KPMG
cutting through complexity

UAE

High Growth Markets country profile

High oil revenues and a moderate foreign policy stance have enabled the UAE to play a vital role in the affairs of the Gulf region. For more than three decades, oil and global finance drove the UAE's economy. In 2011, the government announced a multi-year infrastructure investment plan for the poorer northern emirates, and aggressively pursued any advocates of political reform. Per capita gross domestic product (GDP) is on a par with leading west European nations. Real GDP growth will be driven by increasing non-oil activity, as well as by further gains in oil production following investment in capacity expansion. An average annual growth rate of 4.6 percent is expected in the years 2014–2018.

Country overview

Geography and climate

- **Location:** Middle East, bordering the Gulf of Oman and the Persian Gulf, between Oman and Saudi Arabia
- **Climate:** desert; cooler in the eastern mountains
- **Regions:** 7 emirates
- **Major cities:** Abu Dhabi (666,000) (2009)

Political system

- **Type of government:** federation with specified powers delegated to the UAE federal government, and other powers reserved to member emirates
- **Capital:** Abu Dhabi

Population, language and religion

- **Population:** 7.9 million
- **Urban population:** 84.4%
- **Demographics:** 0–14 years: 20.7%; 15–64 years: 76.2%; 65 years and over: 1%
- **Official language:** Arabic
- **Prominant religions:** Muslim and Christian

Currency and central banking

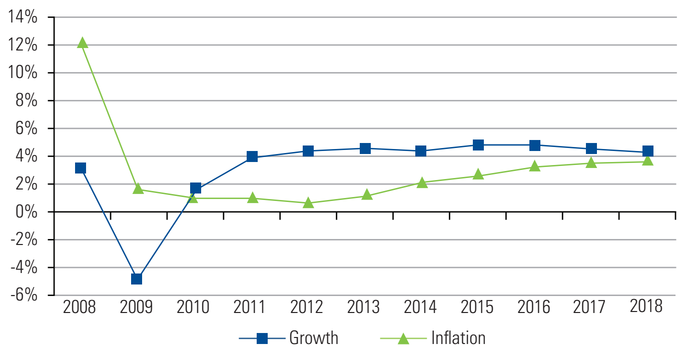
- **Local currency:** Dirham (AED)
- **Exchange rate:** 1 AED = US$0.2722 USD (1 April 2014)
- **Interest rate (average annual rate):** 1% (2013); 1.4% (2012); 1.7% (2011); 2.2% (2010); 2.5% (2009)
- **Foreign exchange reserves:** US$58.04 billion
- **Total debt (2013):** external: US$167.9 billion; internal public debt: 41.7% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$437.9 billion.** Real GDP growth will be driven by increasing non-oil activity, as well as by further gains in oil production following investment in capacity expansion. An average annual growth rate of 4.6% is expected in 2014-2018.
- **Foreign direct investment (FDI) (billions):** inbound: US$13.7 (2008); US$10 (2013); US$10.5 (2018 forecast); outbound: US$15.8 (2008); US$3.5 (2013); US$4.5 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$350.1 (2012); US$379.5 (2013); US$563.8 (2018 forecast)
- **Imports FOB (billions):** US$221.9 (2012); US$250.7 (2013); US$437.5 (2018 forecast)
- **Sector breakdown:** service: 38%; industrial: 61.4%; agriculture: 0.6%
- **Trade balance (billions):** surplus of US$128.2 (2012); US$128.8 (2013); US$126.2 (2018 forecast)
- **Stock exchanges:** Abu Dhabi Securities Exchange, Dubai Financial Market, Dubai Mercantile Exchange

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The UAE plans to complete the first phase of its national rail project by the end of 2014, as part of its investment in enhanced infrastructure. A resumption in such mega-projects indicates that the economy is rebounding from the 2009 debt crisis. The emirate of Dubai is expected to focus on repaying vast amounts of debt accumulated by government-related entities in the forecast period, and Abu Dhabi leads the way in diversifying away from oil. Following the financial crisis in Dubai and subsequent calls for greater transparency, there should be improvements in federal institutions.
- **Competition policy:** Many fully or partially state-owned companies have grown large and efficient enough to compete effectively for business and financing in local and regional markets. During 2014–2015, a series of new laws will come into force covering competition, commercial companies and insolvency. Looking forward to 2016–2018, the government plans to actively encourage private-sector involvement in the non-oil economy, with tenders for further major public-private partnership infrastructure projects.
- **FDI policy:** Investment laws and regulations are evolving and are expected to become more conducive to foreign investment. At present, the regulatory and legal framework favors local over foreign investors. There is no national treatment for investors in the UAE, and foreign ownership of land and stocks is restricted. The UAE maintains non-tariff barriers to investment, in the form of restrictive agency, sponsorship and distributorship requirements. The period 2014–2015 sees the end of the 35-year concession for Abu Dhabi's onshore oilfields, and a new consortium of foreign partners will be selected to operate the fields in the next phase of development. During 2016–2018, Khalifa Industrial Zone Abu Dhabi should continue to build momentum, attracting a range of foreign investment.
- **Foreign trade and exchange controls:** According to the Central Bank of the UAE, the merchandise trade surplus increased slightly to US$128 billion in 2012, with export receipts rising by 16 percent to US$350 billion, and import spending by 13.5 percent to US$222 billion. The current account surplus surged to US$66.6 billion, or 17.3 percent of GDP. The UAE's exchange system is generally free of restrictions on payments and transfers from international transactions. As part of the Gulf Co-operation Council (GCC), the UAE is expected to seek to conclude free-trade agreements between 2014–2015. Political divisions in the GCC may further hinder progress on long-stalled customs union negotiations with the European Union (EU). Foreign exchange flows may be subject to strengthened regulation in 2016–2018, to improve transparency and combat money laundering. There is an increased prospect of free trade agreements being concluded.
- **Financing policy:** During 2014–2015, bank lending to the private sector is set to increase as the recovery strengthens. The Central Bank of the UAE is likely to start to enforce exposure limits of banks to government-related entity debt. The bond market should deepen between 2016–2018 and offer a more comprehensive range of products, including sharia-compliant services.
- **Taxes:** There is no personal income tax and the only corporate taxpayers are foreign banks and foreign energy firms. The Dubai government is increasingly generating revenue by extending fees and charges for services. For example, it charges tenants 5 percent of their annual rent. Islamic banks and financial institutions also pay an Islamic tax (zakat) of 2.5 percent of their net operating capital. Value-added tax (VAT) of 3–5 percent may be introduced later in the forecast period to supplement revenue. During 2014–2015, indirect taxes such as road tolls and property levies are to be extended. VAT of 3–5 percent could be phased in from 2016–2018 to replace import duty, as part of a wider co-ordination of GCC fiscal policies. However, there will probably be delays, due to difficulties in reaching GCC consensus.

KPMG in the UAE

KPMG member firms are among the world's leading providers of Tax, Audit and Advisory services. In UAE, KPMG has approximately 750 professionals and six offices.

KPMG in UAE aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in UAE website: kpmg.com/ae/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014; US Department of State, 2014 Policy

Designed by Evalueserve. Publication name: UAE: High Growth Markets country profile
Publication number: 130913x. Publication date: June 2014