

UAE nominal economy to rise 8% in 2010

GDP expected to rebound on oil price while real growth projections remain low

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The price of oil will be the key determining factor for the UAE's economic growth . (AFP)

Higher oil prices will boost the UAE economy by around eight per cent in current prices this year after it plunged by more than 11 per cent in 2009 because of a sharp fall in crude prices, according to a Saudi investment firm.

Real growth is projected at only around 0.9 per cent following a contraction of about 0.6 per cent in 2009 as a result of lower oil output and a sharp downturn in the construction sector, NCB Capital (NCBC) said in a study.

After a decline of 11.9 per cent, the nominal GDP will rebound by nearly eight per cent this year and pick up by around 11 per cent in 2011 and nearly 12 per cent in 2012, said NCBC, an affiliate of the Saudi National Commercial Bank.

The rate of the recovery remains far behind growth in the UAE's nominal GDP in 2008 and 2007, when it leaped by 36 and 22.2 per cent respectively, it said.

Real GDP will also rebound by around 3.1 per cent in 2011 and accelerate by about 4.1 per cent in the following year, the study said.

A breakdown showed the non-hydrocarbon sector will drive real growth in the next two years as it is projected to swell by 3.7 per cent in 2011 and around 4.1 per cent in 2012. In 2010, non-oil growth is forecast at only 0.1 per cent.

The report projected real growth in the oil sector at around 2.1 per cent this year and 2.2 per cent in 2011. It expected growth to pick up to 4.2 per cent in 2012.

"Consumer confidence in the UAE stabilized during the second quarter of 2010, with 43 per cent of the respondents surveyed indicating positive expectations," NCBC said, citing the recent poll by Bayt Com.

It said the UAE's Consumer Confidence Index (CCI) dropped by only around 0.5 points over the previous quarter while its fellow GCC members excluding Qatar, recorded a decline in the range of 1.7-4 points.

“Also inflationary pressures are edging up as the authorities remain committed to a permissive fiscal stance. Abu Dhabi is expected to post a budget deficit of Dh84.9 billion in 2010 down from Dh126.5 billion in 2009.”

The report said it believed the budget is based on an average oil price of around \$60 per barrel in 2010 against \$40 last year.

The Emirate’s oil revenue is projected at nearly 118.7 billion this year compared with Dh121.8 billion in 2009 while spending is expected to reach Dh207.5 billion, down from around 251.7 billion last year.

The study gave no reason for its forecast about the improved performance of the UAE economy in 2011-2012 but oil prices are projected by several regional and global institutions to reach nearly \$80 a barrel compared with an expected average of about \$70 this year and nearly \$60 in 2009.

The UAE and other oil producers in the 12-nation Organization of Petroleum Exporting Countries (OPEC) are also expected to hike crude supplies due to an increase in demand caused by better global economic performance.

Higher oil prices and output are expected to widen the UAE’s fiscal surplus from around 0.4 per cent of GDP in 2009 to nearly 5.6 per cent in 2010, around 9.6 per cent in 2011 and 12.2 per cent in 2012, according to NCBC.

The country’s current account balance, which plunged into a deficit of 2.7 per cent in 2009, is forecast to rebound into a surplus of about 5.9 per cent this year and nearly 13.1 and 20.3 per cent in 2011 and 2012 respectively.