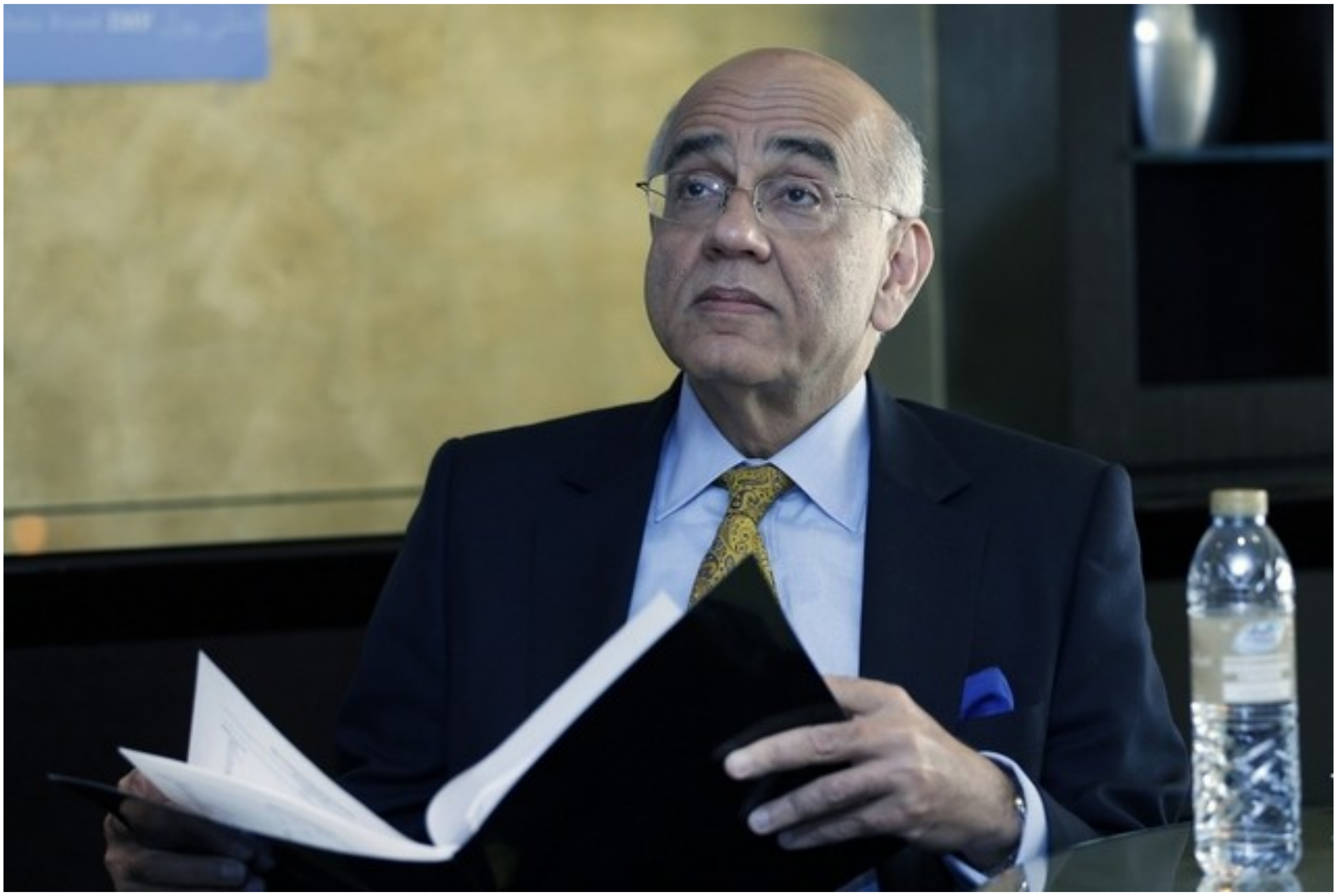

Masood Ahmed, of the IMF, says it is a 'big plus' that the UAE is more diversified than other oil-exporting countries. Karim Sahib / AFP

IMF cuts UAE's growth forecast for 2016 as oil prices crash

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Growth for UAE to come in below IMF forecast

The IMF has again cut the UAE's growth forecast for this year on collapsing oil prices, a worsening Chinese economy and looming regional public spending cuts.

The UAE will grow at 2.6 per cent this year, a cut of 0.5 of a percentage point against the fund's October projection of 3.1 per cent growth, and the slowest growth rate the country has experienced since 2010.

The UAE's fiscal deficit is expected to widen to 7.5 per cent of GDP, the fund expects, but will depend heavily on what happens to the oil price this year. The IMF had forecast a deficit for this year of 4 per cent.

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to spend 13 per cent less this year than last year, and the UAE already undershooting its deficit projections, is reducing overspending but is slowing down economic activity, said Masood Ahmed, the regional director for the Middle East and Central Asia at the IMF.

"What we're seeing in the UAE … is that the government has begun to hold back on public spending," said Mr Ahmed. "That has a dampening effect on the rest of the economy."

The IMF previously forecast that the UAE would cut 1 percentage point from its growth forecast every year up to 2020, given its spending plans.

Initial steps by Arabian Gulf governments to trim budgets were welcome, Mr Ahmed said, but a prolonged oil price rout means countries would have to make more cuts and find new sources of revenue.

"For many [oil exporters] it is a multi-year effort to continue with fiscal consolidation," Mr Ahmed said. "More will need to be done in coming years to raise resources for the budget outside of the oil sector."

In Dubai, investment in the emirate's ports and logistics infrastructure – including the Jebel Ali port and Dubai World Central, an airport logistics hub connected to the forthcoming Al Maktoum International Airport – was intended to help the emirate offset the impact of low oil. When oil prices go down, it is cheaper for companies and countries to trade with each other, which should be good news for the emirate.

But this time around, that does not seem to be happening, Mr Ahmed said. The growth rate of global trade volumes has not recovered to the level it was at before the 2008 crisis, when it regularly exceeded global GDP growth.

Low oil prices are not spurring further trade – commodity demand is falling globally, which hits demand for shipping, while emerging market trade is also suffering.

The Baltic Dry Index, which measures the cost of freight for raw materials, has fallen by more than 50 per cent during the past year, as demand for shipping falls away.

"The fact that the UAE is more diversified than most of the other oil-exporting countries has been a big plus in terms of being less impacted by the drop in oil prices," Mr Ahmed said. "But at the same time … the drop in oil prices is coinciding with a slowdown in emerging markets, a drop in prices for other commodities and a drop in trade particularly among emerging market countries."

A slowdown of activity in China, where manufacturing sectors have suffered as the country attempts to move from state investment-led growth towards consumption and services-led growth, has also dented global confidence and hurt trade.

"We are discovering that the linkages between China and the rest of the world are stronger than we had anticipated," said Mr Ahmed. "The slowdown in the real economy in China is relatively small but the slowdown in those parts of Chinese economy that were sources for demand for commodities have been larger," he added.

"That's why spillovers for commodity prices were more pronounced than people expected a year ago."

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