

An audience with Khatija Haque

The economy has—in some respects—recovered from 2020's pandemic-related recession. Khatija Haque, Chief Economist and Head of Research of Emirates NBD, gives her views on the impact of Covid-19 on global markets.

What are your predictions for the health of the global economy in the wake of the pandemic?

The International Monetary Fund (IMF) estimates world GDP growth was 5.9% in 2021, up from a relative contraction of 3.1% in 2020. However, the recovery has been uneven, with advanced economies and those with greater coronavirus vaccine coverage faring better than low-income developing countries.

The headline global growth figure also masks the impact of several waves of the coronavirus which have buffeted the world and contributed to a high degree of uncertainty for policymakers, businesses, and consumers.

In 2022, global growth is expected to slow to 4.4% as both fiscal and monetary support provided over the last two years is withdrawn. Uncertainty remains elevated however, with the rapid spread of the Omicron variant of the coronavirus posing a risk to growth in the first quarter of 2022.

How has the UAE fared with respect to the pandemic and what do you expect in 2022?

The speed and efficiency with which the UAE rolled out coronavirus vaccines in 2021 helped the country avoid further lockdowns and put the economy in a strong position to benefit from the global rebound in activity in 2021. We estimate the UAE's non-oil sector grew 3.5% in 2021, underpinned by recovering domestic demand, along with a surge in global trade volumes and a modest rebound in international tourism.

We expect non-oil sector growth in the UAE to accelerate to 4.0% in 2022, even as global growth slows somewhat. Higher interest

rates and a stronger dollar could prove to be headwinds to growth in the UAE in 2022, but the structural reforms implemented over the last couple of years will help to boost investment and drive growth over the medium term. These reforms include the expansion of longer-term residency visas to broader categories of residents and new pathways to citizenship, as well as wide-ranging changes to personal and labour laws, allowing 100% foreign ownership of onshore companies and most recently, the decision to align the UAE's working week with that of larger developed economies. These measures will serve to reduce barriers to investment and attract both human and financial capital to the UAE over the coming years.

Inflation has surged in many developed economies in 2021. What does this mean for monetary policy going forward?

Inflation in developed economies last year was higher than many economists, and central bankers, had expected. The exceptional fiscal support provided to households together with supply chain disruption and higher energy costs pushed US inflation to a 40-year high in December 2021. While some of those pressures will abate this year, inflation is likely to remain higher for longer than previously envisaged. As a result, the Federal Reserve has accelerated the tapering of asset purchases and is now expected to raise interest rates at least four times in 2022—much faster than was expected just a few months ago.

Other major central banks are also expected to tighten monetary policy this year, but at a more muted pace, which is likely to be reflected in a stronger US dollar.

Is inflation an issue in the UAE?

As in the rest of the world, inflation in the UAE is accelerating, although it remains low compared with some of the larger economies. While businesses have experienced rising costs for raw materials and shipping, the

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survey data suggests that the extent of these price increases are less severe in this region, relative to North America and parts of Europe, for example.

For consumers, food and transport prices have been the main sources of inflation in the UAE in recent months with the latter driven by higher crude oil prices. Housing and utility costs—the biggest component of the consumer price index—remain deflationary for now but the rate of price decline has slowed. It can take 12-18 months for changes in rent to feed through to the consumer price index (CPI) due to the nature of the index. Nevertheless, inflation in the UAE is likely to continue to rise, averaging 2.0% in 2022.

How did Expo 2020 Dubai impact the UAE economy?

Growth in the UAE in the final quarter of 2021 was likely the strongest it has been in two years, based on survey data. Expo 2020 was a key contributor to this faster growth, along with the relaxation of travel restrictions as the UAE entered its peak tourism season. However, the increase in activity in Q4 2021 led to only

a slight increase in private sector employment, as firms remain cost conscious.

Preparations for Expo 2020 have anchored infrastructure investment in Dubai over the last decade, supporting GDP growth in the emirate even during periods of lower oil prices, when spending in other GCC countries was curtailed.

The transport, leisure and hospitality infrastructure that has been built over the last decade with Expo 2020 in mind will provide a platform for growth in the tourism and services sectors for years to come.

The redevelopment of the Expo site after the event will further contribute to Dubai's growth in the coming years, with the creation of a new smart and sustainable city – District 2020.



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