in most GCC states in March 2016 in comparison with March 2015; Bahrain recorded an increase by 13.1%, Saudi Arabia by 12.4%, Qatar by 1.5 and Oman by 1.3%. On the other hand, a decrease was recorded in UAE by 9.1% and Kuwait by 1.4%.

Regarding the highest main expenditure groups according to each state in March 2016 compared to March 2015, data show that the following groups topped according to each state: the tobacco group in Bahrain and Saudi Arabia by 27.8% and 19.8% respectively; the culture and entertainment group in Qatar by 11.2%; the group of residence, water, electricity, gas and other fuels in Kuwait and UAE by 6.3% and 3.7% respectively; and the education group in Oman by 3%.

Data show that the most decreased groups in February 2016 compared to February last year according to each GCC state are as follows: the transport group in UAE and Kuwait by 9.1% and 1.4% respectively; the restaurants and hotels group in Saudi Arabia by 3.4%; the clothes and shoes group in Bahrain by 2.5% and the foods and drinks group in Qatar and Oman by 1.9% and 1.4% respectively.

• Foreign Trade

The statistics of the GCC inter-trade issued by the GCC Statistical Center for the GCC states show that the value of the foreign trade volume of these states amounted to about 1336.7 billion USD against 14030.8 billion USD in 2013 and the volume of GCC states' imports increase by about 2.4% from 465.1 billion USD in 2013 to 476.0 billion USD in 2014. The statistics also show that the value of

GCC states' exports amounted to 860.7 billion USD in 2014 compared to 938.7 billion USD in 2013, recording a decrease ratio of 8.3%. Also, the GCC states' re-export grew by 1.9%, reaching 88 billion USD in the same period.

As for the current balance, it is expected to decrease in 2016 to reach a deficit of 5.4% of the GDP in the current prices due to the decline in commodity exports. With the improvement of oil prices in 2017, the current balance is expected to improve, recording a deficit of 0.4% of the GDP in current prices in the same year. The decline in commodity exports (considerably related to oil and gas prices), the increase of commodity and services imports and the rise of transfers of foreign employment abroad affects the deepening of the current balance deficit. The deficit in the current balance is expected to lead to a decline in the balance of payments of the GCC and a decrease in the reserve of foreign currencies in 2016 and 2017.

Figure (2) Current Balance of GCC (as ratio of GDP in current prices) (%)



Foreign Direct Investment

Monetary Developments

The money supply (M1) consisting of the money traded outside banks (exported money – money in banks) in addition to money deposits (balances of current accounts and on-demand accounts) increased to 456.9 billion dirham in the fourth quarter of 2015 after being 436.1 billion dirham in the fourth quarter of 2014, recording a growth ratio of 4.7%.

Moreover, the money supply (M2) consisting of money supply (M1) in addition to the semi-monetary deposits (savings accounts, time deposit account and foreign currency deposits) increased to 1186.8 billion dirham in the fourth quarter of 2015 from 1141.1 billion dirham in the fourth quarter of 2014 with a growth ratio of about 4.0%.

Inflation

The inflation rate of consumer prices in UAE during 2015 amounted to 4.07%; thus, the index number of consumer prices increased to 125.75 compared to 120.84 in 2014 according to the Federal Competitiveness and Statistics Authority.

The inflation rate in UAE in August 2016 increases by 0.5% in comparison to August 2015 according to the data of the Federal Competitiveness and Statistics Authority, which is the lowest inflation rate on an annual basis during the months of this year.

Consumer Spending

The changes in world oil prices, which declined by about 49% between 2014 and 2015, resulted in decreasing the oil revenues that contribute to the largest part to the state's public

Consequently, the real final consumer spending volume went down from 805.6 billion dirham in 2014 to 792.5 billion dirham in 2016 by a ratio of -1.6%. The final consumption ratio to the real GDP also declined between these two years

The governmental deposits decreased due to the decline in oil prices, which led to slowing down the money supply growth. Nevertheless, thanks to the improvement of banks' loan portfolios quality, they remained capable of increasing the credit albeit moderate, except for loaning to the government, which witnessed more growth compared to the previous years.

Financial and Monetary Sector

The spending was concentrated on the sectors of health, education, social care, infrastructure, strategic projects in tourism and industry which would increase the levels of economic diversification

Public Finance

The variations in the world oil prices, which decline by about 49% between 2014 and 2015, left impact on the state's public finance situation; the oil revenues, which contribute to the largest extent to the state's revenues, went back by about 51.5% in 2015 compared to the oil revenues recorded in 2014. The features of the state's financial policy in 2015 and 2016 were characterized with focusing on regulating

The public spending went down from about 492.2 billion dirham in 2014 to 401.0 billion dirham in 2015 with a decline ratio of -18.5%.

2

Second: Performance of National Economy



1. Gross Domestic Product

The GDP of UAE jumped from about 510.9 billion dirham in 2006 to 1.47 trillion dirham in 2014 and then to 1.58 trillion dirham in 2015 with expectations of reaching 1.8 trillion dirham in 2016.

The national economy achieved growth of approximately 3.6% in 2015 supported by the strong performance of the non-oil sectors, which compensates for the weak activity levels of the oil sector.

The growth of the non-oil sectors in real prices is expected to reach 3.6% in 2016. These results were achieved as a result of the state's good economic performance which is expected to continue this year and over the coming years. Furthermore, the state's trend towards adopting financial policies contradicting the economic cycle motivates the economic growth. This is helped by the solidity of the state's economy and the availability of accumulated financial surpluses and reserves in the state. Despite the decline of oil resources, this opened the way to increasing the governmental spending by a ratio of 4.5% to 6% compared with its level before the decline of oil prices according to the international and regional reports. This reflected on the occurrence of positive growth for all non-oil sectors in 2015.

The state's good economic performance is also supported by the developments of the world economy and the accelerated economic growth rate in some main Asian and African markets which are considered important markets for re-export activity, which accounts for about 40% of the total state's exports. Moreover, continuing to work on important strategic projects; such as infrastructure projects, the projects related to UAE's hosting Expo 2020, the union railway and air and land transport means, the touristic roads, transports and facilities, electronic infrastructure, real-estate and financial and industrial services, supporting the activities based on knowledge economy that is based on research and innovations and founding new sectors like Islamic economy.

Also, the Ministry of Economy is current preparing a new strategy for the industrial sector including administration, finance and marketing facilitations and overcoming the obstacles hindering the growth of small and medium enterprises, being a basic pillar for achieving the knowledge economy based on research and innovation. The ministry is also working on finishing three laws that would contribute to developing the industrial sectors: the federal draft law on fighting dumping and the preventive compensatory procedures, the federal draft law for amending federal law no. 17 of 2002 on organizing and protecting industrial property of patents, drawings and industrial models and finally the federal draft law for amending some provisions of the federal law no.1 of 1979 on industry organization.

2. Consumer Spending

The changes in world oil prices, which declined by about 49% between 2014 and 2015, resulted in decreasing the oil revenues that contribute to the largest part to the state's public revenues in 2015 compared to the oil revenues recorded in 2014. During 2015 and 2016, the state headed towards focusing on regulating and rationalizing the levels of current governmental spending while continuing to spend on executing the investment projects that would motivate the growth, promote the development movement, increase the levels of economic diversification and support the human development benefitting from the available accumulated financial surpluses. The governmental spending volume then increase from 172.4 billion dirham in 2014 to 179.0 billion dirham in 2015, recording an increase of 3.8%.

Private spending declined from 633.2 billion dirham in 2014 to 613.5 billion dirham in 2015 by a ratio of -3.1% due to individuals' and families' trending towards rationalizing the use of incomes and limiting the consumer spending through buying cars and consumer commodities and raising the awareness of the importance of saving through investing part of the income in banks or other projects.

Table (4) Final Consumer Spending of 2014 and 2015 (billion dirham)

| Statement | 2014 | 2015 | Growth Ratio (%) |
|------------------------------------|--------------|--------------|------------------|
| Governmental consumer spending | 172.4 | 179.0 | 3.8% |
| Family consumer spending | 633.2 | 613.5 | -3.1% |
| Final consumer spending | 805.6 | 792.5 | -1.6% |
| Final consumer spending / real GDP | 70.6% | 66.9% | - |

Source: Department of Economic Statistics, Department of National Accounts and Governmental Finance, Federal Competitiveness and Statistics Authority, primary estimates, June 2016

Consequently, the real final consumer spending volume went down from 805.6 billion dirham in 2014 to 792.5 billion dirham in 2016 by a ratio of -1.6%. The final consumption ratio to the real GDP also declined between these two years from 70.6% in 2014 to 66.9% in 2015 as shown in the following table no. (4).

3. Inflation

The inflation rate of consumer prices in UAE during 2015 amounted to 4.07%; thus, the index number of consumer prices increased to 125.75 compared to 120.84 in 2014 according to the Federal Competitiveness and Statistics Authority.

The inflation rate in UAE in August 2016 increases by 0.5% in comparison to August 2015 according to the data of the Federal Competitiveness and Statistics Authority, which is the lowest inflation rate on an annual basis during the months of this year. The inflation increase ratios ranged

during the first seventh months of 2016 from 1.7% to 2.5% compared to the same period in 2015. The data showed an increase in the index number of consumer prices reaching 127.89 points in August 2016 against 127.19 in August 2015. The data also indicate that the inflation rate declined in three emirates: Ras Al-Khaimah, Ajman and Fujairah by 1.7%, 0.5% and 0.1% respectively whereas in Abu Dhabi, Dubai, Umm Al Quwain and Sharjah by 0.5%, 2.5%, 0.6% and 0.3% respectively.

The prices of the clothes and shoes group recorded the highest increase 6% in Augusts 2016 compared to Augustus 2015 followed by the education services by 3.8% and the prices of the residence, water, electricity and gas group by 2.7%, foods and drinks by 1.7% and restaurants, hotels and health services by 0.5%. On the other hand, the prices of transport services recorded a big decline of 12.1%, the telecommunications prices decreased by 0.1% and promotion and culture by 0.08%.

The decrease of the inflation rate will reflect positively on the individuals because it means more price decline, which helps raise the individuals' standard of living and will encourage more investments as investors have more confidence that their invested funds will maintain their value, which will contribute to increasing the economic growth.

4. Investments

4.1 Local investments

The world oil prices declined considerably in 2015 and the ensuing decline in oil revenues, which constitute the biggest part of the state's public revenues counted on in spending on development purposes. Nevertheless and within the context of activating the policy of diversifying the income sources and supporting the state's trend towards transforming into the knowledge economy based on research and innovation and competing the projects necessary for Expo 2020, the state continued to spend on executing investment projects. These projects would motivate the growth, increase the levels of economic diversification and support the human development benefitting from the available accumulated financial surpluses and reserves. The private and public sectors increased the investments to fund the strategic projects in the fields of energy; tourism; material, electronic and logistic infrastructure and financial services.

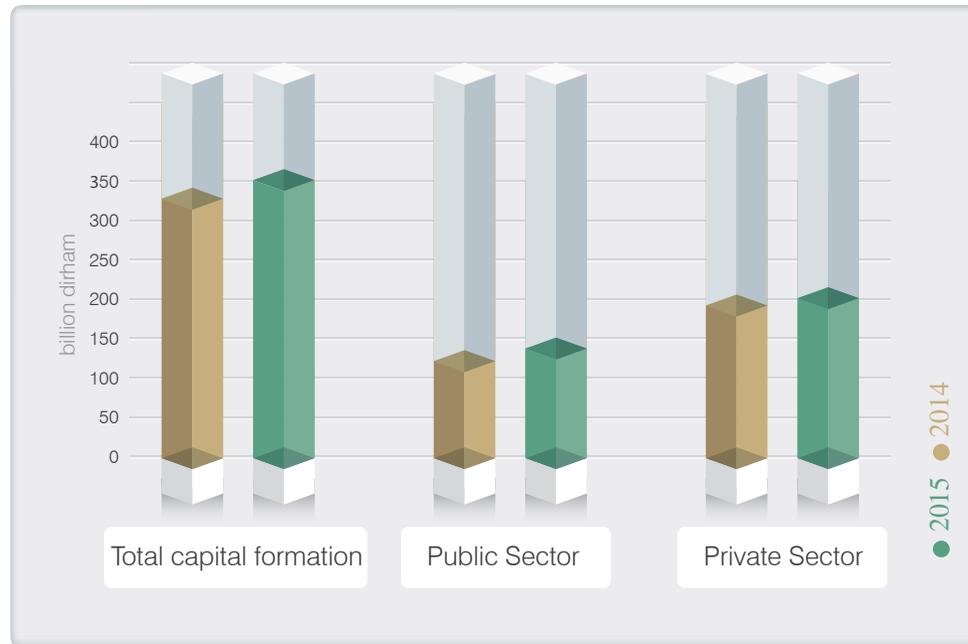
The data shown in table no. (5) indicate a total development of the state's investment in current prices from about 336.9 billion dirham in 2014 to 354.4 billion dirham in 2015 by a growth rate of 5.2%. This resulted from the increase of the public sector's investment from 135.0 billion dirham in 2014 to 145.8 billion dirham in 2015 by a growth ratio of 8.0% and the increase of the private sector's contribution to projects execution from 201.9 billion dirham in 2014 to 208.6 billion dirham in 2015 by a growth ratio of approximately 3.3%.

Table (5) Total capital formation as per sectors in current prices in 2014 and 2015 (billion dirham)

| Statement | 2014 | | 2015 | | Growth Ration (%) |
|-------------------------|-------|----------------|-------|----------------|-------------------|
| | Value | Contribution % | Value | Contribution % | |
| Total capital formation | 336.9 | 100.0% | 354.4 | 100.0% | 5.2% |
| Public sector | 135.0 | 40.1% | 145.8 | 41.1% | 8.0% |
| Private sector | 201.9 | 59.9% | 208.6 | 58.9% | 3.3% |

Source: Federal Competitiveness and Statistics Authority, primary estimates, June 2016

Figure (3) Total capital formation as per sector in current prices in 2014 and 2015



Source: Federal Competitiveness and Statistics Authority, primary estimates, June 2016

- Analysis of investment structure as per economic sectors

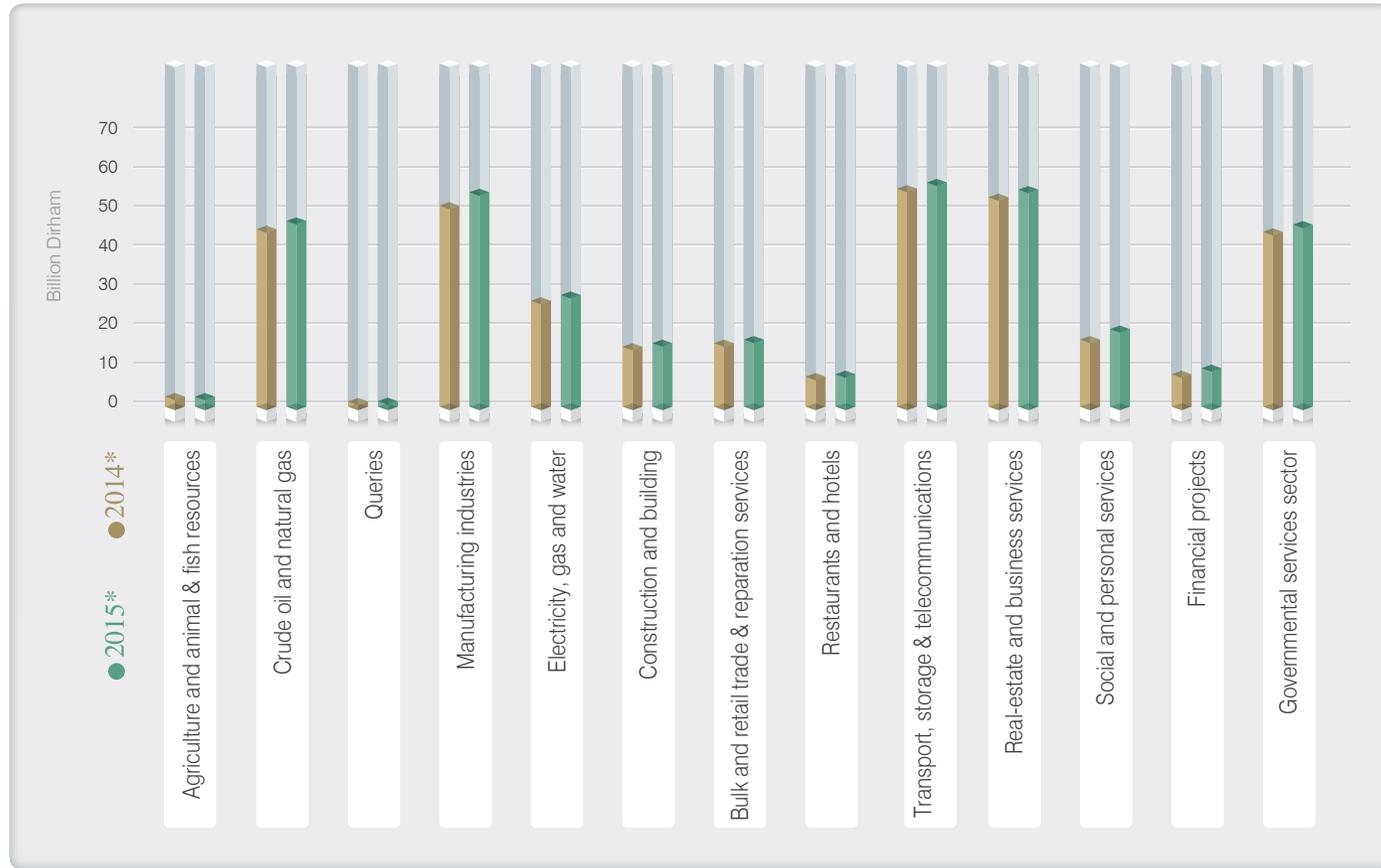
| Economic Sectors | *2014 | | *2015 | |
|---|-------|----------------|-------|----------------|
| | Value | Contribution % | Value | Contribution % |
| Agriculture and animal and fish resources | 1.0 | 0.3% | 1.0 | 0.3% |
| Crude oil and natural gas | 44.6 | 13.2% | 46.9 | 13.2% |
| Queries | 0.5 | 0.1% | 0.5 | 0.1% |
| Manufacturing industries | 50.2 | 14.9% | 52.8 | 14.9% |
| Electricity, gas and water | 26.5 | 7.9% | 27.8 | 7.8% |
| Construction and building | 14.9 | 4.4% | 15.6 | 4.4% |
| Bulk and retail trade and reparation services | 16.4 | 4.9% | 17.3 | 4.9% |
| Restaurants and hotels | 7.1 | 2.1% | 7.5 | 2.1% |
| Transport, storage and telecommunications | 54.4 | 16.1% | 57.3 | 16.2% |
| Real-estate and business services | 51.7 | 15.3% | 54.4 | 15.3% |
| Social and personal services | 18.4 | 5.5% | 19.3 | 5.4% |
| Financial projects | 8.6 | 2.5% | 9.1 | 2.6% |
| Governmental services sector | 42.6 | 12.6% | 44.8 | 12.6% |
| Total | 336.9 | 100.0% | 354.4 | 100.0% |

billion dirham

Table (6) Total fixed capital formation as per economic sectors in 2014 and 2015

Source: Federal Competitiveness and Statistics Authority, primary estimates, June 2016

Figure (4) Total Fixed Capital Formation as per Economic Activities in 2014 and 2015



Source: Federal Competitiveness and Statistics Authority, primary estimates, June 2016

From the figures of the table it is clear that the transport, storage and other telecommunications sector accounts for 16.2% of the total investments executed in all the economic sectors. It occupied the first place in 2015 followed by the Real-estate and business services sector occupying 15.3% of the total investments executed then the manufacturing

industries sector with 14.9% of the total investments. Then came the oil and natural gas sector executing about 13.2% of the investments volume followed by the governmental services sector with about 12.6% of the investments. These five sectors combined accounted for approximately 72.2% of the total investments executed in 2015.

4.2 Foreign Direct Investment (FDI)

According to UNCTAD statistics, the state's annual net FDI flows continued to rise for the fifth year consecutively. UAE topped the Arab countries in FDI flows into Arab countries in 2015 with a share of 27.5%, a value of

Figure (5) Annual FDI Flows in UAE from 2011 to 2015

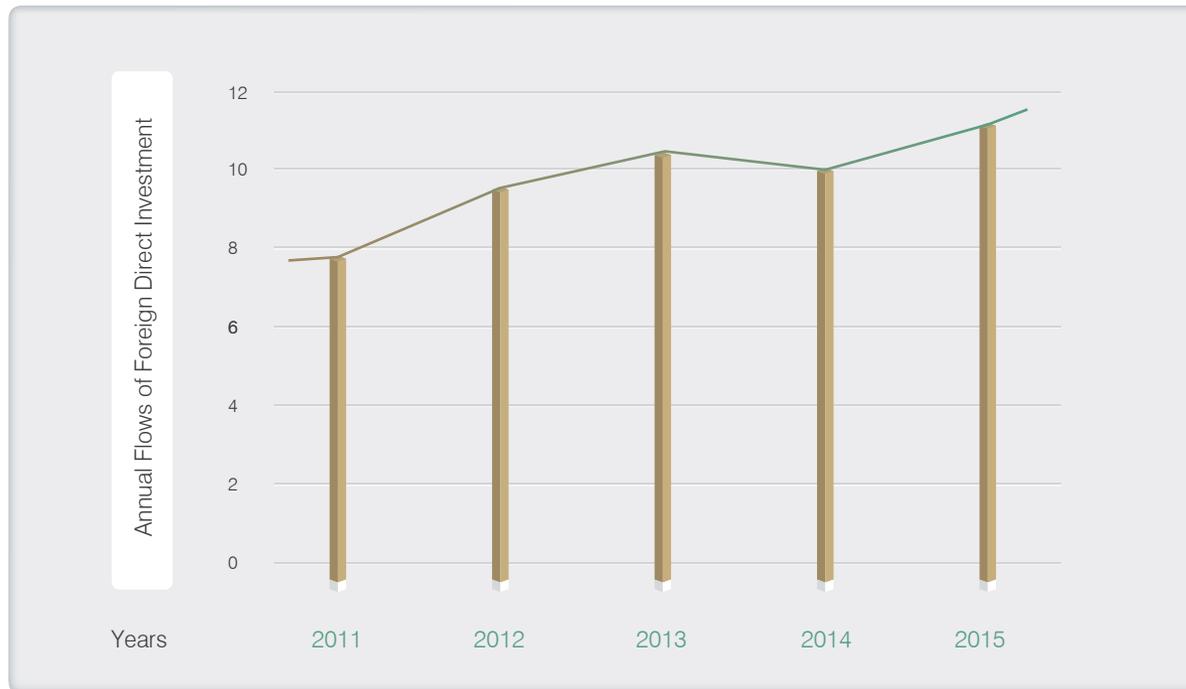


Table (7) FDI in UAE from 2011 to 2015 (billion USD)

| Year | Annual Net FDI Flows | Total Accumulative FDI Flows |
|------------------|----------------------|------------------------------|
| 2011 | 7.7 | 85.4 |
| 2012 | 9.6 | 95.0 |
| 2013 | 10.5 | 105.5 |
| 2014 | 10.1 | 115.6 |
| 2015 | 11.0 | 126.6 |
| Average Growth % | 9.3% | 10.3% |

Source: UNCTAD reports, various years

approximately 11.0 billion USD and an average growth rate between 2011 – 2015 of about 9.3%. Thus, the volume of accumulative foreign investments in the state developed and amounted to 126.6 billion USD in 2015 from 115.6 billion USD in 2014 with an average growth rate of about 10.3% between 2011 and 2015.

UAE is also considered the biggest Arab investor abroad; its investment volume abroad developed from 9.0 billion USD in 2014 to 9.3 billion USD in 2015. Thus, its accumulative investment abroad rose from 66.3 billion USD in 2014 to 87.4 billion USD in 2015 according to UNCTAD world investment reports.

The state's FDI structure reflects big diversity. The real-estate and business services sectors comes in the forefront among the sectors accounting for FDI with a

share of 25.8% followed in terms of relative importance by the bulk and retail trade sector with 23.2% and third the financial institutions and insurance sector with 20.2%. Also, the manufacturing industries occupy a special rank on the level of attracting FDIs; the volume of capital invested in manufacturing industries until 2015 a value of 127.6 billion dirham. The food products and drink industry accounts for 31% followed by the basic metal industries sector with a share close to 25%, the industry of non-metal mining raw material products with 15% and the oil refining industry with 6.7%.

The current year 2016 is expected to witness more growth in the volume of FDIs under the state's trend towards activating the policy of income sources diversification, realizing its vision to building a diversified

economy based on knowledge and innovation, finishing the investment projects necessary for preparing for the world event Expo 2020 in the state, adopting UAE's supreme policy in the field of science, technology and innovation which includes 100 national initiatives in the education, health, energy, transport, space and water sectors and allocating an expected investment volume of more than 300 billion dirham in the state.

In 2016, the state also hosted the "World Annual Investment Meeting" in Dubai entitled "The New World of FDI, Key Features and Best Practices." It is a world platform for all those interested in investment worldwide including decision makers, governmental officials, investors, entrepreneurs, experts and analysts from various world countries to discuss the most prominent economic issues related to sustainable development, monitoring the changes in the world investment environment and its new features under the advanced discoveries and technologies and the environmental changes and having an outlook of world economy future and its reflections on the FDIs. The meeting is also an opportunity for various world countries to review their incentives, policies, investment climate and investment opportunities.

5. Foreign Trade

The volume of UAE's non-oil foreign trade amounted to 1.750 trillion dirham (476.4 billion USD) in 2015 with a growth ratio of 10% compared to 2014. These figures stress the state's competitiveness as a capital for regional and global trade.

The volume of non-oil foreign trade with calculating the free zones trade reached 1.632 trillion dirham in 2014.

The foreign trade achieved 1.72 trillion dirham (291.9 billion USD) including 696.4 billion dirham of imports, 132.2 billion dirham of exports and 243.7 billion dirham of re-exports.

The volume of free zones trade in UAE rose in 2014 to about 560 billion dirham (152.4 billion USD). The state managed to achieve advanced ranks in the world trade statistics report 2015 issued by the World Trade Organization.

The value of UAE's non-oil foreign trade recorded 269.5 billion dirham in the first quarter of 2016 settling finally at the same value achieved in the same period in 2015 according to the primary statistical data of the Federal Customs Authority. The imports accounted for more than half of the state's non-oil foreign trade with 166.1 billion dirham, the exports value reached 46.8 billion dirham and the re-export value 56.6 billion dirham in the first quarter of 2015.

The region of Asia, Australia and Pacific Ocean Islands maintained its top rank in the order of state's partners in non-oil trade with a share of 108.3 billion dirham and a ratio of 42% of the total state's non-oil trade during the first quarter of 2016. The share of state's non-oil trade with the GCC states recorded 9% of the total with a value of 24.2 billion dirham.

Raw and processed gold ranked first as the best imported commodity during the first quarter of 2016 with 15% representing a value of 24.5 billion dirham of the total non-oil imports. Gold exports ranked first with a value of 12.6 billion dirham with 27% of the total state's non-oil exports. Non-composite diamond ranked first as the best re-exported commodity from the state abroad with 11.5 billion dirham and 20% of the total re-export.

6. Financial and Monetary Sector

The governmental deposits decreased due to the decline in oil prices, which led to slowing down the money supply growth. Nevertheless, thanks to the improvement of banks' loan portfolios quality, they remained capable of increasing the credit albeit moderate, except for loaning to the government, which witnessed more growth compared to the previous years. Consequently, the banks managed to provide the finance needed by the non-oil sectors of economy. Generally, the banking sector in the state kept good capital and sufficient liquidity. The financial and monetary sector continued its positive growth achieved in 2014 and achieved a big increase in 2015; the sector's product in current prices rose to about 132.8 billion dirham against 122.4 billion dirham in 2014 with an increase ratio of 8.5% in current prices and a real growth ratio of 3.0%. The contribution ratio of the financial projects sector in GDP (in current prices) rose from 8.3% in 2014 to 9.8% in 2015. The contribution ratio of the financial projects sectors in the product of non-oil sectors (in current prices) increased from 12.6% in 2014 to 12.8% in 2015, which indicates the continuous advancement in realizing the goals and aims of diversifying the income sources.

6.1 Developments of Stock Markets

The effect of the decline in world oil prices was the most prominent factor in the decline of the performance of the Arab stock markets in 2015 especially in the oil-exporting Arab countries. The continuous decline in oil prices was reflected in the shrinkage of liquidity and on the sight and trust of investors in the future horizons of the economies of this market. However, the decline



in oil prices was not the only factor; the slowing down in the recovery of world economy, the recession of expectations of emerging economies' performance especially the Chinese economy, the consequences of raising the US interest rates and the fears of returning to usual monetary policies all affected negatively on the performance of stock markets in emerging and developing economies including the economies of Arab countries. The general stock price index in UAE Stock Market by 6.55% in 2015 compared to 2014. The total trading value amounted to 209.4 billion dirham in 2015 after being 525.8 billion dirham in 2014. The number of companies in the market increased from 124 in 2014 to 128 in 2015 with an increase value of 2.4%. The market value of the companies decreased from 728.4 billion dirham at the end of December 2014 to about 693.89 billion dirham at the end of December 2015 by a ratio of 4.7%. The trading value declined from 86.7 billion dirham at the end of the fourth quarter in 2014 to 33.1 billion dirham at the end of the fourth quarter of 2015. The market closed at 4279.81 points in the last trading session in 2015 as shown in table (8).

Abu Dhabi Securities Exchange was relatively the best among the markets of the GCC states in 2015 based on the Arab Monetary Fund report. The market index recorded a decrease of 5.6% during 2015 whereas the share of foreigners' transactions in Dubai and Abu Dhabi Securities Exchange reached the highest value among the Arab markets.

Table (8) Developments of UAE Stock Market

| Statement | 2014 | 2015 | Growth rate % |
|---|--------|--------|---------------|
| Number of market companies | 125 | 128 | 2.4% |
| General stock price index (point) | 4580.1 | 4279.8 | -6.5% |
| Market value of stocks (billion dirham) | 728.4 | 693.9 | -4.7% |

Source: Securities and Commodities Authority

Table (9) Monetary Developments of 2014 and 2015

| Statement | 2014 | 2015 | Growth rate % |
|-------------------|--------|--------|---------------|
| Money supply (M1) | 436.1 | 456.9 | 4.7% |
| Money supply (M2) | 1141.1 | 1186.8 | 4.0% |
| Money supply (M3) | 1332.0 | 1342.8 | 0.8% |

billion dirham

Source: Central Bank; report on the monetary and banking developments and stock markets in UAE; 2015 and February 2016.

Table (10) Banking Developments of 2014 – 2015

| Statement | 2014 | 2015 | Growth rate % |
|-------------------------|--------|--------|---------------|
| Total assets | 2304.9 | 2478.4 | 7.5% |
| Total deposits | 1421.3 | 1471.6 | 3.5% |
| Total banking credit | 1378.1 | 1485.0 | 7.8% |
| Credit / deposits ratio | 97.0% | 100.9% | - |

billion dirham

Source: Central Bank; report on the monetary and banking developments and stock markets in UAE; 2015 and February 2016.

6.2 Monetary Developments

The money supply (M1) consisting of the money traded outside banks (exported money – money in banks) in addition to money deposits (balances of current accounts and on-demand accounts) increased to 456.9 billion dirham in the fourth quarter of 2015 after being 436.1 billion dirham in the fourth quarter of 2014, recording a growth ratio of 4.7%.

Moreover, the money supply (M2) consisting of money supply (M1) in addition to the semi-monetary deposits (saving accounts, time deposit account and foreign currency deposits) increased to 1186.8 billion dirham in the fourth quarter of 2015 from 1141.1 billion dirham in

the fourth quarter of 2014 with a growth ratio of about 4.0%.

Money supply (M3) consisting of (money supply (M2) in addition to the governmental deposits with banks and the central bank rose by 0.8% to 1342.8 billion dirham in the fourth quarter of 2015 from 1332.0 billion dirham in the fourth quarter of 2014.

6.3 Banking Developments

The number of national banks at the end of 2015 remained about 23 banks, which is the same level it reached at the end of 2014 (whereas the number of their branches went up from 869 at the end of 2014 to 874 at





the end of 2015). The of GCC states' banks active in the state remained at the same level as in 2015, i.e. 6 banks. Also, the number of foreign banks maintained the same level with 20 banks (82 branches). The total assets of the banks active in the state rose to 2478.2 billion dirham at the end of 2015 against 2304.9 billion dirham at the end of 2014 with an increase ratio of 7.5%. Clients' deposits with the banks active in the state went up from 1421.3 billion dirham in 2014 to 1471.6 billion dirham in 2015 with a growth rate of 3.5%. Thanks to the high level of deposits and the solvency capital, the banks in the state

managed to continue their activities related to banking credit whose value rose to 1485.0 billion dirham in 2015 against 1378.1 billion dirham at the end of 2014 with an increase ratio of 7.8%. The credit to deposits ratio increased from 97.0% in 2014 to 100.9% in 2015.

7. Public Finance

The variations in the world oil prices, which decline by about 49% between 2014 and 2015, left impact on the state's public finance situation; the oil revenues, which

Table (11) State's Public Revenues and Expenditures in 2014 and 2015

| Statement | 2014 | 2015 | Change Ratio 2015/2014 % |
|---------------------------|-------|--------|--------------------------|
| Total public revenues | 423.0 | 295.0 | -30.3% |
| Total public expenditures | 492.2 | 401.0 | -18.5% |
| Deficit / final surplus | 69.2- | 105.9- | 53.0% |

billion dirham

Source: UAE, Federal Competitiveness and Statistics Authority, primary numbers, June 2016

contribute to the largest extent to the state's revenues, went back by about 51.5% in 2015 compared to the oil revenues recorded in 2014. The features of the state's financial policy in 2015 and 2016 were characterized with focusing on regulating and rationalizing the current spending levels and continuing to spend on executing the investment projects that would motivate the growth, increase the levels of economic diversification and support the human development benefitting from the available accumulated financial surpluses while supporting the public revenues and diversifying their sources. The public spending went down from about 492.2 billion dirham in 2014 to 401.0 billion dirham in 2015 with a decline ratio of -18.5%. The spending was concentrated on the sectors of health, education, social care, infrastructure, strategic projects in tourism and industry which would increase the levels of economic diversification and active the knowledge economy based on creativity and innovation.

The state's public revenues declined from 423.0 billion dirham in 2014 to 295.0 billion dirham in 2015 with a ratio of -30.3% as a result of the decrease of oil revenues from 252.3 billion dirham in 2014 to 122.3 billion dirham in 2015 and the increase of the other revenues from 170.7 billion dirham in 2014 to 172.7 billion dirham in 2015. The state's combined financial balance recorded a deficit rising from -69.2 billion dirham in 2014 to -105.9 billion dirham in 2015 with an increase ratio of 53.0% as shown in table no. (11).



Petroleum Crude and natural gas

Workforce

Based on the estimates of the International Labor Organization (ILO) and the World Bank, the total workforce in UAE in 2014 amounted to about 6302.5 thousand of the total population at the age of 15 years and above. The rate of participation in male workforce was about 93% of the total male population at the age of 15 years and above

The rate of employed people amounted to approximately 78% of the total population at 15 years and above. The total unemployment rate in UAE declined to about 3.6% in 2014 from 3.8% in 2013. According to the same estimates, the males' unemployment reached 8.0% of the males in the male workforce between 15-24 years old

Population

Based on the estimates of the Federal Competitiveness and Statistics Authority, the population in UAE amounted in 2010 to 8264 thousand people. According to the estimates of the World Bank, the number of population rose from 9086 thousand people in 2014 to 9157 thousand people in 2015 with an increase of 0.8%.

The estimates of Abu Dhabi Statistics Center indicated that the number of Abu Dhabi's population mid-2015 reached about 2784 thousand people, and the estimates of Dubai Statistics Center stated that the population of Dubai amounted to about 2447 thousand people at the end of 2015.

Workers compensations

Considering the relative distribution of the employees as per the economic sectors in 2014, the construction and building sector topped the economic sectors in terms of accommodating

the manufacturing industries sector with 11.6%, governmental services sector with 11.5% and home services sector with 9.5%. The total ratio accommodated by the five sectors amounted to about 71.2% of the total estimated number

Regarding the employees' salaries and allowances, the governmental services sector ranked first among the salaried economic sectors in the state with 19.4% of the total employees' allowances followed by the bulk and retail trade and reparation services sector

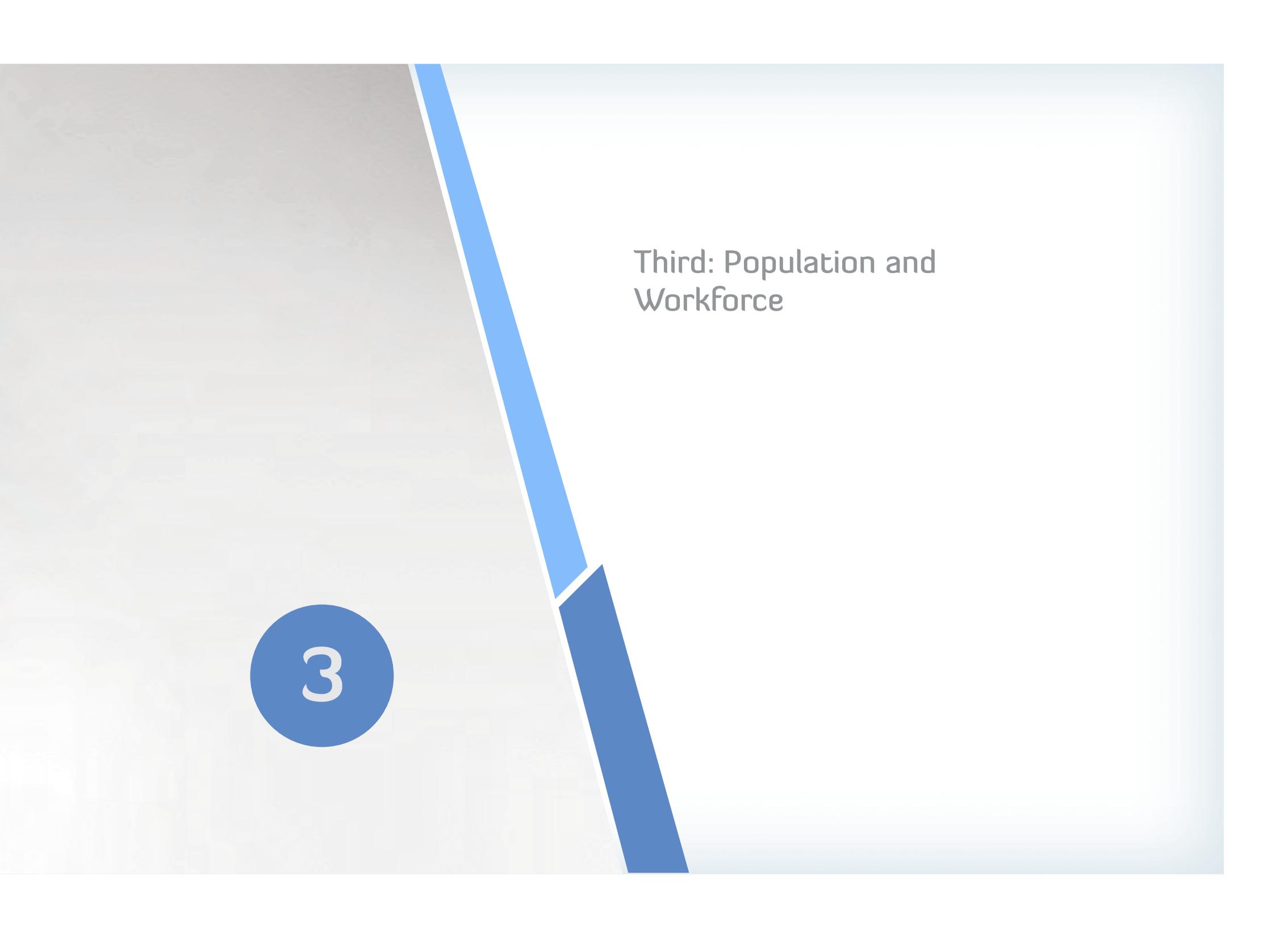
Distribution workers

the construction and building sector with 13.4% and 11.8% respectively, real-estate and business services sector with 11.0% and the manufacturing industries sector with 9.9%.

Industries Manufacturing

The total ratio of employees' salaries in the five sectors reached about 65.5% (approx. 244.2 billion dirham) of the total estimated state employees' salaries during 2014.

The public spending went down from about 492.2 billion dirham in 2014 to 401.0 billion dirham in 2015 with a decline ratio of -18.5%.



Third: Population and Workforce

3

1. Population

Based on the estimates of the Federal Competitiveness and Statistics Authority, the population in UAE amounted in 2010 to 8264 thousand people. According to the estimates of the World Bank, the number of population rose from 9086 thousand people in 2014 to 9157 thousand people in 2015 with an increase of 0.8%. The estimates of Abu Dhabi Statistics Center indicated that the number of Abu Dhabi's population mid-2015 reached about 2784 thousand people, and the estimates of Dubai Statistics Center stated that the population of Dubai amounted to about 2447 thousand people at the end of 2015.

2. Workforce

Based on the estimates of the International Labor Organization (ILO) and the World Bank, the total workforce in UAE in 2014 amounted to about 6302.5 thousand of the total population at the age of 15 years and above. The rate of participation in male workforce was about 93% of the total male population at the age of 15 years and above, and the rate of participation in female workforce was about 46% of the total female population at the age of 15 years and above. The rate of employed people amounted to approximately 78% of the total population at 15 years and above. The total unemployment rate in UAE declined to about 3.6% in 2014 from 3.8% in 2013. According to the same estimates, the males' unemployment reached 8.0% of the males in the male workforce between 15-24 years old, and the females' unemployment reached 17.1% of the females in the workforce between 15-24 years old.

Table (12) Estimates of Employees and Volume of Salaries as per Economic Sectors in 2014

| Sectors | *Employees | | **Volume of Salaries | |
|---|-------------------|-------------|------------------------|-------------|
| | Number (thousand) | % | Value (million dirham) | % |
| Agriculture and animal and fish resources | 252.2 | 4.2% | 4025 | 1.0% |
| Crude oil and natural gas | 66.8 | 1.1% | 12486 | 3.1% |
| Queries | 13.4 | 0.2% | 383 | 0.1% |
| Manufacturing industries | 697.4 | 11.5% | 39492 | 9.7% |
| Electricity, gas and water | 67.9 | 1.1% | 5514 | 1.3% |
| Construction and building | 1212.0 | 19.9% | 50254 | 12.3% |
| Bulk and retail trade and reparation services | 1133.0 | 18.6% | 53059 | 13.0% |
| Restaurants and hotels | 305.4 | 5.0% | 13582 | 3.3% |
| Transport, storage and other communications | 455.7 | 7.5% | 38558 | 9.4% |
| Telecommunications | 12.7 | 0.2% | 4063 | 1.0% |
| Real-estate and business services | 245.3 | 4.0% | 46176 | 11.3% |
| Social and personal services | 236.5 | 3.9% | 27985 | 6.8% |
| Financial projects sector | 96.5 | 1.6% | 24005 | 5.9% |
| Governmental services sector | 685.3 | 11.3% | 81988 | 20.0% |
| Home services | 595.5 | 9.8% | 7608 | 1.9% |
| Total | 6075.6 | 100% | 409176 | 100% |

**Source: Federal Competitiveness and Statistics Authority, * Estimates

Figure (6) Relative Distribution of Employees as per Economic Sectors in 2014

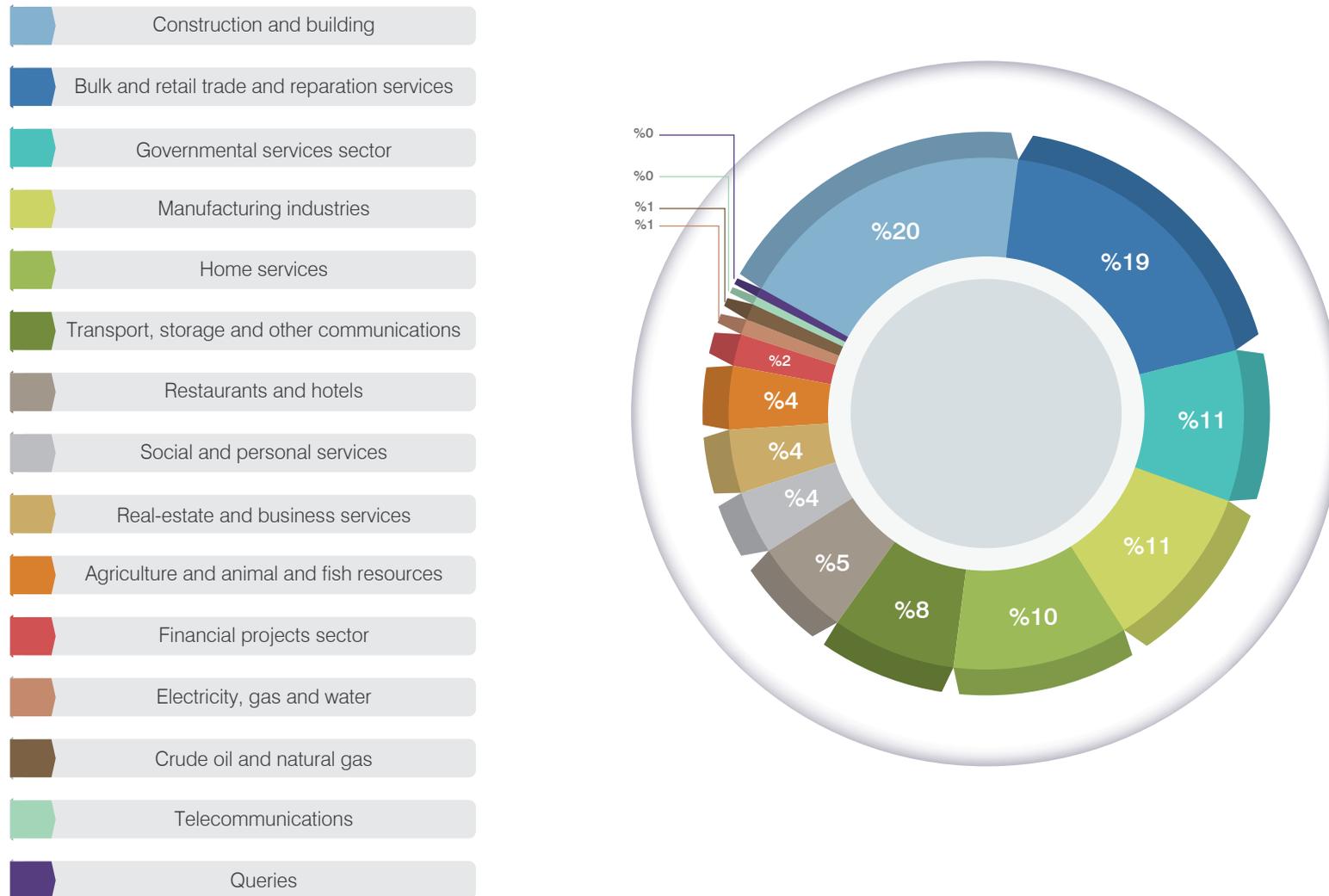
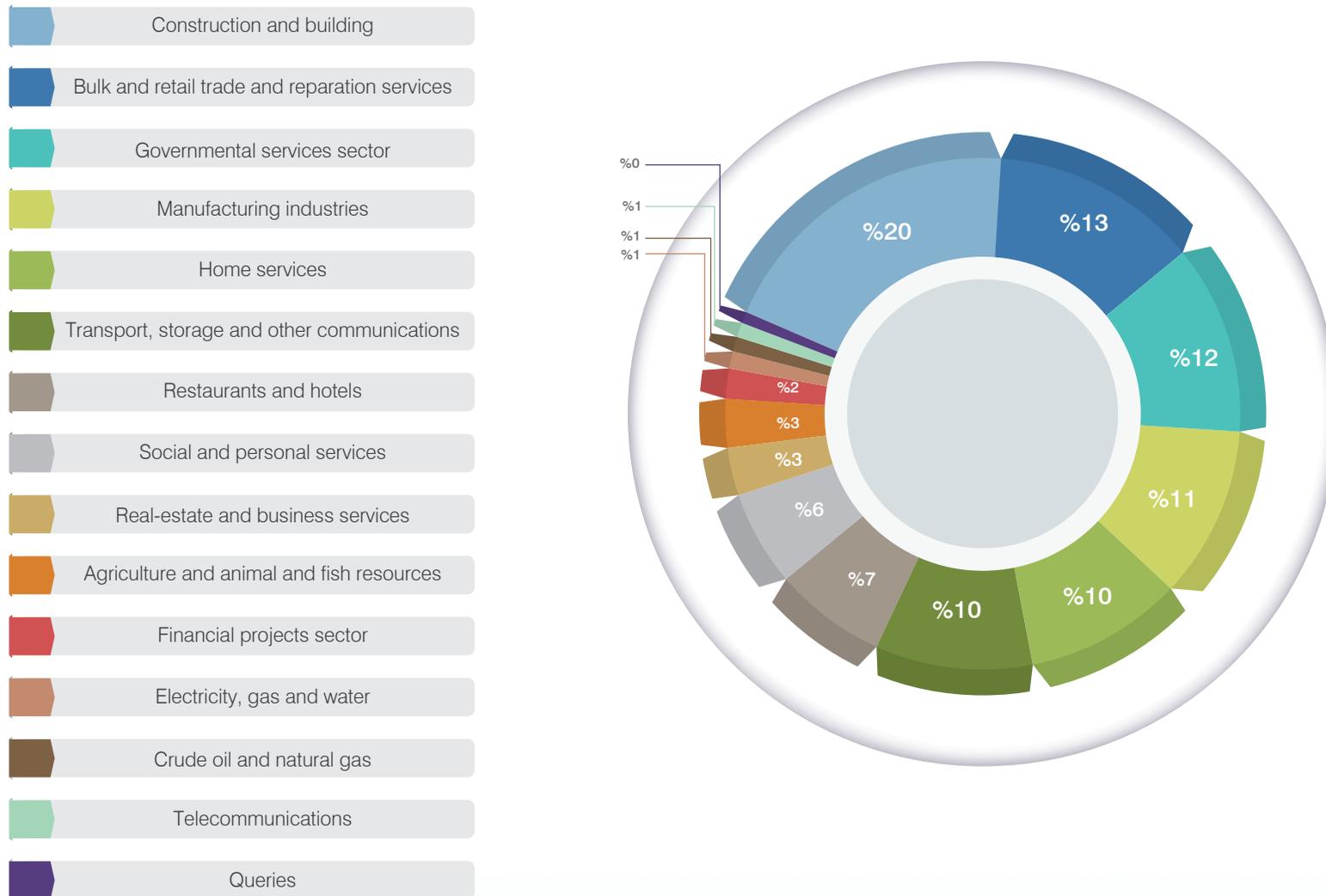


Figure (7) Relative Distribution of Employees' Salaries as per Economic Sectors in 2014



2.1 Distribution of Employees as per Economic Sectors

Considering the relative distribution of the employees as per the economic sectors in 2014, the construction and building sector topped the economic sectors in terms of accommodating state employees with a ratio of 19.5% followed by the bulk and retail trade and reparation services sector with 19.1%, the manufacturing industries sector with 11.6%, governmental services sector with 11.5% and home services sector with 9.5%. The total ratio accommodated by the five sectors amounted to about 71.2% of the total estimated number of state employees in 2014. Regarding the employees' salaries and allowances, the governmental services sector ranked first among the salaried economic sectors in the state with 19.4% of the total employees' allowances followed by the bulk and retail trade and reparation services sector, the construction and building sector with 13.4% and 11.8% respectively, real-estate and business services sector with 11.0% and the manufacturing industries sector with 9.9%. The total ratio of employees' salaries in the five sectors reached about 65.5% (approx. 244.2 billion dirham) of the total estimated state employees' salaries during 2014.





Low prices Petroleum

Gradual Decline of Oil Prices

The oil prices in the world markets has witnessed since June 2014 gradual decline; the price of Brent crude oil was about 110 USD/barrel, but it went down in early 2015 to less than 50 USD/barrel. This decline is attributed to the so-called "market basics" represented in the interaction between the supply and demand, apart from the strength of the US currency

However, some analysts doubt this and relate it to political factors. Most analyses link between the decline of crude oil price and the supply abundance in oil markets especially from outside the oil-exporting countries (OPEC), particularly the US shale oil boom. A report by the International Monetary Fund stated that the supply abundance

World Energy Market

A report by the US Energy Information Administration (EIA) in April 2014 indicated that the US shale oil production amounted to 8,3 billion barrel/day, which is the highest rate achieved by the US since 1988. This rate is less than the production of Saudi Arabia, the largest oil producer worldwide, by only a million barrels.

The local oil production, according to the report, helped raise the US reserve in late April to about 400 million barrels, which is the largest reserve kept by the US throughout its history.

Trade Exchange Volume

The GCC states have close commercial relations with the UK, which is the second biggest EU commercial partner of the GCC states after Germany. According to the data of the UK Trade & Investment

UAE ranks first in terms of the volume of trade relations with Britain, followed by Kuwait, Bahrain, Oman, Qatar and Saudi Arabia. Of the most prominent exports of the UK to the Gulf states are jet engines, cars, gold, airplanes and their parts

The strict restrictions imposed by the USA after the events of 11 September 2001 on the movement of foreign funds especially Arab funds, freezing many foreigners' accounts with American banks and intensifying the procedures on travel freedom and individuals' entry.

Gulf Investments in Britain

Shale gas is a natural gas generated from rocks containing oil due to heat and pressure. This gas needs more processing before flowing it; thus, it is categorized by specialists as an untraditional gas.

Shale Gas

A study conducted by the US Energy Information Administration (EIA) covering 41 countries worldwide indicate that the highest natural gas reserves are found in China with a rate of 1100 trillion m3 followed by Argentina with 802 trillion m3, the USA with 665 trillion m3 and finally Canada with 573 trillion m3.

The costs of extracting shale gas are still high, ranging between 50 to 70 USD/barrel, whereas the cost of producing a barrel of non-shale gas in the gulf is the third or less of this figure.

Fourth: Economic Issues

4



1. The collapse of oil prices and its implications on the GCC

The oil barriers price in the world markets decreased by 55% in less than 7 months. The accelerated breakdown divided the world countries in 2014 to three categories: productive and reassured countries dealing with the new crisis calmly and confidently like Saudi Arabia and UAE, productive but worried countries, like Iran, seeing the price decline to less than the half a conspiracy on their economies and the third category includes the consuming countries that benefit from the advantages and count their revenues like USA and China.

The reasons of the collapse were linked to the weak world demand on this vital commodity, apart from the production increase, in synchrony with the American shale oil boom. However, there is consensus on the existence of other reasons behind this complex economic political phenomena, and there are countries, such as Iran, that think that the decline is not attributed to economic factors, rather political ones.

• Gradual Decline of Oil Prices

The oil prices in the world markets has witnessed since June 2014 gradual decline; the price of Brent crude oil was about 110 USD/barrel, but it went down in early 2015 to less than 50 USD/barrel. This decline is attributed to the so-called "market basics" represented in the interaction between the supply and demand, apart from the strength of the US currency and the effect of the market speculators' activities. However, some analysts doubt this and relate it to political factors. Most analyses link between the decline of crude oil price and the supply abundance in oil markets especially from outside the oil-exporting countries (OPEC), particularly the US shale oil boom. A report by the International Monetary Fund stated that the supply abundance contributed to 60% of the gradual price decline.

The severe decline of oil prices during the last six months in 2015 was also affected by the weak growth in the Eurozone and the decelerated growth in China and Brazil despite the strong recovery of the US economy –the largest world economy- which benefitted considerably from the decline of crude oil price, which reduced the energy bill for American consumers, and this supported their spending which is the first driver of the US economy.

The IMF points out that a careful reading of the expectations of the International Energy Agency (IEA) of the demand on crude oil between June and December 2015 emphasize that the regressed demand contributed to about 20 to 35% of the oil price decline. This factor cooperated with the sudden increase in oil production in the same period, which resulted originally from the fast recovery of Libya's oil production and the oil exports to Russian and Iraq in the second half of 2015 reaching record levels despite the turbulence in Iraq. The latest IEA reports state that the world oil reserves –especially in USA- are the highest for two years.

However, all the analyses agree that the main factor of driving the oil prices to decline fast –particularly since November 2014- is the insistence of Saudi Arabia, the largest exporter of crude oil worldwide, not to reduce its production, which consequently drove the prices upwards. This made OPEC, of which Riyadh owns the biggest influence, decide at the end of said month to keep its specified production limit of 30 barrels/day in spite of the continuous crude oil price decline. OPEC production represents two thirds of the world supplies, and this decision was considered a transform in OPEC's policy, which used to interfere to strike a balance in the market when prices drop drastically.

Saudi Arabia intended from decreasing the prices to drive out the marginal producers who dumped the market with oil and benefitted from the price increase –in reference to the US shale oil. Saudi Arabia clarified that it would keep

on producing its share even if the oil price reached 20 USD and considered it unfair to request OPEC to reduce its production if the producers outside the organization did not do the same. It added that the independent producers produced about 6 million barrel/day.

Since OPEC's decision, the oil price decline by more than 32%. This decision was subject to the desire of OPEC state members –particularly Saudi Arabia- to face the shale oil supplies in USA and Canada. Through permitting more price decline in the world markets, they wanted to make shale oil producers bear the losses of price decline especially that the cost of extracting shale oil is much higher than extracting traditional oil; the cost of oil production in Saudi Arabia and the gulf states, apart from Iraq, amounts to 5 USD/barrel whereas in the USA it amounts to a range between 70 and 85 USD.

Other see that what is happening in the oil markets is considered a “collective punishment.” The major oil producers in the world and the USA., despite its loss from shale oil, agreed to reduce the prices to punish Russia economically and to apply pressure on it due to its attitude towards the Ukrainian crisis and to punish Iran, the punishments imposed on which were alleviated and which has become more capable of selling its oil abroad.

• Shale Gas

Shale gas is a natural gas generated from rocks containing oil due to heat and pressure. This gas needs more processing before flowing it; thus, it is categorized by specialists as an untraditional gas.

To extract shale gas, horizontal drilling and hydraulic fracturing should be conducted on a wide range using water processed with chemical and sand to achieve the optimal limit of the surface and gas reserve contact.

The advanced techniques required for this operation are not currently available other than in the USA and in less levels in other countries including European ones.

A study conducted by the US Energy Information Administration (EIA) covering 41 countries worldwide indicate that the highest natural gas reserves are found in China with a rate of 1100 trillion m³ followed by Argentina with 802 trillion m³, the USA with 665 trillion m³ and finally Canada with 573 trillion m³.

The costs of extracting shale gas are still high, ranging between 50 to 70 USD/barrel, whereas the cost of producing a barrel of non-shale gas in the gulf is the third or less of this figure.

The rates of shale gas production are characterized with high regression ratios in the early years of production; the highest decline is after the first year of production, and it reaches about 60% of the highest production level. It then continues to go down to the lowest level after between 7 and 9 years as of the beginning of production.

There are environmental warnings of extracting shale gas. The extraction processes required injecting big amounts of chemical-processed water, which requires disposing of the water which is to be raised again to the surface. This issue raises worries of possibility of pollution with the chemicals used in it.

• Shale Gas Revolution

US energy experts describe the processes of extracting shale oil and gas in their country as the most important development witnessed by the energy industry since the extraction of the first flow from underground about 150 years ago. This took place also in their country, in Titusville, Pennsylvania in 1859.

A report by the International Energy Agency in November 2013 estimates that the operations of extracting oil and gas based on the fracturing technique will enable the USA in 2017 to supersede Saudi Arabia and Russia in oil production.

Experts see that these developments, which were not thought of five years ago, would transform the USA

within a decade to an energy exporter. This would redraw the geopolitics if energy on the world level. USA is currently speaking about an annual increase of between 15% and 20% in gas production, being sufficient with 100% regarding natural gas, in half a decade it will be sufficient in the oil field and in a time not far away it will move from import to export.

A study conducted by Ernst & Young in 2013 states that 50 of the major US energy companies spent 126 billion USD since 2005 on the drilling operations and land purchase.

Another report issued by the British Economist magazine in 2014 entitled “US Shale Oil Production Boom” states that the Americans continued drilling about 20 thousand new wells since 2015.

• World Energy Market

A report by the US Energy Information Administration (EIA) in April 2014 indicated that the US shale oil production amounted to 8,3 billion barrel/day, which is the highest rate achieved by the US since 1988. This rate is less than the production of Saudi Arabia, the largest oil producer worldwide, by only a million barrels. The local oil production, according to the report, helped raise the US reserve in late April to about 400 million barrels, which is the largest reserve kept by the US throughout its history.

The Economist' report associated the US oil surplus with the deceleration of the world economy and with OPEC's “production of more than what the markets expect.” It also linked the decline of the prices that settled at 110 USD during the previous four years with the oil men in North Dakota and Texas and their “extraction of oil from the oil formations in Texas and North Dakota, which were previously considered unviable.”

To clarify the reflections of these developments on the oil market, we clarify that the USA “used to import from

Nigeria more than 400 thousand oil barrels a day in 2014, and now it is not importing anything. Thus, Nigeria, like other OPEC countries, directed itself to the Asian markets to compete among one another on the same markets to sell its oil.”

• **The implications of collapse of oil prices on the GCC**

The decline of oil prices in the world markets requires us, GCC states, to think about adopting a unified strategic vision to diversify the economy base and disengage from the semi-total dependency on oil revenues.

Even though the oil-producing countries have generally experienced similar oil crises previously and their balance sheets suffered for several years from deficit, this has made them only diversify their foreign investments at a time these countries were wanted to have a consumption-trend only.

In a report issued in November 2014, Standard & Poor’s for credit rating warned that the continuous decline of oil prices for a long period would probably lead to slowing down the economies and infrastructure projects of the Gulf States. The oil revenues constitute in average 46% of the revenues in the six GCC countries whereas the oil exports account for three quarters of the exports.

Standard & Poor’s considered Bahrain and Oman the most exposed to the risks of oil price decline whereas UAE and Qatar are the least exposed.

In light of expectations of the continuous decline of oil prices in the foreseeable future, many experts expected that the world would never see the price of 100 USD per barrel again. Some reports by international financial institutions indicate that the governments of the GCC states might resort to accelerate their steps to reduce the support of energy prices, but this might harm some oil-dependent industries, such as petrochemicals. According to the World Bank, the Gulf States support the energy prices annually by 160 billion USD.

One of the most prominent manifestations of the effect of severe oil price drop on the gulf states is the decline of their oil revenues and the ensuing effect on their balance sheets and thus on the public spending volume even if variably. These countries set their balance sheets based on an oil price a little or higher than the price of crude oil in January 2015, 50 USD.

According to the IMF 2014 report on the economic situation of the region, Saudi Arabia and UAE set their balance sheets for 2014 on the basis of 97 USD, Kuwait on the basis of 54 USD, Qatar 54 USD, Bahrain 132 USD and Oman on the basis of 99 USD.

The continuous oil price decline is expected to limit the growth of the loans granted in the gulf region and reduce the growth rate of the non-oil sector in the region countries unless the governments pump liquidity in the market through the public spending programs as concluded by the French BNP Paribas bank. The volume of the loans granted to the gulf private sector increase by 10% between 2011 and 2013.

On their side, the gulf markets were directly affected by the big decline of crude oil prices and witnessed sales that were described as panicked, especially selling the stocks of oil-related companies, in November and December 2014 and continued downwards at the beginning of 2015. The losses of the gulf stock exchange due to the drop of oil prices were estimated at more than 150 billion USD since the end of October 2014, which are unprecedented losses for five years.

• **The reason behind the gulf stock exchange being affected by the decline or rise of oil is attributed to two main factors:**

- The association between the private sector in the Gulf States and the governmental spending, which is related to oil revenues.

- The second factor is the weight of the oil sector companies in the general index of these exchange markets. The decline of the latter’s profits due to the oil price drop resounds quickly in the performance of stock index.

Generally, the gulf states will not be affected when the oil barrel is sold for 40 USD because the cost of production by them does not exceed 5 or 4 USD, but the shale oil countries will be much harmed when the oil barrel is sold for said price, and when it is sold for 35 USD, the loss for them will be bigger.

The prices returning to balance “is not in the hand of the OPEC producing countries, rather in the hand of the countries producing alternative oil (shale oil),” and when the latter see that the cost is more than the realized prices, “they will begin to stop the production; thus, the surplus of the supply decrease and things return to their previous status.”

Studying this phenomenon, it was clear that speculation is one of the most important factors leading to price decrease whereas the geopolitical factor has regressed much despite the inflaming events we are living in the region. Furthermore, the strategic and commercial reserves of the industrial states have not affected much the price decline because they have not witnessed noticeable increase; the USA reserve, for example, does not exceed 30 days.

Saudi Arabia has huge reserves; thus, it can resist the price decline. It is certain that it does not want to defend the barrel price and does not want to lose its share from production in the favor of others, but Saudi Arabia is forced to produce oil for gas consumption.

• **Implications of collapse of oil prices on UAE**

As for UAE, thanks to its economic resources diversity and its government’s powerful financial status, it is in a better situation than most Gulf economies to overcome the consequences of oil prices decline.

UAE's economy is the least affected among the GCC states by this drop. The state possesses 5.8% of the world oil reserves, and its oil revenues constitute 25% of the state's GDP and 20% of the total export revenues. Thus, while oil overwhelms the Emirate market, the steady growth can be attributed to the private consumption and the governmental investments in sectors such as tourism, retail, foods and drinks. Moreover, the state is executing major projects in the fields of infrastructure, tourism, construction and financial sector.

The governmental efforts to diversify the economy and alleviate the intensity of oil price decline seem clear through the Vision 2021, which is UAE's long-term plan. This schedule presents a set of procedures to encourage trade, attract more FDIs and accelerate the growth rate. For example, Dubai's real-estate market has benefitted largely from the foreign investments and from Abu Dhabi; nevertheless, this market might suffer from weakness due to oil price drop and the ensuing Abu Dhabi's revenues decline and the growth of US dollar value.

To face this challenge, International Dubai Expo 2020 exhibition is considered among the distinguished strategies to attract investments and tourists. One can realize the prestigious position which Dubai is currently occupying as a pioneering touristic destination. During the first quarter of 2015, the travelers movement in Dubai Airport jumped by 7% reaching 19.6 million passengers. Consequently, due to the increase of tourist flow, the retail sales bloomed in Dubai by 7% also in 2014, and they are expected to increase with the approach of 2020.

On the other hand, foods and drinks are considered one of the sectors that the Emirati government worked on to develop them in order to provide more economic flexibility. This sector plays a basic role in the state's economic growth; growth by 36% between 2014 and 2015 is expected to be achieved. The volume of UAE's

investments in the foods sector reached 1.4 billion USD since 1994 with special focus on dairy products. Furthermore, the sharia-compatible foods witnessed clear recovery driven by people's trend worldwide towards paying more attention to choosing natural foods. Through these figures, one can understand the role that can be played by the foods and drinks sector in protecting the economy, promoting the growth and avoiding financial debts.

2. Reflections of Brexit on UAE

First: Economic and Financial Reflections of Brexit

1. Current Reflections and Effects

The pound sterling dropped by 10% reaching 1.3228 USD, which drove investors in world markets to resort to secure currencies such as yen and Swiss franc. Pound sterling's value is expected to decrease to between 1.20 USD and 1.25 USD in the third and fourth quarters of 2016.

The European stock markets declined and the British Financial Times 100 index dropped by more than 8% when the market opened on 24/6/2016 after reducing the value of the major leading stocks in Britain by more than 100 billion GBP (136.7 billion USD). Moreover, Paris and Frankfurt stock markets went down by almost 10%, London market by more than 7%, Deutsche Bank and BNP Paribas Bank by more than 16% and Société Générale by more than 25%.

Gold achieved its highest gains since the world financial crisis in 2008 and jumped by 8% to its highest level for more than two years. Gold rose in the instant transactions by 5.1% reaching 1319.60 USD per ounce.

Oil prices declined; light sweet crude oil lost in Augustus 2016 delivery about 3.11 USD (6.21%) of its value, recoding 47.77 USD in electronic transactions in Asia. The Brent oil barrel also went down by 2.4% reaching 48.4 USD.





2. Future Expected Reflections and Effects

The most prominent expected future reflections of Brexit are among others:

- A. London, as a world financial center, being affected. Since London is a main center for the international commercial banks through their offices, it is possible that the Brexit would force the banks to move their mediatory offices to outside London.
- B. Oil price decline and damaging the world economy.
- C. Decline of the Gulf investments in Britain under the overwhelming worry on investors due to the difficulties that Britain will face, forcing it to reconsider and negotiate more than 60 trade agreements with the world countries, including the EU and Gulf countries.
- D. Britain suffering economic recession, high unemployment and decreasing real-estate prices, assets and capitals values. According to the expectations, the real-estate prices will go down by about 10 – 18% and the stock prices by about 20 – 29%. The Gulf investors are expected to reconsider their investments in the UK particularly in the real-estate sector, fearing big financial losses due to the drop of real-estate prices. The indicators of this trend have begun to appear during the recent months; Many Gulf investors refrained from buying properties while waiting for the results of the British vote. According to Knight Frank real-estate brokerage company, the value of the residential properties in the high-class areas preferred by the Gulf investors, such as Chelsea, South Kingstown and Knightsbridge, decreased by between 3.5 and 7.5% on an annual basis in May 2016.

Second: Reality of Economic Relations between Britain and Gulf States

The features of the economic relations between the UK and the GCC states can be illustrated as follows:

1. Trade Exchange Volume

The GCC states have close commercial relations with the UK, which is the second biggest EU commercial partner of the GCC states after Germany. According to the data of the UK Trade & Investment, the total volume of commodities bilateral trade between Britain and the GCC states in 2014 amount to approx. 22.1 billion GBP (about 33 billion USD). The value of UK's revenues from the Gulf states in 2014 exceeded 8.5 billion GBP whereas the values of the British exports to the Gulf amounted to about 13.6 billion GBP. UAE ranks first in terms of the volume of trade relations with Britain, followed by Kuwait, Bahrain, Oman, Qatar and Saudi Arabia. Of the most prominent exports of the UK to the Gulf states are jet engines, cars, gold, airplanes and their parts, jewelry and precious metals. Liquefied natural gas, kerosene, airplane fuel and crude oil occupied about more than 70% of the total Britain's imports from the Gulf states.

2. Gulf Investments in Britain

There are several factors that encourage the Gulf investors to direct their investments in the recent years towards Europa, particularly Britain, including among others:

First: The strict restrictions imposed by the USA after the events of 11 September 2001 on the movement of foreign funds especially Arab funds, freezing many foreigners' accounts with American banks and intensifying the procedures on travel freedom and individuals' entry.

Second: Great Britain's good and secure investment climate and big revenues, apart from being the most welcoming of Gulf investments especially in real-estate field.

Third: The turbulence and instability situation in the Middle East especially after the Arab Spring revolutions since 2011 accompanied with the decline of oil prices since mid-2014. This pushed the Gulf investors to direct their investments towards abroad searching for secure investment destinations and big financial revenues. According to the statistics, the total Gulf investments in Britain is estimated at more than 130 billion USD concentrated in the real-estate activity field.

Fourth: The UK officials are seeking to promote the financial services, including Islamic finance, in the Gulf states, help them diversify their economies, particularly in UAE, attract more Gulf investments and sovereign wealth funds' investments to the UK especially in the infrastructure and energy and maintain London's role as a preferred destination for Gulf investments.

Third: The Expected Reflections of Brexit on UAE

The expected reflection of Britain's exit from the EU on UAE include among others:

- UAE will benefit from Britain's decision to exit the EU with the growing of the state's attractiveness, Dubai in particular, as a destination for the world companies and banks which were based in London and which intend to move their headquarters due to not benefitting from the advantage of Britain's membership in the EU.
- The major multinational British companies will be more ambitious to expand, particularly on the level of the world-level financial centers like Dubai, while seeking a place to set their feet in the region to expand to other regions.
- The current and expected decline in the GBP value in the wake of the Brexit decision can contribute to increasing the attractiveness of the investments in Britain before the investors of UAE and the GCC states.
- The decline in the GBP value against the USD will lead to cost increase in the GCC states in general and UAE in particular due to the association between their currencies and the US dollar. This will negatively affect the tourism flows to UAE, which will be more expensive.
- The decline of the pound sterling will promote the attractiveness and competitiveness of the British products and reduce the attractiveness of the Emirati products exported to Britain.
- The volume of trade exchange between UAE and Britain amounted to 13 billion GBP in 2015, recording an increase of 1 billion GBP compared to 2014. The trade exchange volume between both countries is expected to exceed 25 billion GBP by 2020, especially with UAE signing an agreement with the UK to avoid double taxation, which contributes to the facilitation of carrying out trade deals and the promotion of the economic and commercial relations between both countries.
- The Brexit encourages the formation of stronger bilateral partnerships and concluding bilateral agreements on various levels and in various fields to promote the trade exchange and develop the economic relations between Britain and the GCC states in general and UAE in particular. The Brexit might lead to the success of Britain's negotiations with the GCC states to achieve a stronger bilateral partnership. The GCC states will benefit from the pound sterling's decline and will increase their investments in the UK. This is considered a distinctive opportunity to purchase assets against a low value.
- The increased unemployment in Britain due to its exit from the EU might lead to making the technical experts and skillful workers available before UAE to benefit from in the development process and the transform to the knowledge economy.





Large financial reserves

Local currency

The IMF reports stressed the solidity and flexibility of the Emirati economy and its capability of bearing the consequences and effects of the world oil price decline, the decreased oil revenues and the deceleration of the world economy growth. This is attributed to the financial and economic policies adopted

This relies on reducing the dependency on oil revenues, finding other income sources from non-oil economic sectors, raising the water and electricity fees, imposing other fees, postponing or reducing the spending on the projects that are not considered of priority, rationalizing the commercial spending,

Investment spending

Reducing fuel support, continuing to promote the investment spending especially on huge material and social infrastructure projects and Expo 2020 preparation investments, expanding the metro, airports, railway, land, sea and air transport means,

expanding the touristic, real-estate and energy facilities depending on the huge financial reserves accumulated with the state.

Trade Balance

Within the context of realizing the UAE Vision 2020 to achieve a knowledge economy based on research and innovation and to prepare for the postoil era,

the state has announced the "Supreme Policy for Science, Technology and Innovation," which includes 100 initiatives in the health, education, energy, transport, water and technology sectors with allocated investments of 300 billion dirham in value. Moreover

The IMF reports expect that the UAE's real total economy will grow in 2016 by 2.4% with the oil product continuing to drop in the short term due to the abundance in the world production.

International Monetary

These reports also predict that the inflation will decrease in 2016 to 3.3% compared to 4.1% in 2015 while the local currency keeping its value.

Rationalize spending

The reports also indicate that under the stable spending levels and the decreased revenues, the balance sheet is expected to record a financial deficit of approximately 3.2% of the GDP in 2016. The state will be able to finance the financial deficit due to having huge financial reserves, which does not make UAE in need for big financial support in the medium term.

The IMF estimates also show that the Emirati trade balance will achieve a surplus of about 2.9% of the GDP in 2016, and this surplus will increase to about 3.1% in 2017.

Fifth: UAE economy outlook

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The IMF reports stressed the solidity and flexibility of the Emirati economy and its capability of bearing the consequences and effects of the world oil price decline, the decreased oil revenues and the deceleration of the world economy growth. This is attributed to the financial and economic policies adopted by the state to promote the economy's ability to bear the pressures, maintain the financial and monetary stability and drive the sustainable growth forward. This relies on reducing the dependency on oil revenues, finding other income sources from non-oil economic sectors, raising the water and electricity fees, imposing other fees, postponing or reducing the spending on the projects that are not considered of priority, rationalizing the commercial spending, reducing fuel support, continuing to promote the investment spending especially on huge material and social infrastructure projects and Expo 2020 preparation investments, expanding the metro, airports, railway, land, sea and air transport means, expanding the touristic, real-estate and energy facilities depending on the huge financial reserves accumulated with the state. Within the context of realizing the UAE Vision 2021 to achieve a knowledge economy based on research and innovation and to prepare for the post-oil era, the state has announced the "Supreme Policy for Science, Technology and Innovation," which includes 100 initiatives in the health, education, energy, transport, water and technology sectors with allocated investments of 300 billion dirham in value. Moreover, the state is heading towards multiplying the spending on scientific research by about 3 times until 2021.

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The reports also indicate that under the stable spending levels and the decreased revenues, the balance sheet is expected to record a financial deficit of approximately 3.2% of the GDP in 2016. The state will be able to finance the financial deficit due to having huge financial reserves, which does not make UAE in need for big financial support in the medium term.