UNITED ARAB EMIRATES
MINISTRY OF ECONOMY

ANNUAL ECONOMIC REPORT 2018

26th EDITION

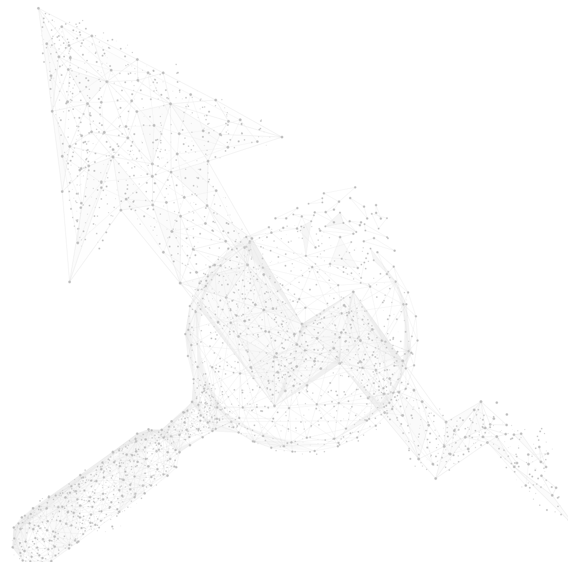
www.economy.ae

Abu Dhabi - Headquarters
P.O. Box 901 Abdu Dhabi, UAE
Tel.: +971 2 613 111
Fax: +971 2 626 000
Email: info@economy.ae
Website: www.economy.ae

Department of Economic Studies
Email: pdsd.inf@economy.ae
Tel.: +971 26131292

www.facebook.com/pages/Ministry-of-Economy
twitter.com/Economyae

UNITED ARAB EMIRATES
MINISTRY OF ECONOMY



THE ANNUAL ECONOMIC REPORT 2018

26th Edition

Vision

Diversified global competitive economy based on knowledge & innovation, lead by Emiratis.

Mission

Achieve national economy's development and competitiveness. Prepare for an environment that encourages the practice of economic businesses by enacting and modernizing economic legislations and external trade policy, and developing national industries and exports, and tourism development by developing its products and enhancing its quality, encouraging investment, regulating competitiveness and SME's sector, protecting consumer rights and intellectual property, supporting the efforts of cooperative societies, diversifying economic activities, popularization of smart apps. All the above should be lead by Emirati competencies in accordance with global standards of creativity and innovation and knowledge economies.

Values

- **Innovation:** Set up positive atmosphere to assist those appointed internally and externally in the Ministry to help them transform their ideas into distinguished applicable results that serve the Ministry's vision and the UAE competitiveness.
- **Respect of Rights:** Respect employees and consumers, and all customers' rights as per the economic legislations and established work systems.
- **Sustainability:** Do our best to fulfil social and environmental sustainability requirements in all economic activities.
- **Integration:** Reinforce collaboration and integration aspect among economic sectors.
- **Competitiveness:** Work hard to achieve a distinguished ranking for our national economy, both on local and international levels.
- **Excellence and Team Spirit:** Work as one team to spread institutional excellence concept on all levels.

His Highness Sheikh Khalifah Bin Zayed Al Nahyan
President of the United Arab Emirates Ruler of Abu Dhabi

His Highness Sheikh Mohammed bin Rashid Al Maktoum

UAE Vice President, Prime Minister and Ruler of Dubai

CONTENTS

MINISTER MESSAGE

H.E. Eng. Sultan bin Saeed Al Mansoori

UAE Minister of Economy

The UAE has put in place an enlightened development vision that pictures a diversified, global, knowledge-based and competitive economy led by national human competencies. To achieve this ambitious vision, the efforts of all government sectors at the federal and local levels, in partnership with the private sector, have been combined, to accelerate economic growth and ensure its sustainability.

Today, the country has attained advanced rankings across several economic indicators in leading Global Competitiveness Reports, for the efficiency of the approach adopted and the economic policies applied, as well as the flexibility of economic performance in tackling the various regional and international challenges and variables. Our national economy is one of the most diversified in the region, with non-oil sectors contributing more than 70 per cent to the GDP and a robust growth record over the past five years, combined with above average global growth. The average of real GDP growth rate for the UAE for the period 2011-2016 about 4.4 per cent.

The State continues its forward march by focusing on priority sectors that strengthen its capabilities and lay the foundations of the future economy. These include fostering an environment of innovation and technology, encouraging scientific research, protecting Intellectual Property (IP), adopting the techniques of the Fourth Industrial Revolution and the digital economy, developing business-friendly legislative and regulatory frameworks that attract foreign investment, strengthening value- added sectors, enhancing the role of the private sector, empowering national entrepreneurship, and supporting start-ups and modern companies based on innovation and knowledge.

In order to highlight the most important achievements of the State in its journey to fulfill its ambitions, we present you through the chapters of this qualitative issue (The Annual Economic Report 2018), some of the significant economic changes at the regional and global levels and the performance indicators of the national economy including the rates of growth of GDP, the volume of consumer spending, inflation, domestic investment and foreign direct investment, prominent indicators of the financial and monetary sector, as well as the volume of the labor force.

In addition, the report addresses the emerging global trend of Artificial Intelligence (AI) and the State's efforts to develop its capabilities in this promising field, as well as the economic expectations during the next phase of development.

The UAE continues to fast track its growth agenda based on an enviable record of achievements and successes, driven by a prudent future vision, and a firm and sincere will to continue the development process to reach the top in various key indicators of global competitiveness.

I. Global, Arab and Gulf Economic Conditions

01

01 Global Economic Conditions

The past decade witnessed series of economic crises and widespread negative shocks, starting with the 2008-2009 global financial crisis, followed by the European sovereign debt crisis of 2012-2010 and the reorganization of world prices of basic commodities for the period 2014-2016. As these crises and their accompanying obstacles continue to decline, the world economy is starting to recover, allowing for greater room to redirect policies towards long-term issues that hinder progress towards the economic, social and environmental aspects of sustainable development.

In a time when the intensity of many aspects of the prevailing fragileness resulted by the global financial crisis has eased, a number of uncertainties and risks loom, while high levels of policy uncertainty continue to cloud global trade prospects, development aid, migration and climate-related goals, and may delay a broader recovery in global investment and productivity. The intensification of geopolitical tensions might reinforce the trend towards more unilateral and isolationist policies. The long period of global abundant liquidity and lower borrowing cost have resulted in a further increase in the volume of global debt and the accumulation of financial imbalances. It is also associated with the current high levels of asset prices, suggesting low risk prices.

Many developing economies, particularly those with more open capital markets, remain vulnerable to a sharp rise in risk aversion, uncontrolled tightening of global liquidity conditions and sudden withdrawal of capital. The normalization of monetary policies in developed economies could lead to such a boom. Central banks in the developed economies are now on entirely new paths, with no historical precedent to guide them. This makes any adjustment to financial markets harder to predict than during previous recovery periods and increases the risks associated with policy errors.

The global economic growth rate is estimated at 3.0% in 2017, according to the UN report on global conditions, which represents a significant acceleration, against a growth rate of only 2.4% in 2016, the highest rate of global growth recorded since 2011. Business market indexes continue their improvement in a wide range of countries, with almost two-thirds of the world's countries achieving stronger growth in 2017 than in the previous year. Globally, growth is expected to remain steady at 3.0% in 2018 and 2019.

Recent acceleration of the global GDP growth is most likely attributed to achieving stronger growth in many advanced economies although South and East Asia remain the most dynamic areas in the world. The periodic improvements in Russia, Argentina, Brazil and Nigeria, economies emerging from recession, account for almost a third of the global growth rate between 2016 and 2017. However, the recent economic gains remain unevenly distributed across all countries and regions, and many parts of the world still have to recover a good growth rate.

In general, investment conditions have improved thanks to the decline of financial volatility and fragility of banking sector, the recovery of some basic commodity sectors and the global prediction of a stronger macroeconomics. Financing costs remain low in general and the gaps in many emerging markets have been reduced, which reflects a decline of the interest rate related risks. This contributed to the increase of capital flows to emerging markets, including increasing lending across borders, enhancing credit growth in developed economies and developing economies alike.

The improvement of conditions has supported a modest recovery in productive investment in some large economies. Total fixed capital formation accounted for about 60% of global economic activity acceleration in 2017. This improvement is a good achievement compared to a very low starting point, after two years of exceptional weak growth in investment and after a prolonged period of overall global investment weakness. The high level of uncertainty in trade policy, the severe uncertainties about the impact of balance sheet adjustments in major central banks, the high debt volume and the increased financial vulnerability on the long term could hamper a stronger and broader recovery in investment activity, Which is needed to support stronger productivity growth and to accelerate progress towards sustainable development goals.

Global trade has recovered in 2017. In the first eight months of the year, global commodity trade grew at its fastest pace in the post-crisis period. Recovery has likely resulted from increased demand for imports in East Asia, with growing domestic demand in the region, supported by policy facilitation measures. In many major developed economies, capital goods imports have recovered in response from companies to improve investment conditions.

The recent modifications that occurred on the path of main trade relations, such as the decision of the United Kingdom of Great Britain and Northern Ireland to exist the European Union, the decisions of the United States of America to renegotiate the North America Free Trade Agreement (NAFTA) and reassess the terms of its other existing agreements. All that has raised concerns about the potential escalation of trade barriers and conflicts. Such measures may be amplified if they are met with retaliatory measures by other countries. This increasingly restrictive business environment may hinder medium-term growth prospects, given the interrelated connections between trade, investment and productivity growth. In this regard, policies should focus on supporting the revitalization of multilateral trade cooperation, while emphasizing the potential benefits of trade in services.

The uneven pace of the global economic recovery continues to raise concerns about prospects for achieving sustainable development goals. Many countries have suffered recent setbacks, with average per capita incomes falling in four major developing regions in 2016.

In 2017-2019, further setbacks or modest GDP growth in Central, South and West Africa, West Asia and Latin America and the Caribbean are expected. The combined population of these regions reaches 275 million people living in extreme poverty. This confirms the importance of addressing some of the longer-term structural issues that impede faster progress towards sustainable development. Failure to address these issues could result in a quarter of Africa's population suffering an absolute poverty by 2030.

A very small number of the least developing countries are expected to achieve the objective emanating from the goal of sustainable development which is to achieve an annual growth of GDP by at least 7% in the near future. Attaining such objective will require higher levels of investment in many of the least developing countries.

The accelerated economic growth has also environmental costs, as the frequency of weather related shocks continue to increase which highlights the urgent need to build resilience in order to face climate change and contain the pace of environmental degradation. Although the level of carbon emissions related to power generation at the global level remained fixed in 2013-2016, it is likely that the return of a stronger GDP growth will also lead to increasing emissions levels.

Global maritime and air transport emissions do not fall under the scope of Paris Agreement. The emissions of these sectors have increased with a faster pace than that of land transport over the past 25 years, and it kept increasing relentlessly since 2013. While the measures of combating air pollution were enhanced in the sectors of maritime and air transport, it remains unclear whether the current policy will be sufficient to reduce emissions to levels that comply with the objectives of Paris Agreement.

The transition towards sustainable energy is progressing in a gradual pace. The sources of renewable energy constitute more than half the overall recently extended energy capacities. However, they only provide 11% of the energy generated globally. China remains the world's biggest investor in the field of renewable energy. Moreover, Australia, Germany, China, Mexico, UK and the US will support investing in renewable energy in 2017 through mega projects in the field of wind energy. In a time when many countries, especially in Africa, still suffering an acute shortage of energy supplies, there is great potential to lay the foundation for an environmentally sustainable growth in the future through the current smart policies and investments.

Thus, we should work on redirecting the policies to face these challenges and achieve the highest level of mutual benefits among the development objectives. Policies reorientation should include the following four tangible fields: increasing economic diversification, reducing inequality, enhancing the financial architecture and addressing the aspects of institutional deficit.

Policymakers should use the current macroeconomics background to focus on four tangible fields. First of all, it is not an exaggeration to say that there is a compelling need for economic diversification in the countries that still depend greatly on a limited number of basic commodities. This idea is proved by the heavy economic costs related to reorganizing the world prices of basic commodities.

Also, it is crucial to stop and address the increasing intensity of differentiation to ensure a balanced and sustainable growth in the future. This requires a combination that consists of short term policies to raise the standards of living in the most deprived groups, and longer term policies to address the aspects of inequality of opportunities, such as investing in the development of early childhood phase, providing health care and education and investing in country roads and electricity.

The third main aspect is to reorganize the global financial architecture in line with the sustainable development plan 2030 and Addis Ababa work plan. This requires the establishment of a new framework of sustainable financing and gradual shift focusing the current focus on short-term profits to the objective of responsibly creating a long-term value at the social and environmental level. Precautionary policies at the level of macroeconomics, if properly coordinated with monetary, fiscal and foreign exchange polices, can support such objectives by enhancing the financial stability and containing the accumulation of financial risks.

Finally, the weak governance and lack of political stability still constitute major obstacles in front of achieving the plan of sustainable development 2030. At the same time, improving global economic growth alone will not have a significant effect in helping those affected by conflicts, as there is a little room to achieve a tangible progress towards sustainable development. Moreover, the priority of policy should include increasing efforts to prevent conflicts and solve them and address the aspects of institutional deficit which constitute the underlying causes of many of these obstacles.

02 Arab Economic Conditions

Economic Growth

In 2017, global economy witnessed a widespread recovery which covered two thirds of the worlds developed and developing countries and the economies of emerging markets. Global trade flows have improved due to the increase of investment and exports. Prices in international oil markets have increased as a result of the increased demand for oil because of the improved economic activity and the relative slowdown in the increase of oil supply levels. Despite this improvement in performance and global economic activity, the economic growth rate in the Arab countries combined declined during the year 2017 to 1.4% against 2% growth in 2016.

This limited growth came as a result and consequence of the slowdown in economic activity in the oil exporting countries, which growth rate dropped to 0.6%. The growth rate in the other Arab oil exporting countries has decreased as a result of a combination of factors that affected the production of both oil and non-oil sectors. Oil production declined due to the commitment to the agreement to reduce oil production among OPEC members and major producers from outside the Group to reduce the abundance of supply and adjust the quantities of production and the impact of fiscal control measures that affected the income available for spending, levels of consumption and investment and the tendency to tighten the monetary situation in a number of the Arab countries that adopt fixed exchange rate systems, in addition to the continued impact of the internal conditions that have been taking place since 2011 on some of the countries of the Group.

On the other hand, the moderate growth rate achieved by Arab oil importing countries amounted to 3.8% in 2017 with high growth rates achieved in a number of these countries was a key factor in alleviating the impact of the slowdown in growth in the oil economies on the growth rate of the Arab countries as a group. The implementation of economic reform programs in these countries stimulated the levels of investment and exports, especially under some measures taken to increase exchange rate flexibility, and helped to contain some of the imbalances in general budgets, thereby providing financial resources that could be used to support growth-stimulating spending levels.

A partial recovery of the pace of economic activity in the Arab countries as a whole is expected to grow to 2.2% in 2018 due to a number of growth driving factors. In oil-exporting countries, the growth rate is expected to rise to 1.7% in the light of continued investment spending stimulating the activity of some nonoil sectors, as a number of these countries implement economic diversification strategies and plans, with relative improvement in the internal conditions in some countries of the group which help restoring part of economic growth. On the other hand, the pace of moderate growth in the Arab oil importing countries is expected to continue at the level of 3.7%, supported by the expected increased external demand due to the improved global economic activity, which enhances the level of exports and investment. Moreover, the positive results achieved will continue its growth stimulating effect at the level of economic reform policies.

The economic growth rate of Arab countries is expected to increase to 2.9% in 2019, due to a set of positive factors, the most prominent of which are the expectations of a recovery of the oil sector's activity.

According to the estimations of the World Bank database, the Arab GDP at current prices is estimated at USD 2591.1 billion in 2017, after it was USD 2500.2 billion in 2016. The Arab GDP at fixed prices amounted to USD 2652.2 billion in 2017, after it was USD 2621.4 billion in 2016.

Average Income Per Capita

According to the World Bank database, the Arab world's population in 2017 has increased to about 414.5 million. It estimated that the GDP of the Arab countries as a group at current prices increased in 2017 to USD 2591.1 billion. According to the same estimates, the average Arab citizen's share of the Arab GDP in 2017 would reach about USD 6251, with a large disparity between the Arab countries in this regard, this is an outcome of the relative recovery of oil revenues, development of the growth of nonoil sectors in oil producing countries and its effect on the economic growth of Arab countries and the growth improvement in the oil importing countries as a result of the adopted reform programs.

Inflation

As a result of the rise in international oil prices and the tendency of a number of Arab countries to implement reforms to the systems of basic commodity support, liberalize prices, impose taxes and increase government services fees to achieve fiscal discipline, They have been affected by inflationary pressures and increase of the prices of a number of commodity and service groups. On the other hand, the deceleration of aggregate demand, tightening of monetary policy and the slowdown in economic growth in some other Arab countries helped reducing such inflationary pressures. As a result, the inflation rate in the Arab countries as a group increased during the year

2017 to about 13.9%, compared to 8.4% in 2016.

It is expected that the inflation rate will decline in 2018 to 9% and will continue to decline in 2019 to 8%, which reflects the anticipated effect of the continued tightening of monetary policy in countries with fixed exchange rate systems, in accordance to the expected increase of the dollar interest rate to maintain the stability of exchange systems, and the trend of central banks in Arab countries with flexible exchange rate systems to adopt measures aimed at containing the increase of the general level of prices and continue implementing the policy of targeting inflation. On the other hand, relative inflationary pressures are expected to emerge in some Arab countries as a result of the commencement of imposing new taxes, such as the value-added tax and selective sales tax.

Arab Budgets

The increase of international oil prices by 28.6% in 2017 and the continued financial reforms in many Arab countries led to achieving a tangible decline of general budget's deficit levels, which helped reducing the deficit of the combined budget of Arab countries from 10.4% of the GDP in 2016 to 6.4% in 2017.

The focus of Arab budgets in Arab oil exporting countries, especially the countries of Gulf Cooperation Council, is expected to revolve in 2018 and 2019 on supporting economic growth by providing the financial allocations necessary to allow spending on projects with high value added tax, and activating the programs of economic diversification. They are expected to continue the measures of enhancing non-oil revenues and rationalizing the current public expenditure. As for the other oil exporting countries, the deficit of general budgets is expected to last for a longer period due to the need to increase public expenditure on the requirements of reconstruction. Supporting social expenditure and strengthening the role of social protection networks in oil importing Arab countries are expected to constitute a large portion of their general budgets in order to reduce poverty and unemployment rates, mitigate inequality in income distribution, and reduce the level of public debt through the programs of fiscal reform. As an overall result, the reduction in the deficit level of the Arab countries' combined budget is expected to be 5.6% approximately in 2018 and 2019.

Arab Foreign Trade

The volume of Arab trade in goods and services rose to USD 2135.3 billion in 2017, achieving a growth rate of 10.5% compared to 2016, as a result of the increase in Arab exports of goods and services to USD 1071.4 billion (a growth rate of 14.8% compared to 2016) due to the relative improvement in oil prices, which still constitutes 58% of the commodity exports of the Arab region, as well as the rise in Arab imports of goods and services to USD 1064 billion, an increase of 6.4% compared to its level in 2016.

Arab Unemployment

According to the World Bank database and the International Labor Organization (ILO), the Arab labor force is estimated at 134.9 million workers in 2017. The Arab unemployment rate is estimated at 10.5% of the total Arab work force. The Arab countries are still facing a number of economic challenges during 2017, especially the incomplete recovery of international oil prices and the continued impact of the prevailing internal situations on some Arab countries since 2011 and spreading to other neighboring Arab countries, in addition to the decline in economic growth which imposes its negative implications on investments. All this prevented them from accomplishing a significant achievement in reducing the unemployment rate, which represents one of the most important economic challenges facing them.

Arab Financial Markets

The performance of Arab financial markets was positive in general in 2017, owing to a number of factors, the most important of which is the increase of international oil prices level by 28.6% compared to its level in 2016, as a result of the extension of production reduction agreement agreed upon by the main producers at the end of 2016, and the relative improvement of geopolitical situations in a number of the Arab countries. According to Arab Monetary Fund statistics, the market value of Arab financial markets has increased in 2017 to USD 1083.8 billion after it was USD 1133.4 billion in 2016. The number of shares in trading in Arab financial markets amounted to 200.1 billion shares in 2017 after it was 208.1 billion shares in 2016. Moreover, trading volume continued to decline to reach USD 268.1 billion in 2017 compared to USD 359.3 billion in 2016, a decline rate of -25.4% attributed to the decreased trading volumes in most Arab financial markets, mainly the Saudi financial market, which trading volume declined in 2017 by -35.7% compared to the trading volume of 2016. The trading volume in the Saudi financial market amounted to 78.8% of the trading volumes of Arab financial markets combined in 2017, while the trading volumes witnessed an increase in 2017 in the markets of Bahrain, Egypt and Oman compared to their trading volume in 2016. The composite indicator released by Arab Monetary Fund, which measures the performance of Arab financial markets combined, rose to 321.5100 points in 2017 compared to 304.4900 points reached at the end of 2016, an increase rate of 5.6%.

Arab Indebtedness

The total foreign indebtedness indicators of Arab countries have witnessed a relative stability around the safe limits in about half of the Arab countries since 2000 and until now. The foreign indebtedness indicator has stabilized as a percentage of the GDP at below 50% in 7 Arab countries, and was slightly higher in other 4 Arab countries, according to the annual report of the Arab Investment & Export Credit Guarantee of 2017.

03 Gulf Economic Conditions

The World Bank forecasted that the economic performance of the GCC countries will improve in 2018 and 2019, with economic growth of 2.1% in 2018, rising to 2.7% in 2019, while the fiscal deficit is expected to reach USD 51 billion in 2018.

The World Bank mentioned in its report "Gulf Economic Observatory" that the GCC region has witnessed another year of poor economic performance in 2017.

According to the report, the region has achieved a growth of only 0.5% in 2017, which is the poorest since 2009, with a decline of 2.5% compared to 2016, as the countries of this region were affected by the reduced oil production and the fiscal austerity policies which affected the activity of the non-oil sector, while the pace of issuing foreign indebtedness bonds continued to rise in an attempt to finance the big fiscal deficit.

The bank attributed the gradual enhancement of economic growth to the support of the partial recovery witnessed by energy prices recently, the expiry of oil production reduction agreement after 2018 and the decline of the intensity of fiscal austerity policies.

The Statistical Review of World Energy explained that GCC countries are currently benefiting from the large oil and gas resources, which amount to 30% of the world's oil reserves and 20% of the

worlds' gas reserves, compared to the populations of these countries; less than 1% of the world's population. This great wealth of oil and gas and its corresponding large income gained by these countries has achieved general surpluses for their governments during the previous period and led to reducing the government funding needs and the net positions of external assets of most GCC countries.

The continued decline of oil prices had an impact on economic, fiscal and external measures which was a reason sufficient to reduce the long term foreign currency credit rating of Oman by five points, Bahrain by four points, Saudi Arabia by three points and Qatar by one point during the past three years.

As for the options available to the GCC countries to achieve economic diversification, the GCC governments have benefited from their competitive advantages which definitely lie in oil and gas sector. These countries have used high levels of their oil and gas wealth to support economic growth by funding the public sector and capital investment projects. At the same time, they witnessed a development in goods and services sectors driven by the consumer.

Forecasts indicate that the GDP of Kuwait will increase to 2.4% in 2018 and will continue to grow to reach 3% in 2020-2021. The increase of DFI and high oil prices will help strengthening Kuwait's economy which depends on oil in 90% of its income.

At the same time, the economy of Saudi Arabia, one of the biggest economies in GCC countries,

is expected to grow by 1.8% with the increase of growth rate in 2019. As for Qatar's economy, it is expected to grow by 3.1% in 2018 and reach 3.3% in 2019.

The growth rate of Oman's GDP will reach 2.5% in 2018 and will continue to grow to reach 3% in 2019. As for Bahrain, the growth rate of GDP is expected to be 2.3% in 2018 and reach 2.7 in 2019.

Standard and Poor's International Company for Credit Ratings expected that the current condition of GCC Banks will be better next year, and it is likely that the financial situations of these banks will witness stability in 2019, unless an escalation of geopolitical threats or sharp drop of oil prices occurs, noting that this is not the main scenario of these banks, after they were exposed to great pressures that lasted for three years. Moreover, by implementing the International Financial Reporting Standard 9 by the GCC banks (IFRS 9), they will absorb most of the impact of the downturn of economic cycle on the quality of its assets, and therefore the Company believes that the volume of assets that has decreased in value, which it defines as stage 2 and stage 3 loans. According to the ninth standard, they will probably remain stable, but it does not exclude the transition between the two phases. The GCC economies are expected to experience stronger economic growth in 2019 at around 2.8%.

The company clarified that this growth will remain below the level witnessed in the period between 2011 and 2013 when oil price was over 100 dollars per barrel. Thus, lending growth rate will remain within the scope of moderate individual figures. At the same time, risk premium will settle between 1.0% and 1.5% of total loans. As a result of implementing the ninth standard, the allocations margin collected by GCC banks during the past years is now stronger. This new standard implemented by GCC banks since the beginning of 2018 requires the banks to keep the allocations beforehand according to their expected loss.

Profitability is expected to stabilize in GCC banks, which will benefit from the high interest rates and large volume of deposits with no interest registered in the banks' balance sheet. Thus, GCC banks will continue to demonstrate a strong capitalization according to global standards, which supports the credit rating of these banks, despite some indicators showing a significant decline.

The high oil prices and increased general investments are expected to enhance the economic growth of the gulf region in 2018. Moreover, oil prices are expected to stabilize at USD 65 per barrel in 2019 and USD 60 in 2020. The economic growth rate of GCC countries is expected to be 2.8% in the period between 2019-2020; less than half the growth rate achieved by these countries in 2012; however, it is five times bigger than their performance in 2017. Loan rates have slightly improved, as they reached 4.7% on annual basis in the middle of 2018, and a marginal acceleration of growth is expected during the next two years 2019-2020, unless unexpected shocks took place. Increasing government expenditure supports loan rates growth, but the increase of geopolitical threats or big reduce of oil prices might remarkably affect our political scenario.

The paradox is that the slowdown of economic activity of GCC during the past three years didn't lead to a big increase of loan defaults, as the percentage of loan defaults amounted to 2.6% of the total loans at GCC banks on June 30th 2018, compared to 2.4% at the end of 2015. The stabilization of assets volume which value has declined explains the processes of loan write-offs and restructuring some exposures to adapt with the new economic situation.

The financing condition of GCC banks is at an acceptable level, and is dominated by clients' basic deposits. The use of wholesale financing remains limited except for a small number of major exporters and developers. The percentage of loans to deposits in GCC banking system reached 88.4% on June 30th 2018, compared to 87.8% at the end of 2017.

II. National Economy Performance

02

The developments of the national economy of the UAE

The economy of the UAE continued its ambitious development movement and consolidating its position as a regional and global hub of finance, business and trade. The UAE economy is vibrant and diversified due to the strength of its foundations and the government's adoption of successful economic policies to stimulate various economic activities, especially industry, trade and tourism, air and maritime transport, real estate, health services, financial services and renewable energy. The UAE's openness to the world and the strengthening and development of its network of relationships and partnerships have helped to achieve tangible results in this regard, for example: attracting international markets, investment flows, activating the movement of tourism and non-oil foreign trade and various industries to reach record levels compared to previous years, and achieved a leading position and became an example to follow.

01 Gross Domesic Product (GDP)

The overall results of the preliminary estimates of the state's macroeconomic indicators, noted that the United Arab Emirates gross national product (GDP) at real (constant) prices rose by 0.8% in 2017 compared to 2016, according to the preliminary estimates of national accounts output issued by the Federal Competitiveness and Statistics Authority in 2017.

The data indicate that the GDP estimates for 2017 in real prices amounted to approximately AED 1422.2 billion at the level of the State, compared to AED 1411.1 billion at the end of 2016.

On the level of economic diversification and the relative importance of economic activities in the GDP, preliminary estimates indicate that the GDP estimates at current prices of the non-oil sectors amounted to about AED 1092 billion, a growth rate of 3.2% (at current prices) and at a rate of 2.5% at real (constant) prices by the end of 2017 compared to its value by the end of 2016.

This preliminary estimates issued by the Authority indicate the growth of the state's economic performance in general, by depending on the growth of oil resources resulted by the increase of international oil prices on one hand, and the growth achieved by non-oil sectors on the other, in addition to the successful economic diversification policies adopted by the state, expanding the economy's productive base and the importance of activating the initiatives and activities that can increase reliance on non-oil sectors and enhancing their contribution to the GDP of the state.

The developments that occurred in the state have an important role in making it an environment attractive for foreign investments on continuous basis, in addition to the policy of openness to the world as one of the international economic relations components. The success of these policies was reinforced by their integration with the requirements of sustainable development and achieving economic prosperity and decent living for all citizens and residents of the state.

In terms of economic sectors' contribution to current GDP, the data showed that the activities related to the extraction of crude oil and natural gas contributed by about 22.3%, while each of the wholesale and retail trade activities accounted for 12.3%, the activities of transformative industries contributed by 4.8%, the construction and building activities contributed by 8.7%, the contribution of the financial services activities amounted to 9.6%, while the sectors of public administration, defense and social security demonstrated an increased contribution to the GDP of approximately 7%.

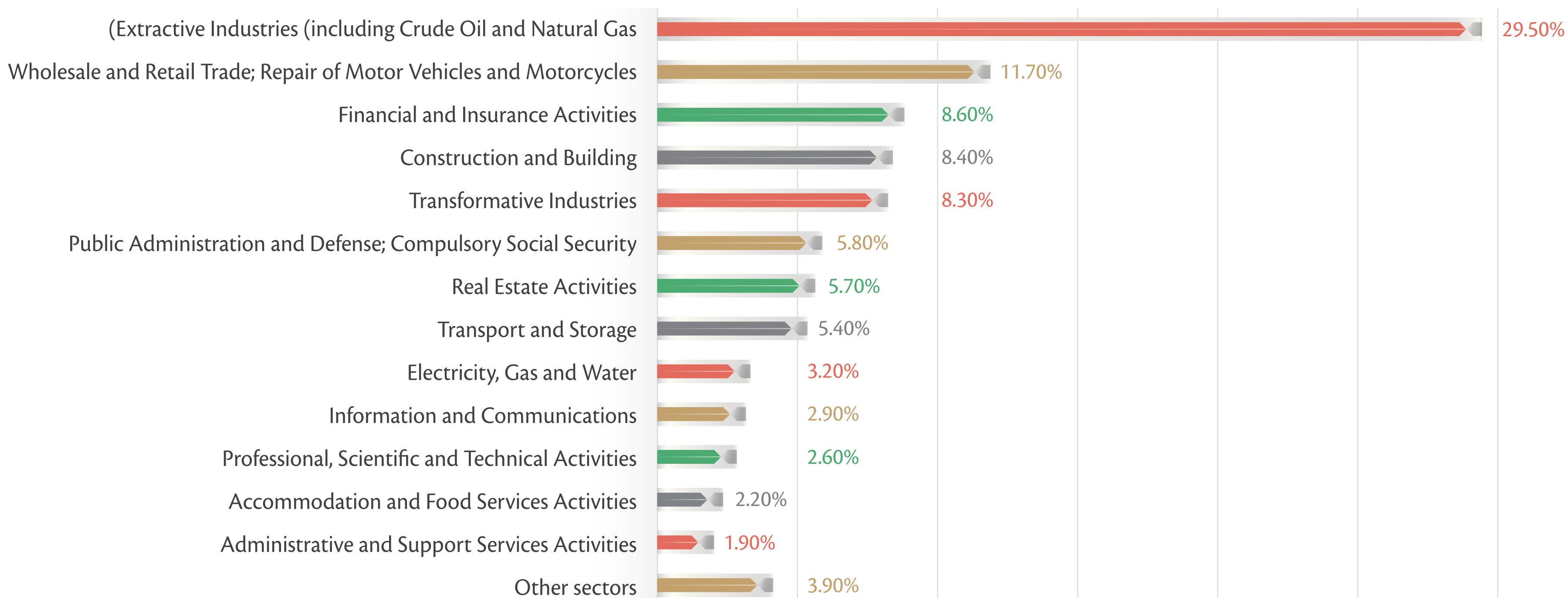
In terms of the growth rate of the activities and economic sectors of the current GDP of 2017 compared to 2016, the oil activities achieved a positive growth of about 23.7%.

The sectors of public administration, defense and social security showed a growth in GDP by 11.4%, and non-oil activities were mostly positive, including electricity, gas and water, and waste management activities, which achieved the highest annual growth rate of 9.4%, followed by the activities of human health and social services by 6.3%; administrative and support services by 5.5%; transformative industries by 4.8%; arts, entertainment, promotion and other service activities by 3.8%; education by 2.9%; the transport sector and storage by 2.5%.

As for growth rates in real prices, the activities of accommodation and food services recorded the highest growth rate of 8.5%; electricity, gas, water and waste management activities grew by 8%; general government sector grew by 6.2% and human health and social services grew by 4.4%

Oil sector achieved a negative growth rate of 3%, due to the government's policy of reducing production, taking advantage of the increase in oil resources resulting from the high increase in international oil prices and other sectors. This confirms the positive path to achieve the UAE 2021 vision and its strategy for the development of non-oil sectors and reduce dependence on oil.

Figure (1) the Relative Distribution of Gross Domestic Product by Real (Constant) Prices of 2010 According to the Activities of 2017



02 Foreign Trade

The Initiative of Export Development and Commodity and Geographic Concentration

The national initiative of exports development was adopted by the Ministerial Council of Services by virtue of decision number 1/3 KH of 2015. It is based on the vision of the Ministry of Economy, emanating from the UAE vision 2021, and it is consistent with the objectives of the trade policy of the UAE.

The initiative aims to promote the trade position of the state globally by implementing the specified mechanisms, which are the responsibility of federal and local bodies alike, especially those related to the situations witnessed by the world recently, including the decision related to customs duties and the trade wars between countries which include imposing high charges on the imports of some countries.

This initiative is based on the participation of all federal and local bodies concerned and which have direct relation to foreseeing the future of the UAE exports and achieving a growth in non-oil commodity exports through the joint efforts of bodies co-implementing this mission, especially that the development of global economic environment imposed an increasing group of challenges, the most important of which is the necessity of improving the countries' abilities to generate income and insure a continuous growth.

In light of what the UAE economy enjoys of multiple and diverse investment advantages and potentials, the role of the national initiative of "developing non-oil exports" comes to work on developing the current export potential available to the export structure of the state through horizontal and vertical expansion of exports in terms of commodity and geographical area, and increase the contribution of foreign trade to the GDP.

The UAE's Non-oil Foreign Trade

Table (1) The UAE's Non-oil Foreign Trade 2011-2017 (in AED billion)

Year	Imports	Non-oil Exports	Re-export	Total Non-oil Foreign Trade	Annual Growth of Total Trade
2011	831	126	348	1,305	-
2012	920	186	400	1,506	15%
2013	967	169	443	1,579	5%
2014	992	158	456	1,606	2%
2015	952	185	418	1,556	-3%
*2016	1,002	197	400	1,599	3%
*2017	979	190	443	1,612	1%

*Including customs warehousing

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

The UAE's Non-oil Foreign Trade According to the Most Important Partners and Commodities 2017

Table (2) The Most Important Partners in Terms of the Value of Total Non-oil Foreign Trade of the UAE 2017 (in AED billion)

Country	Value	Percentage of the total %
China	195.9	12.2%
India	127.8	7.9%
The United States	112.4	7.0%
Saudi Arabia	79.2	4.9%
Iran	63.0	3.9%
Japan	58.0	3.6%
Germany	49.4	3.1%
Turkey	49.0	3.0%
Iraq	47.5	2.9%
Vietnam	38.0	2.4%
Total of the top 10 partners	820.3	50.9%
Remaining	791.6	49.1%
Overall total	1,611.9	100.0%

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

The Most Important Partners of Non-oil Exports 2017

Table (3) The Most Important Partners in terms of the Value of Total Non-oil Exports of the UAE 2017 (in AED billion)

Country	Value	Percentage of the total %
India	19.3	10.2%
Turkey	16.6	8.7%
Saudi Arabia	15.0	7.9%
Oman	13.6	7.2%
Iraq	8.5	4.5%
The United States	7.9	4.2%
Kuwait	6.4	3.4%
China	5.6	3.0%
Singapore	5.5	2.9%
South Korea	4.6	2.4%
Total of the top 10 partners	103.0	54.3%
Remaining	86.8	45.7%
Overall total	189.8	100.0%

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

The Most Important Partners of Re-export 2017

Table (4) The Most Important Partners in terms of the Value of Total Re-exports of the UAE 2017 (in AED billion)

Country	Value	Percentage of the total %
Iran	52.4	11.8%
Saudi Arabia	38.9	8.8%
Iraq	36.5	8.2%
India	34.1	7.7%
The United States	19.4	4.4%
Hong Kong	17.4	3.9%
Oman	14.3	3.2%
Belgium	14.1	3.2%
China	12.8	2.9%
Kuwait	12.4	2.8%
Total of the top 10 partners	252.3	56.9%
Remaining	190.8	43.1%
Overall total	443.1	100.0%

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

The Most Important Partners of Imports 2017

Table (5) The Most Important Partners in terms of the Value of Total Imports of the UAE 2017 (in AED billion)

Country	Value	Percentage of the total %
China	177.4	18.1%
The United States	85.0	8.7%
India	74.4	7.6%
Japan	51.4	5.2%
Germany	43.7	4.5%
Vietnam	35.8	3.7%
South Korea	29.3	3.0%
Turkey	28.0	2.9%
Saudi Arabia	25.4	2.6%
Italy	25.0	2.6%
partners 10 Total of the top	575.3	58.8%
Remaining	403.7	41.2%
Overall total	979.0	100.0%

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

The Most Important Non-oil Commodity Exports 2017

Table (6) The Most Important Commodity in terms of the Value of Non-oil Exports of the UAE 2017 (in AED billion)		
Harmonized Code	Description	Value
71.08	Gold (including gold plated with platinum), in raw, semi-processed or powder form.	51.5
76.01	Unwrought aluminum (raw).	20.1
71.13	Jewelry and parts thereof, of precious metals or of common metals clad with precious metals.	16.5
24.02	Thick rolls (Cigar) of all kinds, cigarillos and common rolls (cigarettes) made of tobacco or its substitutes.	11.5
39.01	Ethylene polymers, in their primary forms.	9.1
27.1	Petroleum oils and oils extracted from processed continental minerals; preparations not elsewhere specified or included, containing at least 70% of petroleum oils or continental mineral oils of its weight, provided that these oils constitute the main component of these preparations, and waste oil.	4.8
74.08	Copper wires	4.5
17.01	Sugar cane or sugar beet and chemically pure sucrose, in solid form.	3.2
73.08	Structures (other than prefabricated buildings of heading 94.06) and parts of Structures (for example, bridges, bridge sections, gates of dams, towers, masts, roofing, roofing structures, doors and windows and frames thereof, door sills, handrail, braces and pillars (of iron or steel), plates, rods and angles.	2.4
39.02	Propylene polymers or other olefins, in their primary forms.	2.2

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

The Most Important Re-export Commodities 2017

Table (7) The Most Important Commodity in terms of the Value of Re-exports of the UAE 2017 (in AED billion)

Harmonized Code	Description	Value
85.17	Telephone devices, including mobile devices for cellular networks or other wireless networks; other devices for sending or receiving audio, images or other data, including telecommunication devices in wired or wireless networks (such as local area network or wide area networks), except for scanning devices, even if they are manufactured, but not assembled or programmed.	74.0
71.02	Diamonds, whether or not worked but not mounted or set.	53.5
87.03	Cars and other vehicles designed for the transport of passengers (except for vehicles prepared for the transport of 10 passengers or more), including station cars and racing cars.	37.4
71.13	Jewelry and accessories and the parts thereof, of precious metals or common metals clad with a layer of precious metals.	37.4
84.71	Automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, not elsewhere specified or included.	14.6
27.1	Petroleum oils and oils extracted from processed continental minerals; preparations not elsewhere specified or included, containing at least 70% of petroleum oils or continental mineral oils of its weight, provided that these oils constitute the main component of these preparations, and waste oil.	14.3
88.03	Parts of the following categories: (balloons, guided balloons, gliders, jet wings (Delta wings), spacecraft (including satellites) and other aircrafts such as (aircrafts that are not designed to be driven by engines force), helicopters and airplanes.	11.6
71.08	Gold (including gold plated with platinum), in raw, semi-processed or powder form.	9.8
87.08	Parts and equipment for tractors, special-use vehicles, passenger cars and freight cars.	8.3
84.07	Engines with alternating or rotary presses where internal combustion is ignited with spark (explosive engines).	7.5

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

The Most Important Commodity Imports 2017

Table (8) The Most Important Commodity in terms of the Value of Imports of the UAE 2017 (in AED billion)

Harmonized Code	Description	Value
71.08	Gold (including gold plated with platinum), in raw, semi-processed or powder form.	124.2
85.17	Telephone devices, including mobile devices for cellular networks or other wireless networks; other devices for sending or receiving audio, images or other data, including telecommunication devices in wired or wireless networks (such as local area network or wide area networks), except for scanning devices, even if they are manufactured, but not assembled or programmed.	111.3
87.03	Cars and other vehicles designed for the transport of passengers (except for vehicles prepared for the transport of 10 passengers or more), including station cars and racing cars.	58.0
71.02	Diamonds, whether or not worked but not mounted or set.	51.4
27.1	Petroleum oils and oils extracted from processed continental minerals; preparations not elsewhere specified or included, containing at least 70% of petroleum oils or continental mineral oils of its weight, provided that these oils constitute the main component of these preparations, and waste oil.	35.7
84.71	Automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, not elsewhere specified or included.	24.7
71.13	Jewelry and accessories and the parts thereof, of precious metals or common metals clad with a layer of precious metals.	22.9
84.11	Jet turbines, turboprop and other gas turbines.	21.1
88.02	Other aircrafts such as helicopters and airplanes (spacecraft) including satellites, spacecraft launching vehicles and orbital ships.	17.8
88.03	Parts of the following categories: (balloons, guided balloons, gliders, jet wings (Delta wings), spacecraft (including satellites) and other aircrafts such as (aircrafts that are not designed to be driven by engines force), helicopters and airplanes.	13.2

Source: Federal Customs Authority, Federal Competitiveness and Statistics Authority, Ministry of Economy.

03 Consumer Expenditure

The agreement to reduce oil production agreed upon by OPEC's major oil producing countries and those outside OPEC by the end of 2016 with the aim of adjusting and reducing production by 1.8 million barrels as of January 2017 to restore balance in the world oil market has contributed to a recovery in world oil prices, according to OPEC basket to about 52.43 dollars / barrel in 2017, compared to the level recorded in 2016 of 40.76 dollars / barrel, an increase of about 28.6%. This has an impact on the increase in oil revenues, which contribute the largest portion of the public revenues of the United Arab Emirates (despite the decrease of the state's production due to the agreement of reducing production by 4%) to reach AED 139.7 billion in 2017, compared to oil revenues recorded in 2016 of AED 86.8 billion, which provided the state with more resources in 2017 to continue strengthening the current government expenditure and the momentum of investment expenditure to implement investment projects, especially strategic ones and those related to the global event, Expo 2020, which would stimulate the growth, enhance sustainable development, enforce the policy of diversifying sources of income and productive base and support human and social development. The volume of government consumer expenditure has increased from AED 164,254 million in 2016 to AED 173,065 million in 2017, an increase of 5.4%, while private consumer

expenditure increased from AED 474,483 million in 2016 to AED 490,536 million in 2017, a lower growth rate of 3.4%

As a result, the overall final volume of current consumer expenditure has increased from AED 638,737 million in 2016 to AED 663,601 million in 2017, a growth rate of 3.9%; moreover, the percentage of final consumer expenditure of GDP has increased between the two years from 48.7% in 2016 to 47.2% in 2017, as stated in the following table number (9).

Table (9) The Final Consumer Expenditure of 2016 and 2017 (in AED million)

Description	2016	2017	Growth rate %
Government consumer expenditure	164,254	173,065	5.4%
Private consumer expenditure	474,483	490,536	3.4%
Final consumer expenditure	638,737	663,601	3.9%
Final consumer expenditure/ current GDP %	48.7%	47.2%	-

Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, preliminary figures- June 2018.

04 Inflation

Federal Competitiveness and Statistics Authority's data showed that inflation rate has increased in the state by 2.7% in 2017 compared to 2016, as the index rose by 2.91 points to reach 109.4 points by the end of December 2017, compared to 106.4 points by the end of December 2016.

The Authority stated that the high inflation rate came as a result of the increase in tobacco prices by an average of 70.2%, especially after enforcing selective sales tax on tobacco as of October 2017, in addition the increase in transport prices by 9.3% due to the high fuel prices, the increase of various commodity's prices by 9.3%, education services by 3.6%, recreation, culture, food and beverages services by 3.2% for each, clothes and footwear by 1%, restaurants and hotels services by 0.8% and health by 0.3%.

According to the Authority, the prices of telecommunication services have decreased in 2017 by 1.2%, compared to 2016, the prices of household appliances and equipment decreased by 0.45% and the group of electricity, water and gas services by 0.3% during the same period.

The Authority indicated that inflation rate in all emirates has increased. It increased in Sharjah by 6.2%, in Ras Al Khaimah by 4%, in Ajman by 3.8%, Umm Al Quwain by 3.4%, Fujairah by 2.6%, Abu Dhabi by 2% and Dubai 1.5%.

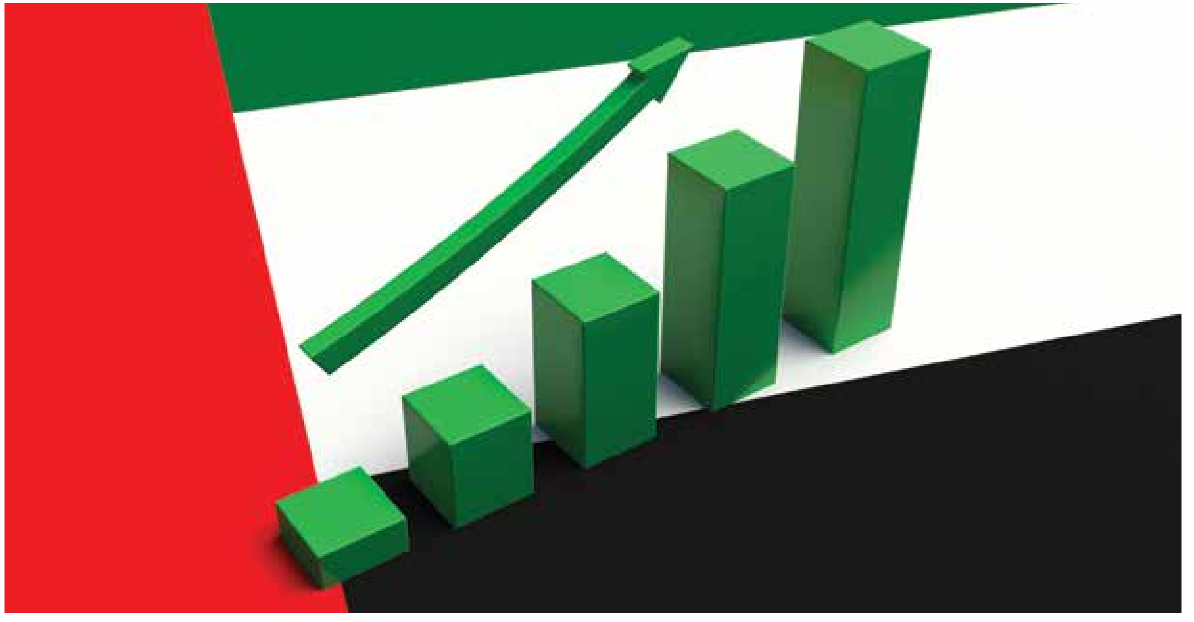
The prices of housing, water, electricity and gas dropped by 0. 6% in December 2017 compared with November 2017, while food and beverages prices rose by 0.05% in December 2017 compared to November 2017 due to higher prices of cereals and their products, and prices of milk, cheese, eggs and their products.

Transport services recorded an increase by 4.97% in December 2017 compared with November 2017, resulting in an increase of fuel prices.

Consumer Price Basket comprises 1200 commodity and services. The basket was classified to include 12 main sections according to the classification of individual consumption, while prices data is being collected from 500 selling outlets in the state.

Inflation rates have dropped in the state for fourth month in a row in May 2018, after a remarkably high increase by 5% in January 2018, as a result of enforcing VAT as of the beginning of 2018.

Federal Competitiveness and Statistics Authority's data showed a drop of inflation rate in the UAE on monthly basis by 0.6% in May 2018 compared with April 2018 which witnessed a drop by 0.23%, in addition to a drop by 0.65% in March and 0.15% in February, compared with a growth by 2.67% in January 2018 on annual basis. Inflation fell to 3.48% in May from 3.53% in April, against 3.36%



and 4.45% and 4.76% in March, February and January, respectively.

The continued decline of inflation rates for the fourth month in a row is a positive indicator of the erosion of VAT effects, as well as the continued decline in prices of housing and utilities, which constitute more than a third of consumer expenditure coupled with lower prices of food and beverages.

Analysts expected that inflation will continue to decline during the next months that means more drop in prices. They indicated that current inflation levels are acceptable and don't pose any effect on growth rates, local economy competitiveness and its ability to attract more investments.

According to the Authority's data, the prices of 4 main groups have dropped on monthly basis in May 2018 compared with April 2018, as the group of housing, water, electricity and gas (which accounts for 34.1% of the relative weight of consumers' expenditure) declined by 0.51%.

The group of food and beverages (accounts for 14.3%) declined by 1.5%, the group of telecommunications (accounts for 5.4%) by 0.59% and the group of health services (accounts for 1.4%) by 0.15%

On the other hand, 8 groups headed by transport services (accounts for 14.6%) rose by 2.02% and miscellaneous goods and services (accounts for 6.3%) by 0.07% and clothing and footwear group (accounts for 3.2%) by 0.4%.

On annual basis compared to May 2017, the prices of 11 groups rose, while the group of housing, water, electricity and gas which accounts for the largest relative weight of consumers' expenditure by 34.1%, declined by 2.51%. The group of tobacco which has a relative weight of 0.3% recorded the highest increase on annual basis by 83.49, after the enforcement of selective sales tax as of the beginning of last October.

In terms of each emirate, inflation fell on a monthly basis by 0.31% in the Emirate of Abu Dhabi and by 0.08% in the Emirate of Sharjah while inflation in the Emirate of Dubai remained unchanged. As for Ajman, Umm Al Quwain, Ras Al Khaimah and Fujairah, it increased by 0.87%, 0.47% and 0.48% 0.57%, respectively.

05 Investments

5.1 Local Investments

In line with UAE vision 2021 and the state's rehabilitation for the post-oil era, the state continued in 2017 enforcing the policy of diversifying income and diversifying the economic base, transitioning towards a highly productive and competitive knowledge economy based on research, creativity and innovation led by national competencies, fiscal consolidation and strengthening the pillars of sustainable development by Continuing to inject investments

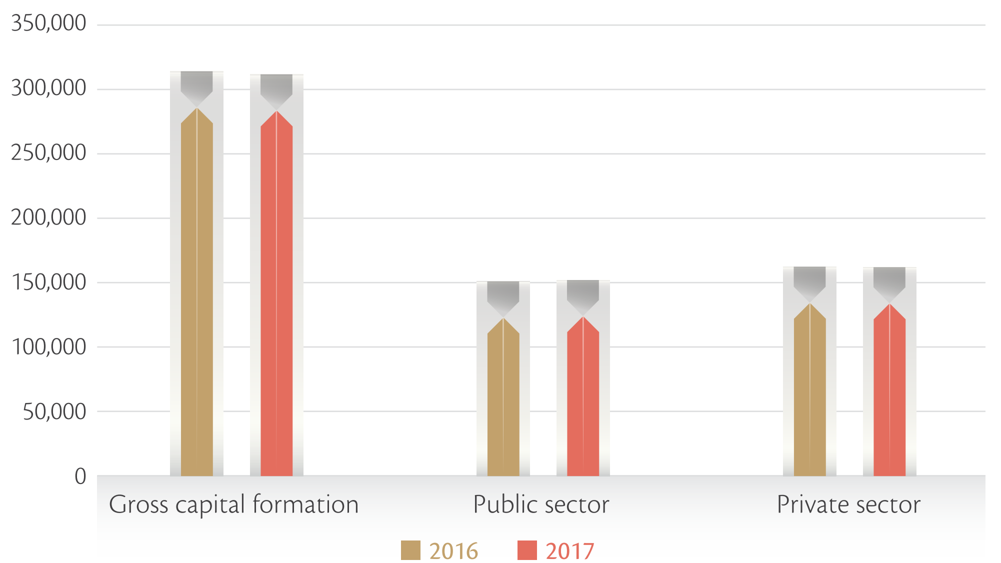
Table (10) Gross Capital Formation According to Sector in Current Prices of 2016 and 2017(in AED million)

Description	2016		2017		Growth rate %
	Value	Contribution %	Value	Contribution %	
Gross capital formation	320,766	100%	323,008	100%	0.7%
Public sector	150,035	46.8%	152,321	47.2%	1.5%
Private sector	170,731	53.2%	170,687	52.8%	-03.0%

Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, preliminary figures- June 2018.

into the construction of the project of the global event Expo 2020, infrastructure projects and strategic projects, including subway lines and light railways, expansion of Abu Dhabi Airport in Abu Dhabi Emirate, expansion of Al Maktoum International Airport in Dubai and the other stages of the Federal Railway Project of Etihad Rail Company and the implementation of investment projects in all economic sectors, especially those with high added value that will stimulate growth and increase the levels of economic diversification and support human development such as energy, industry, tourism, education, physical and electronic infrastructure, logistics, financial services and transport, based on the improvement of oil revenues in 2017 due to the rise in oil prices by 28.6% compared to its level in 2016, as well as the increasing tax revenues, reserves and accumulated financial surpluses of the state with the participation of the private sector in the implementation of projects.

Figure (2) Gross Fixed Capital Formation According to Sector in Current Prices of 2016 and 2017



- **Analysis of Investment Structure According to Economic Sector**

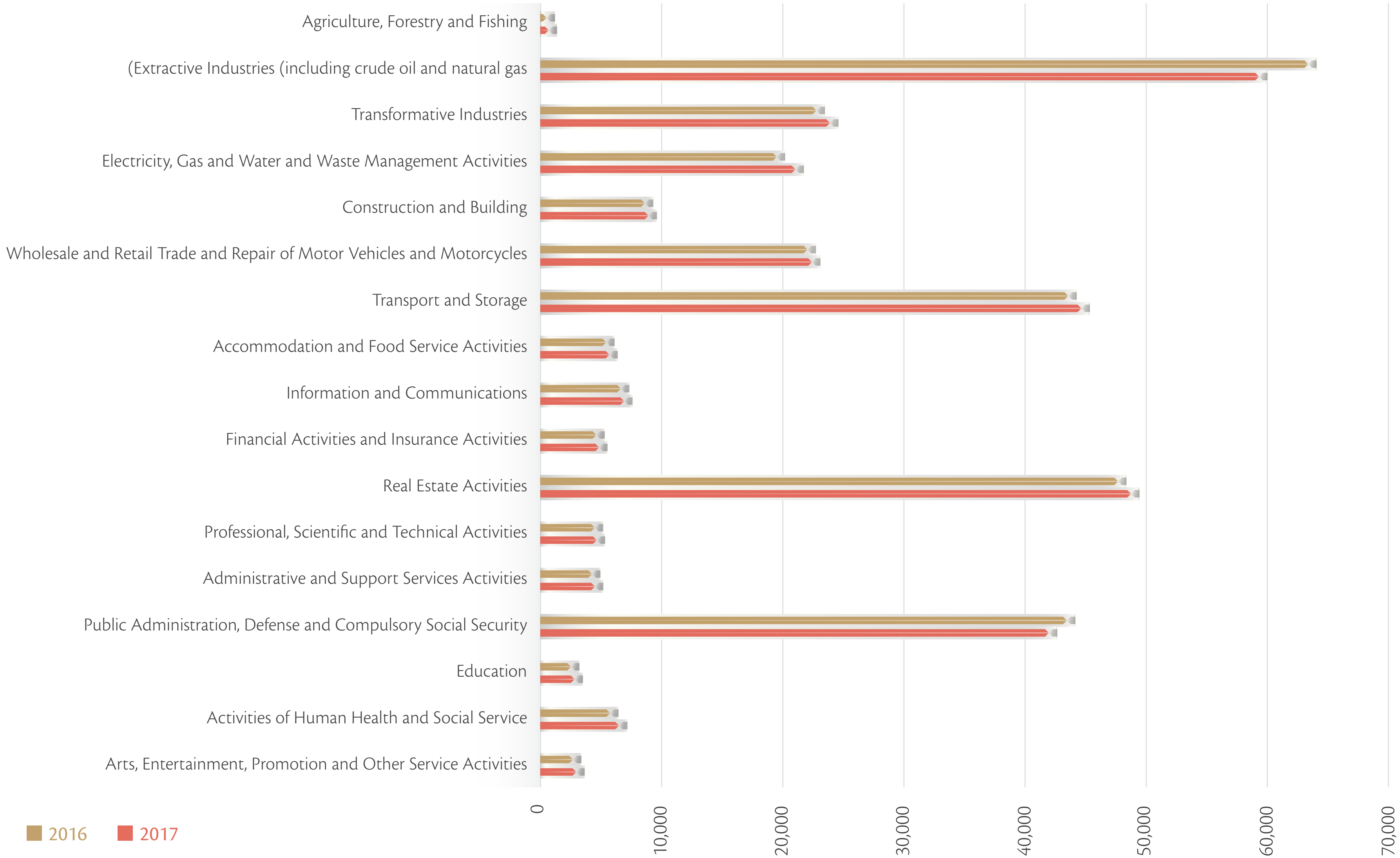
Table (11) Gross Fixed Capital Formation According to Economic Sectors in 2016 and 2017 (in AED million)

Economic Sectors	2016		2017	
	Value	Contribution %	Value	Contribution %
Agriculture, Forestry and Fishing	1,323	0.4%	1,381	0.4%
Extractive Industries (including crude oil and natural gas)	64,149	20.0%	59,939	18.6%
Transformative Industries	23,453	7.3%	24,627	7.6%
Electricity, Gas and Water and Waste Management Activities	20,285	6.3%	21,876	6.8%
Construction and Building	9,334	2.9%	9,583	3.0%
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	22,806	7.1%	23,145	7.2%
Transport and Storage	44,332	13.8%	45,395	14.1%
Accommodation and Food Service Activities	6,182	1.9%	6,464	2.0%
Information and Communications	7,347	2.3%	7,671	2.4%
Financial Activities and Insurance Activities	5,419	1.7%	5,575	1.7%

Economic Sectors	2016		2017	
	Value	Contribution %	Value	Contribution %
Real Estate Activities	48,386	15.1%	49,534	15.3%
Professional, Scientific and Technical Activities	5,263	1.6%	5,395	1.7%
Administrative and Support Services Activities	5,013	1.6%	5,243	1.6%
Public Administration, Defense and Compulsory Social Security	44,205	13.8%	42,795	13.2%
Education	3,248	1.0%	3,550	1.1%
Activities of Human Health and Social Service	6,505	2.0%	7,202	2.2%
Arts, Entertainment, Promotion and Other Service Activities	3,517	1.1%	3,635	1.1%
Household Activities as Employer	0	0.0%	0	0.0%
Total	320,766	100.0%	323,008	100.0%

Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, preliminary figures- June 2018.

Figure (3) Gross Fixed Capital Formation According to Economic Sectors in 2016 and 2017



According to the table, it is evident that extractive industries sector accounts for 18.6% of the projects implemented in all economic sectors, and it filled the first place among all sectors in 2017, followed by real estate activities sector in the second place with 15.3%, transport and storage sector and other communications sector with 14.1%, public administration, defense and compulsory social security sectors with 13.2%, transformative industries with 7.6%, and electricity, gas and water and waste management activities sector with 6.8%. These sectors combined accounted for 75.6% of the total volume of investment with a value of about AED 244.2 billion in 2017.

5.2 Foreign Direct Investments

According to the World Investment Report of 2018, the flows of FDI to Arab countries declined in 2017 to USD 28.7 billion, 2.0% of the world's total FDI which amounts to USD 1430 billion, (after it was USD 32.4 billion in 2016). The UAE accounted for 36.2% of the FDI flows to Arab countries in 2017 by 10.4 billion dollars. Thus, the volume of FDI flows to the UAE has increased from USD 9.567 billion in 2012 to USD 10.354 billion in 2017, an average growth rate of 1.6% during the period 2012-2017. Consequently, the accumulated FDI stock to the UAE increased to USD 129.934 billion in 2017 after it was USD 80.588 billion in 2012, by an average growth rate of 10.0% during the period 2012-2017. The flow of FDI in 2017 was mainly driven by the new foreign investments in the Arab region, a total of 809 projects, of which the GCC countries attracted 542 projects, where the UAE acquired 60.5% of these projects with a total cost of USD 9.198 billion.

The structure of the FDI in the state is characterized by its diversification. The following sectors, ranked by their investments volume, came at the top of economic sectors controlling FDI: coal, oil and natural gas sector, followed by the sectors of real estates, hotels, tourism, financial services, telecommunication, new and renewable energy, software, information technology, chemicals and business services.

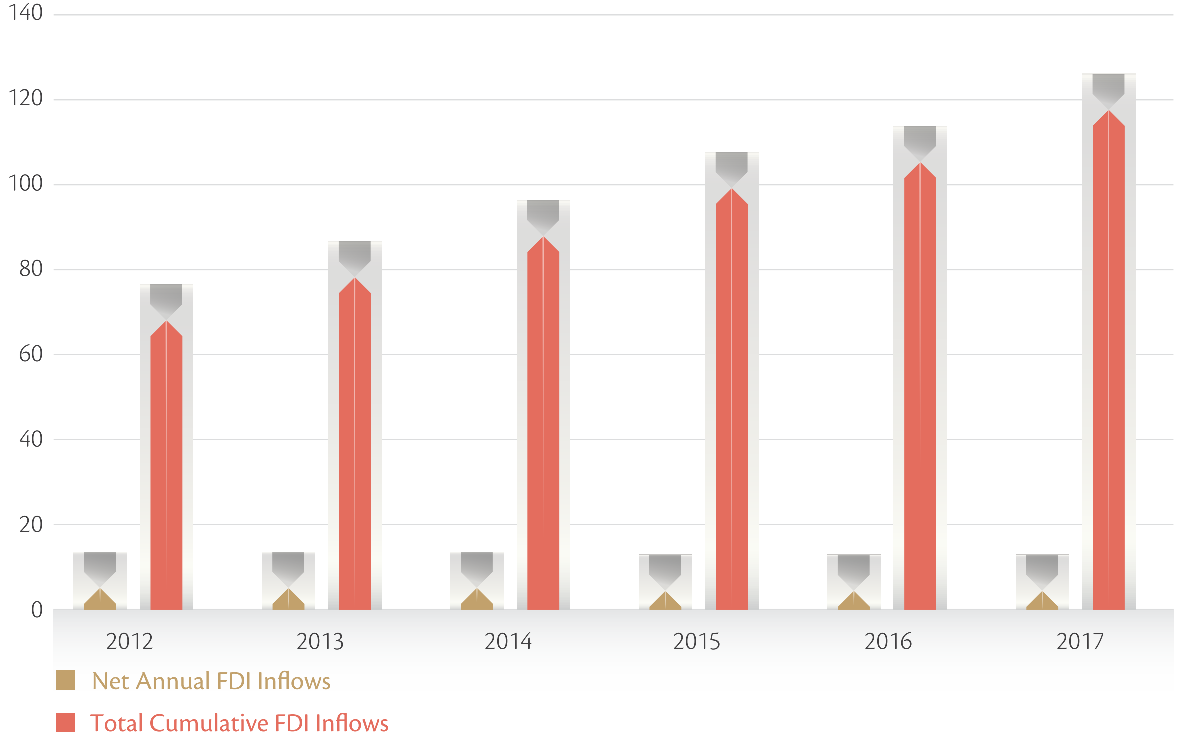
The most important investing countries in the state, ranked according to their importance in terms of their investments volume, are the following: India, The United States, UK, Japan, China, Saudi Arabia, Germany, Kuwait, France and Netherland.

Table (12) Annual and Accumulated FDI Inflows to the UAE during the Period 2012-2017 (in USD billion)

Year	Net annual FDI inflows	Total cumulative FDI inflows
2012	9.567	80.588
2013	9.765	90.352
2014	11.072	101.424
2015	8.551	109.975
2016	9.605	119.580
2017	10.354	129.934
Growth rate %	1.6%	10.0%

Source: UNCTAD reports from different years.

Figure (4) Annual and Accumulated FDI Inflows to the UAE for the Years 2012-2017



It is expected that the state will witness more growth in FDI flows in the next years under the state trend towards enforcing the policy of income sources diversification and achieving its vision to build a diverse economy based on knowledge, research and innovation with the existence of a safe economic environment, investment climate, encouraging businesses and mega projects in the sectors of infrastructure, industry, new and renewable energy, tourism, aviation and space, in addition to adopting the high policy of the UAE in the field of science, technology and innovation which includes 100 national initiatives in the sectors of education, health, energy, transport, space and water, and dedicating a volume of expected investments with a value of more than AED 300 billion, as well as the expected economic impacts on the state as a result of the comprehensive strategic partnership agreement with China and its strategic location on the new silk road.

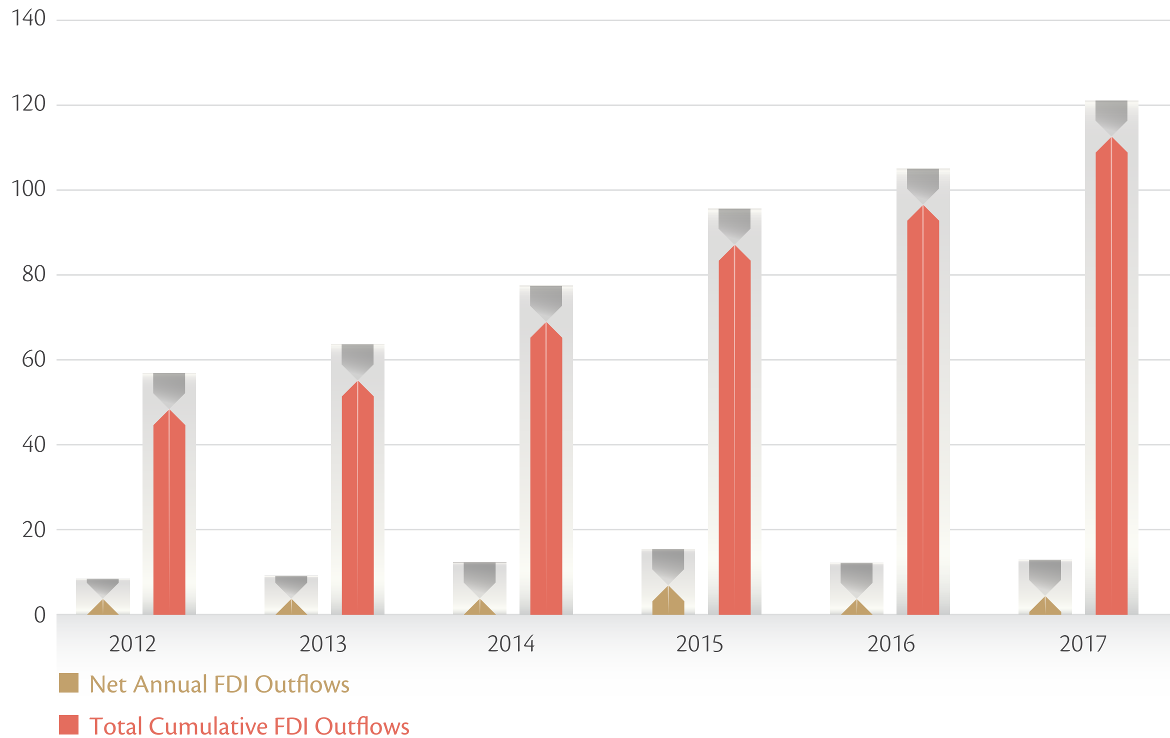
Table (13) Annual and Accumulated FDI Outflows from the UAE during the Period 2012-2017 (USD billion)

Year	Net Annual FDI Outflows	Total Cumulative FDI Outflows
2012	2.536	60.274
2013	8.828	69.102
2014	11.736	80.838
2015	16.692	97.530
2016	12.964	113.241
2017	13.956	127.197
Growth rate %	40.6%	16.1%

Source: UNCTAD reports from different years.

The United Arab Emirates topped the list of the largest Arab countries investing abroad, as it came in the first place in 2017 in terms of annual outflows of foreign direct investments by the State abroad with the volume of investment flows amounted to USD 13.956 billion, a growth rate of 7.6% from its level in 2016 of USD 12.964 billion. The annual outflows of foreign investment increased from USD 2.536 billion in 2012 to 13.956 billion dollars in 2017, with a high average of annual growth rate of 40.6%. Thus, the UAE's accumulated investment abroad has doubled from USD 60.274 billion in 2012 to USD 127.197 billion in 2017, with an average annual growth rate of 16.1% according to the World Investment Report issued by UNCTAD.

Figure (5) Annual and Accumulated FDI Outflows from the UAE in 2012-2017



In 2018, the state hosted the 8th edition of the Annual Investment Meeting, the world's leading platform for Foreign Direct Investment (FDI), organized by the Ministry of Economy under the slogan "Linking Developed and Emerging Markets through FDI: Markets for Inclusive Growth & Sustainable Development". The meeting was held in Dubai with the participation of representatives of more than 140 regional and global countries representing the world's investment community from both public and private sectors in their countries, in addition to high level policymakers and government officials, business leaders, regional and international investors, successful entrepreneurs, prominent academics, special asset owners and project promoters from all around the world and financial experts who present the latest information and strategies related to attracting FDI, in order to facilitate strategic communication and promote investments.

06 Financial and Monetary Sector

The output of financial and monetary sector's activities achieved an increase at current prices from AED 131.6 billion in 2016 to AED 134.8 billion in 2017, a growth of 2.4%. The contribution of the sector to the GDP (current prices) increased from 10.0% in 2016 to 9.6% in 2017, and the contribution of the financial and monetary sector in the output of non-oil sectors (at current prices) increased from 12.4% in 2016 to 12.3% in 2017.

6.1 Developments in the Financial Markets

The performance of local financial markets declined in a number of GCC markets in 2017 compared to 2016, due to the prevailing state of caution and concern about investors' transactions as a result of the geopolitical tensions witnessed by the region and the world, decline of procurements, absence of institutional investment and positive incentives and the drop in liquidity levels which caused a decline in the index of Dubai Financial Market by -4.55%, while the annual decline rate in the index of Abu Dhabi Securities Exchange Market (ADX) amounted to -3.25%, the lowest among all GCC markets.

The number of companies registered at Securities and Commodities Authority and listed in the state financial markets increased from 126 companies in 2016 to 130 companies in 2017 (of which 66 companies in the Abu Dhabi Securities Market representing 50.8% of the listed companies in the state markets and 64 companies in Dubai Financial Market representing 49.2% of the total number of the listed companies in the state financial markets, a growth rate of 3.2%.

The average daily trading volume in the UAE Securities Exchange Market declined to AED 652.46 million in 2017. The average daily trading volume in Abu Dhabi Securities Exchange Market amounted to AED 192.36 million, and Dubai Financial Market declined to AED 460.1 million, after it was AED 730.0 million in 2016, a drop 11.9%. The following table No.14 shows the indicators and variables that explain the performance of the UAE Securities Exchange Market in 2017.

Table (14) the UAE Securities Exchange Market Performance 2017

Description	Dubai Financial Market	Abu Dhabi Securities Exchange Market
Number of companies registered and listed in the state financial markets	64	66
Stock market index performance	-4.55%	-3.25%
Average daily trading volume (AED million)	460.1	192.36
Market value of companies listed in the UAE Securities Exchange Market, ranked according to sector (AED million)		
Banking	165,205.3	205,529.2
Telecommunication	23,635.1	180,171.0
Energy	-	42,112.5
Transport	24,223.6	-
Real Estate	132,038.8	20,459.3
Industry	3,719.4	10,470.9
Insurance	5,711.6	9,211.9
Services	9,062.3	8,716.3
Consumer Goods	7,298.5	4,386.9
Investment and Financial Services	22,867.4	4,330.4

Description	Dubai Financial Market	Abu Dhabi Securities Exchange Market
Trading value of companies listed in the UAE Securities Exchange Market, ranked according to sector (AED million)		
Banking	33,144.3	15,301.1
Telecommunication	4,498.2	5,689.5
Energy	-	5,142.5
Transport	4,947.9	-
Real Estate	44,975.9	12,635.3
Industry	42.9	997.8
Insurance	4,427.4	721.9
Services	5,952.9	302.9
Consumer Goods	4,535.9	2,146.1
Investment and Financial Services	11,736.4	830.5

Source: Securities and Commodities Authority, Annual report 2017.

6.2 Monetary Developments

The money supply (N1), which consists of cash in circulation out of banks (cash issued – cash in banks) plus cash deposits (current account balances and call accounts) increased to AED 510.6 billion by the end of the first quarter of 2018 after it was AED 504.4 billion in the first quarter of 2017 with an annual growth rate of 1.2%

The money supply (N2), which consists of money supply (N1), plus the quasi-cash deposits (savings deposits and term deposits as well as foreign currency deposits) increased to AED 1293.8 billion in the first quarter of 2018 from AED 1272.2 billion in the first quarter of 2017 with annual growth rate of about 1.7%.

The money supply (N3), which consists of money supply (N2), plus government deposits with banks and central banks, increased annually by 4.2% to AED 1526.7 billion in the first quarter of 2018 from AED 1465.8 billion in the first quarter of 2017.

Table (15) Monetary Developments for the First Quarter of 2017-2018 (in AED billion)			
Description	First quarter of 2017	First quarter of 2018	Annual growth rate %
Money supply (N1)	504.4	510.6	1.2%
Money supply (N2)	1272.2	1293.8	1.7%
Money supply (N3)	1465.8	1526.7	4.2%

Source: Central Bank, report on the monetary and banking development and financial markets in the UAE, the first quarter of 2018, May 2018.

6.3 Banking Developments

Table (16) Banking Developments for Years 2016-2017 (in AED billion)			
Description	End of December 2016	End of December 2017	Growth rate %
Total assets	2592.5	2693.8	3.9%
Total deposits	1562.9	1627.3	4.1%
Total bank credit	1553.7	1580.3	1.7%
Credit / deposit percentage %	99.4%	97.1%	-

Source: Central Bank, report on monetary and banking developments and financial markets in the United Arab Emirates, (First Quarter 2018), May 2018

The number of national banks declined from 23 banks in the first quarter of 2017, to 22 banks in the first quarter of 2018, while the number of branches has also decreased from 834 branches by end of the first quarter of 2017 to 761 branches by the end of the first quarter of 2018. The number of the GCC countries banks operating in the country remained by the end of the first quarter of 2018 at the same level in 2017, i.e. 6 banks which have four branches. The number of foreign banks increased from 20 banks by the end of September 2017 to 21 banks by the end of December 2017 (the number of their branches declined from 81 to 77 branches) The total assets of banks operating in the country increased to AED 2693.8 billion at the end of December 2017 compared to AED 2592.5 billion at the end of December 2016, a growth of 3.9% and customers' deposits with banks operating in the country increased from AED 1562.9 billion at the end of December 2016 to AED 1627.3 billion at the end of December 2017 with a growth rate of 4.1%. Furthermore, due to the high level of deposits and capital adequacy, banks in the country managed to continue their banking credit activities, which increased from AED 1553.7 billion at the end of December 2016 to AED 1580.3 billion at the end of December 2017, a growth rate of 1.7%. Credit to deposit rate declined from 99.4% at the end of December 2016 to 97.1% at the end of December 2017, as set out in table No.16.

07 Public Finance

The continuation of the agreement of reducing oil production between OPEC major producing countries and their counterparts outside the organization, signed by the end of 2016 to modify and reduce production to restore the balance in the world oil market. It contributed to the recovery of world oil prices, which increased to around 52.43 dollars per barrel in 2017, compared to about 40.76 dollars per barrel in 2016, an increase of about 28.6%. This led to an increase in the volume of oil revenues of the UAE to AED 139.7 billion in 2017, compared to AED 86.8 billion recorded in 2016. Consequently, public revenues rose from AED 381.3 billion in 2016 to AED 404.8 billion in 2017, an increase of 6.2%. The state continued to pursue its prudent and balanced fiscal policy in 2017 that has been adopted since 2015, by continuing to control and rationalize current expenditure and continue pumping investments to activate its strategies and implement infrastructure projects and strategic projects to stimulate growth and transition towards a highly productive and competitive knowledge economy based on creativity, research and innovation, in addition to developing the projects of the global event Expo 2020, increasing levels of economic diversification and supporting human and social development. As a result, public expenditure has increased by 2.5% from AED 398.2 billion in 2016 to AED 408.1 billion 2017.

This resulted in a decline in budget deficit by -81.0%. The deficit amounted to AED -3.2 billion in 2017, after it was AED -16.9 billion in 2016. As shown in table No.17.

Table (17) Public Revenues and Expenditures of the State for Years 2016-2017 (in AED billion)

Description	2016	2017	Change Rate in 2016/2017 %
Total Public Revenues	381.300	404.846	6.2%
Total Public Expenditures	398.232	408.066	2.5%
Final Deficit	-16.932	-3.220	-81.0%

Source: Federal Competitiveness and Statistics Authority, Preliminary Figures, June 2018

III. Population and Workforce

01 Population

According to the World Bank Database, the population of the United Arab Emirates increased from about 9.270 million people in 2016 to about 9.400 million people in 2017, a growth of 1.4%, of which 2.594 million females and 6.806 million males. The Dubai Statistics Center estimates that the population of Dubai Emirate in 2017 reached about 2976.5 thousand people, of which 2.1 million males and 0.9 million females.

02 Workforce

According to the World Bank Database and the International Labor Organization (ILO) estimates, the total labor forces in the United Arab Emirates increased from 6415.8 thousand in 2016 to 6447.2 thousand in 2017 of the total population aged 15 years and above. The rate of participation in the male labor force of the total male population aged 15 years and above increased from 93.3% in 2016 to 92.8% in 2017. The rate of participation in the female labor force of the total female population aged 15 years and above has also increased from 41.9% in 2016 to 41.6% in 2017. The rate of employment of the total population aged 15 years and above increased from 79.1% in 2016 to 78.3% in 2017. The overall unemployment rate in the State of the United Arab Emirates declined to about 1.7% of the total workforce in 2017 from its level of 1.64% in 2016. Furthermore, according to the same estimates, the unemployment rate of male remained at 1.3% of the male labor force during 2016 and 2017, while the female unemployment rate increased from 4.2% in 2016 to 4.4% in 2017 of female in the labor force.

2.1 Distribution of Employees Compensation by Economic Sectors

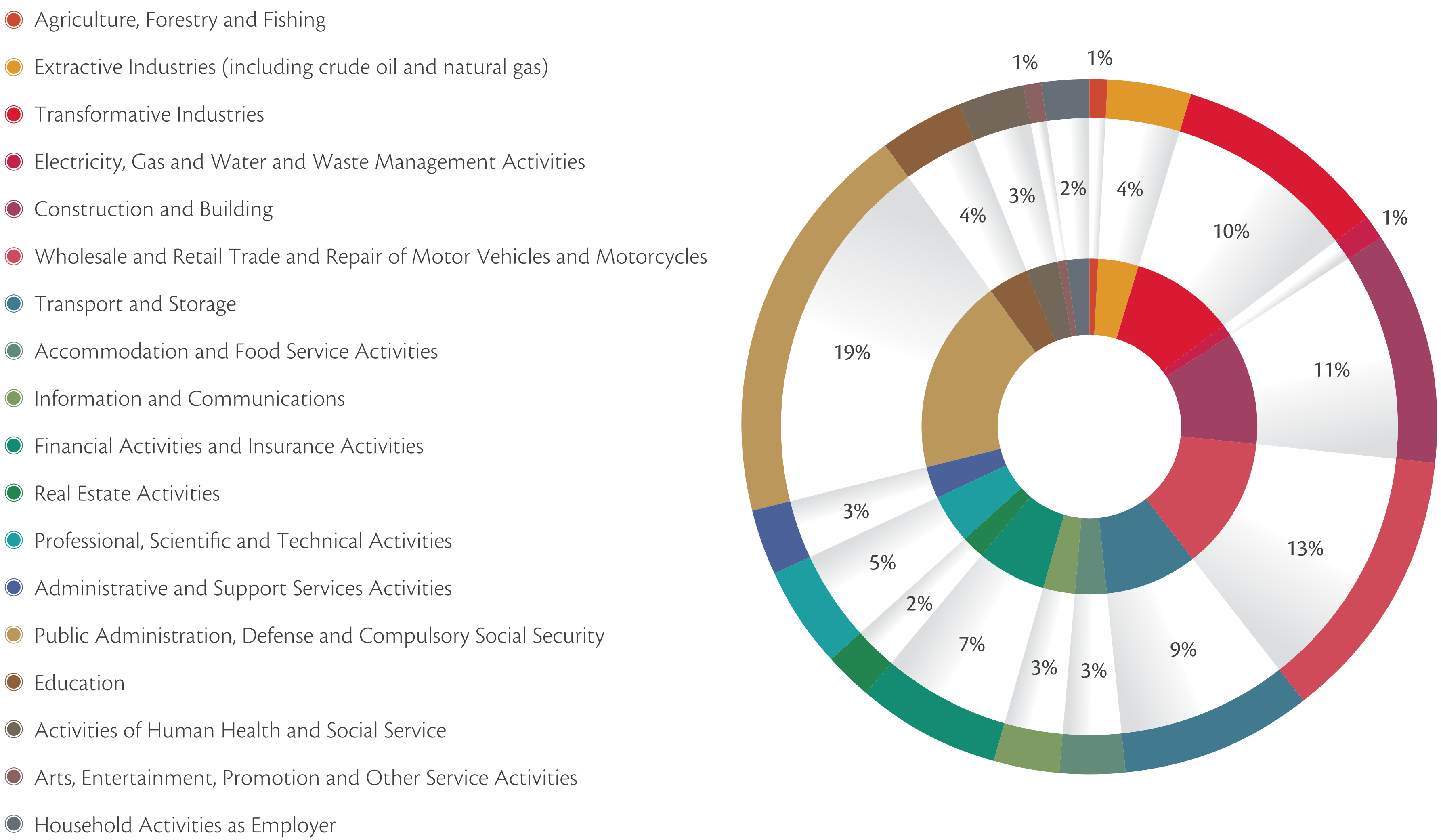
Table (18) Estimates of Compensations of Employees (Size of Wages) by Economic Sectors for Years 2016 and 2017 (in AED million)

Sectors	* Compensations of Employees 2016	%	* Compensations of Employees 2017	%
Agriculture, Forestry and Fishing	3,627	0.8%	3,798	0.8%
(Extractive Industries (including crude oil and natural gas	18,267	4.1%	17,578	3.8%
Transformative Industries	42,465	9.6%	43,880	9.6%
Electricity, Gas and Water and Waste Management Activities	6,148	1.4%	6,422	1.4%
Construction and Building	47,539	10.8%	47,139	10.3%

Sectors	* Compensations of Employees 2016	%	* Compensations of Employees 2017	%
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	57,041	12.9%	57,722	12.6%
Transport and Storage	37,574	8.5%	38,325	8.4%
Accommodation and Food Service Activities	14,080	3.2%	14,504	3.2%
Information and Communications	11,898	2.7%	12,225	2.7%
Financial Activities and Insurance Activities	31,228	7.1%	31,905	7.0%
Real Estate Activities	7,331	1.7%	7,434	1.6%
Professional, Scientific and Technical Activities	21,679	4.9%	22,173	4.8%
Administrative and Support Services Activities	15,173	3.4%	15,766	3.4%
Public Administration, Defense and Compulsory Social Security	83,712	18.9%	93,149	20.3%
Education	15,671	3.5%	16,325	3.6%
Activities of Human Health and Social Service	14,874	3.4%	15,939	3.5%
Arts, Entertainment, Promotion and Other Service Activities	4,775	1.1%	4,951	1.1%
Household Activities as Employer	8,854	2.0%	9,156	2.0%
Total	441,936	100.0%	458,391	100.0%

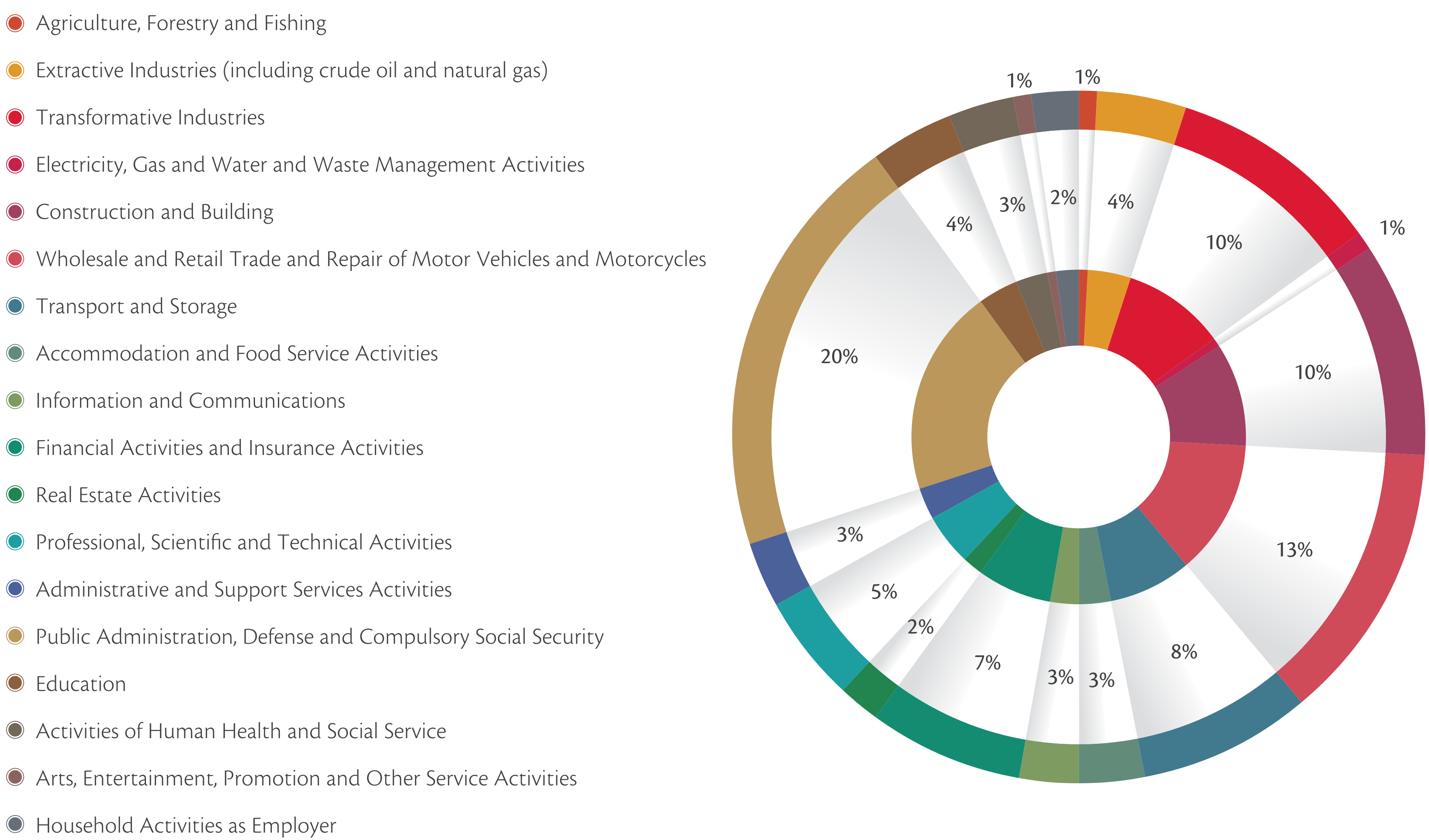
* Source: Federal Competitiveness and Statistics Authority, Preliminary Figures, June 2018.

Figure (6) Relative Distribution of Compensations of Employees by Economic Sectors in 2016



In view of the relative distribution of employees' compensations by economic sectors in 2016, the public administration, defense and social security sector was at the forefront of the economic sectors in terms of the percentage of compensations of workers in the country which amounted to AED 83712 million and a rate of 18.9% of the total compensations of workers. Then came the wholesale and retail trade and the repair of motor vehicles sector with a value of AED 57041 million and a rate of 12.9% of the total value of compensations, followed by the construction and building sector with a value of AED 47539 million and a percentage of 10.8% of the total compensations value, followed by the transformative industries sector at a value of AED 42465 million and a rate of 9.6% of total value of total compensations, then came the transport and storage sector with a value of AED 37574 million and a rate of 8.5%. The total compensations of employees working in the five sectors amounted to about AED 268331 million and a total percentage of 60.7% of the total wages and compensations of workers in the state during 2016, and the same economic sectors referred to come in the same rank during 2017. The total compensations of the employees of these five sectors amounted to about AED 280215 million and at a rate of 61.2% of the total remuneration and compensations of workers in the country during 2017.

Figure (7) Relative Distribution of Compensations of Employees by Economic Sectors in 2017



IV. Economic Issues

04

01 Artificial intelligence in the UAE

Artificial intelligence is the most important output of the fourth industrial revolution, since it is utilized in several military, industrial, economic, and technological fields, and medical, educational and services applications. It is expected that it will open the door for unlimited innovations that lead to further industrial revolutions, which will make a major change in human life, since with the tremendous and accelerated development, artificial intelligence will be the driver of progress and growth for countries over the next few years.

The UAE has invested in the fourth generation technologies of industrial revolution, headed by artificial intelligence, as it is the language of the future, in order to achieve its ambitious development targets, in addition to adopting it by many economic sectors due to the opportunities it provides such as: health, education, services and other vital sectors, its ability to achieve great profits with the application of its uses and reliance on what it provides of accurate information and consultancies, and its positive impacts in reducing reliance on human elements and employment, which will increase the quality of products and decrease spending.

In order to activate the applications of artificial intelligence, the state, at all government and private sectors levels has adopted many mechanisms including developing and improving the scientific competencies and local specialized capacities, training the government employees by engaging them in specialized data science courses, and creating the culture of artificial intelligence and raising awareness of the fundamentals of this field among the categories of society. The UAE strategy for artificial intelligence was launched with an independent ministry in 2017.

Fourth industrial revolution

The fourth industrial revolution was founded on the basis and rules of the third industrial revolution represented by the development of computer and internet technology. It depends on linking and integrating physical or material sciences with digital and biological systems in manufacturing processes. In other words, electronically controlled machine systems, i.e. intelligent machines connected to the internet.

Three industrial revolutions preceded the fourth industrial revolution, the first was from 1760 to 1840 motivated by the invention of steam engine, the second started at the end of 19^{th} century and continued until the early 20^{th} century supported by electricity, and the third appeared in the sixties of the same century through digital computing and central computers, and later personal computers and the internet until reaching to the peak of its applications in the industrial intelligence, biotechnology, 3D technology and the revolution occurring in the field of social media websites and digital world (Germany was the one which took the initiative to launch the fourth industrial revolution through automation of industry and reducing the labor thereof, as that the human role is now limited to monitoring and checking.

The fourth industrial revolution began at the dawn of the current twenty-first century based on the digital revolution, mobile internet, the development of sensors, 3D printing, artificial intelligence, intelligent robotics, transition to automation, digital technologies and intelligent systems, self-driving vehicles, nanotechnology, biotechnology, materials sciences, energy storage, quantum computing, automated border guards and high-dexterity computers that can write stories and compete with the imagination of major novelists.

The most important positive aspects of the fourth industrial revolution

1. Achieving high rates of economic, social and humanitarian development.
2. Improving and raising the level of human healthcare.
3. Saving a lot of time in the development process and circulating its achievements to the world.
4. Reducing the cost of production.
5. Providing highly efficient services and means of transportation and communication at low prices.

To keep pace with the fourth industrial revolution and its rapid changes, the state launched the national innovation strategy, as well as the supreme policy for sciences, technology and innovation. Moreover, it adopted innovation and renovation as a work culture and lifestyle, restructured its government to include ministers of artificial intelligence and advanced sciences, and aimed towards focusing on the development of human capital through developing and improving education and scientific research, and establishing Dubai Future Foundation, the complex of scientists and artificial intelligence, and Mohammed bin Rashid Center for Future Research as a future scientific system of the state.

The concept of artificial intelligence

To know what artificial intelligence is, we have to define what is meant by human intelligence related to mental abilities, such as the ability to adapt to the conditions of life, making use of past experiences, thinking, analyzing, planning, problem solving and sound conclusion, as well as fast learning and the use of what has been learned in a proper and useful manner. Intelligence is also related to the feeling towards the others. As for artificial intelligence, it is a simulation of human intelligence made by creating computer programs able to simulate the intelligent human behavior. Nowadays, we can find artificial intelligence everywhere around us, from self-driving cars, unmanned aerial vehicles, translation or investment software, and many other widespread daily-life applications.

Field and applications of artificial intelligence

Among the most important fields and applications of artificial intelligence are the following:

- Self-driving cars and unmanned aerial vehicles.
- Robotics (robot).
- Rail control.
- Smart devices that make mental processes, such as checking industrial design, processes control and decision making.
- Cognitive simulation by using computers to test the theories of how the human mind works and its related functions, such as recognition of familiar faces, voices, and hand writing, image processing, extraction of useful data and information and memory activation.
- Computer applications in medical diagnosis and surgery.
- Artificial intelligence programs to analyze stock exchange data and development of stock trading systems.
- Chess and video games programs.
- Google search clustering patterns on the computer online.
- Applications of learning the different natural languages, rules of understanding machine written and read languages, answering questions with pre-programmed answers and immediate automatic language translation systems.
- Experts systems that can perform tasks in a manner similar to the experts' method, helping them to make their decisions accurately by depending on a set of logical operations or a set of logical options to reach a correct decision.
- Smart home services, self-employed weapons, smart phones, smart TVs and hundreds of other applications.

Historical background of artificial intelligence in the UAE

- In 2000, the UAE started the first step towards electronic transformation.
- In 2013, the UAE launched the intelligent government initiative to provide services to the public.

- In 2014, the UAE established the first project of integrated intelligent city “Silicon Park”.
- In 2015, the UAE completed the smart transformation of government services by 100%.
- In 2017, the UAE launched the artificial intelligence strategy as the first large project in the UAE Centennial 2071.

The UAE motivations to activate artificial intelligence

The following are the most important motivations of the state to activate artificial intelligence in its economic sectors

1. Providing the sector of industry with artificial intelligence technologies to support the activation of income diversification policy.
2. Vital sectors dependence on artificial intelligence technologies, such as services and transportation (unmanned aerial vehicles, self-driven cars, air taxi, metro and all land and sea means of transportation).
3. The ability of artificial intelligence to help diagnosing and treating diseases, performing surgeries, prescribing medicines, setting the patients’ appointments in clinics and hospitals, and accessing their profiles by voice commands.
4. There is a possibility of learning and self-development through artificial intelligence programs, such as teaching, logic, self-correction and self-programming machines.
5. It contributes to providing legal advice and in the military fields.
6. It eases man’s hardships and dangerous works, such as exploration and rescue during natural disasters that need muscle strength.
7. It is used in experts system based on face recognition technology platforms.
8. It provides new jobs, allows low cost services, contributes in the maintenance of security, and provides solutions to combat cybercrime.

The UAE mechanisms to activate artificial intelligence

In order to activate the applications of artificial intelligence, the state has applied several mechanisms, mainly the following:

1. Raising the awareness about artificial intelligence and its applications among the groups of society through governmental, educational and media institutions.
2. Creating awareness among the leaders of institutions, directors, and employees in the governmental bodies of the importance of artificial intelligence and its uses to facilitate the adoption of this technology by these bodies.
3. Forming workgroups in the governmental institutions in order to study the opportunities and challenges they face to develop their e-services based on artificial intelligence tools.
4. Developing and improving local scientific competencies in the field of artificial intelligence, and training government employees by encouraging them to take interest in computer science, and to involve them in specialized courses of data science.
5. Launching educational programs at universities that keep pace with the expected change in the future jobs.
6. Establishing research centers to develop various sectors in the state and rehabilitate them to receive the necessities of artificial intelligence.
7. Dubai University has signed an agreement with Roads and Transport Authority to establish a research center that serves the transport and communications sector, which contributes to its development by offering all the services provided by the Authority through artificial intelligence, such as air taxi, metro and all land and sea means of transportation, and another agreement with Mohammed bin Rashid Space Center in order to establish another research center that serves the same field. It also intends to sign an agreement with Dubai Police General Command for the same purpose.
8. The movement of educational institutions towards virtual reality learning technology to keep pace with artificial intelligence.
9. Developing the services of some government departments based on artificial intelligence technologies.
10. Allocating an independent course for artificial intelligence at schools and universities.
11. Conducting advanced researchers by Khalifa University for Science and Technology in the field of artificial intelligence, the most prominent of which are the following:

- The “analysis of poisoning and infections alerts” project in collaboration with Abu Dhabi Health Authority.

- The “emotions analysis” project on social media in collaboration with Abu Dhabi Statistics Center.
- “E-governance of producing electronic software” program for deep learning and self-learning. Intelligent system to summarize “Arabic texts from newspaper articles”.
- "Measuring the crowds' feelings of video images” project to predict people’s behavior about security applications.
- Organizing “unmanned aerial vehicle” competition on the sidelines of the international skills competitions.

12. Launching the “silicon park” project in 2014 as a part of a plan to transform Dubai into the world’s smartest city.
13. Establishing Cognet Technology Solutions to develop Watson for Cognitive Computing in Arabic for domestic institutions, entrepreneurs, emerging companies and applications programmers in the Middle East.
14. Dubai Department of Economics in collaboration with Dubai Smart City Office and IBM developed “HELP” service to train on the uses of Watson, which uses cognitive computing to respond to public inquiries related to establishing and opening businesses in Dubai.
15. An artificial intelligence laboratory by the Smart City of Dubai was established in 2016 to help governmental bodies develop their services using artificial intelligence technologies and cognitive computing.

16. The UAE launched its strategy for artificial intelligence in October 2017.
17. A ministry for artificial intelligence and another one for science fiction were included in the new cabinet formation of the state government in 2017.
18. The first surgery in the world to replace the shoulder joint of a man with the participation of an Emirati doctor by employing artificial intelligence and wearing a helmet of 3D imaging transmitting to replace the joint, and the operation was successful.
19. “ Mabrook Ma Dabart (congratulations on your marriage)” service was activated, which allows the completion of marriage contracts according to the Islamic Sharia and legal procedures applicable in the UAE, where the first digital marriage contract of a couple was made in the presence of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai through the technology of communication with a judge in the courts of Dubai through artificial robot.
20. Activation and development of all police, transportation, health and education services in all emirates of the state by using the technologies of artificial intelligence.

The UAE strategy for artificial intelligence

His Highness Sheikh Mohammed bin Rashid, Vice President and Prime Minister of the UAE and Ruler of Dubai announced in October 2017 the UAE strategy for artificial intelligence as a part of the UAE Centennial of 2071. The key points can be summarized in the following:

1. **Governance:**

- Forming the state's artificial intelligence council.
- Creating workgroups consisting of chief executive officers for innovation in the governmental bodies.
- Issuing a law concerning safe use of artificial intelligence.
- Organizing a series of conferences to attract artificial intelligence experts.
- Developing an international protocol with the leading governments in the same field.

2. **Activation:**

- Organizing field visits for the governmental bodies to understand artificial intelligence.
- Organizing and supporting workshops in all governmental bodies.
- Organizing an annual global summit dedicated for artificial intelligence.
- Launching government accelerators of artificial intelligence.

3. **Capacities development:**

- Developing the capacities of supreme government leaders in the field of artificial intelligence.
- Improving the skills of all jobs connected with technology.
- Organizing training courses for government employees in the field of artificial intelligence.
- Allocating a proportion of the specialized scholarships abroad for the study of artificial intelligence.

4. **Application:**

- Providing a proportion of first line service to the public through artificial intelligence.
- Integrating artificial intelligence by a specific rate in medical services.
- Increasing the reliance on artificial intelligence in routine functions.

The UAE artificial intelligence strategy aims at:

- Adopting artificial intelligence tools and technologies to improve government performance at all levels.
- To make the UAE the world's first country in artificial intelligence investments.
- Creating a new promising market of high economic value in the region.
- Supporting the private sector's initiatives and increasing productivity.
- Building a strong base for research and development.
- Relying on artificial intelligence by 100% in the field of services and data analysis by 2031.

The strategy targets several vital sectors, the most notable of which:

- The transportation sector through reducing accidents and operational costs.
- The health sector through reducing the rate of chronic and dangerous diseases.

- The space sector by conducting careful experiments and reducing the rate of costly mistakes.
- The sector of renewable energy through facilities management and intelligent consumption.
- The sector of water by conducting careful analysis and studies to provide resources.
- The sector of technology through raising the rate of production and public expenditure.
- The sector of education through reducing the costs and increasing the will to learn.
- The sector of environment through increasing the rate of forestation and planting the suitable plants.

The achievements of the UAE in the field of artificial intelligence

The launch of the artificial intelligence ministry within the new cabinet formation of the state government in 2017 affirms that it is about to launch a new development stage that depends on artificial intelligence in all government and private sectors. The following were among the ministry's main functions:

1. **Implementing the UAE artificial intelligence strategy launched by the state.**
2. **Making the UAE the center of developing the mechanisms, techniques and legislations of the artificial intelligence.**

In this regard, the most important achievements of the state can be noted in the following:

1. Establishing the council of artificial intelligence and robotics in collaboration with the World Economic Forum to provide consultancies about the best ways to use robotics and artificial intelligence in order to improve the life of humanity, and to work towards setting up a global strategy for using robotics in several main sectors, such as: education, health and social services, also to create global standards for robotics, and make the UAE the first destination for innovation in the field of robotics and artificial intelligence. The list of founding members of artificial intelligence and robotics include an elite of researchers and innovators from the best global universities, companies and establishments.
2. The launch of "UAE AI & Robotics Award for Good" with a value of USD one million to promote the researches and applications of innovative solutions to address the challenges encountered in the three field: health, education and social services.
3. The government of the UAE in collaboration with the World Economic Forum "Davos" launched the project of "Artificial Intelligence Protocol" which enhances the efforts of foreseeing the future and adopting its tools in line with the rapid technological changes witnessed by the world. The protocol adopts the enactment of legislations which ensure that goodness will be achieved for all people in the world, on whom AI technologies will have a positive effect by supporting them in confronting the challenges and rapid changes witnessed by the world. This affirms the keenness of the state to build global partnerships to enhance the use of unprecedented services provided by the technologies of artificial intelligence and their role in improving human life that transcends the geographical boundaries to include the whole world.
4. The growth of the UAE's investment in artificial intelligence has grown by 70% over the last three years since 2015, which is expected to reach AED 33 billion in 2017, according to experts and academics.

Future trends of the UAE in artificial intelligence

The most important future trends of the state in the field of artificial intelligence through the Ministry of Artificial Intelligence include the work to activate the following:

1. Establishing legislations and regulatory frameworks that govern AI technologies.
2. Intensifying the qualitative investments related to innovation, technological advancement, research and development.
3. Providing all services through artificial intelligence, specifically, security services.
4. Employing the technologies and applications of artificial intelligence in all sectors, such as: education, health, transportation, roads and others.
5. Teaching one million Arab programmer on the artificial intelligence programming.
6. Strengthening the global efforts and partnerships in the field of artificial intelligence and to

establish experiences at the international level in collaboration with the global companies, and to make use of the services provided by the techniques of artificial intelligence to improve the quality of human life.

7. Working towards making the UAE the center of artificial intelligence in the world by 2030.

Economic implications of artificial intelligence

Several studies and researches have pointed to the economic effects and implications expected for the activation of artificial intelligence technologies in various economic sectors at the national and global levels, which can be referred to as follows:

1. At the level of the UAE

- The economic effects of artificial intelligence are not only limited to reducing the cost, changing consumption and production patterns and improving productivity, but extend to achieve high economic growth rates through intelligent investment in various sectors. AI technologies will be able to stimulate growth in the state's gross domestic product (GDP) by 35% until 2031, according to estimates by some global studies, and to reduce the government spending by 50% annually either in terms of reducing the amount of paperwork wastage or saving millions of hours that are annually wasted to complete these paperwork. Moreover, the UAE will become the world's artificial intelligence center by 2030.
- According to the estimates, it is expected that the UAE strategy for artificial intelligence will achieve annual economic returns in various sectors that would amount to approximately AED 22 billion by increasing the productivity of individuals by 13%, avoid wasting 396 million hours annually in traditional transportation means and on roads, reducing the transportation costs by 44% which corresponds to AED 900 million, reducing carbon emissions and environmental pollution by 12% which corresponds to AED 1.5 billion, reducing traffic accidents and related losses by 12% which will save AED 2 billion annually, reducing the need for parking spots up to 20%, in addition to saving AED 18 billion through raising the efficiency of transportation sector in Dubai by 2030.
- According to a recent study conducted by McKinsey company, there are expectations that 1.9 million jobs will be replaced by others in the UAE as a result of implementing AI technologies.
- According to some international studies, 65% of current students in the stage of basic education will not find the jobs they know today, as many traditional professions will disappear for the benefit of new professions that they will have to acquire to commensurate with the technologies of the fourth industrial revolution.
- Also, it is expected that the UAE will benefit greatly from enhancing artificial intelligence, not only in the sense of improving the performance of projects in the state, but also to adjust the imbalance in the structure of the population composition and labor market.
- Artificial intelligence applications represent a great opportunity for many economic sectors, so that the state can make huge profits if it started to implement of AI uses and rely on its accurate information and consultations, which increase the quality of products and reduce spending.
- Efficient investment in artificial intelligence helps to save transportation costs, reduce projects implementation cost and achieve a significant increase in gross domestic product (GDP).

2. At the international level

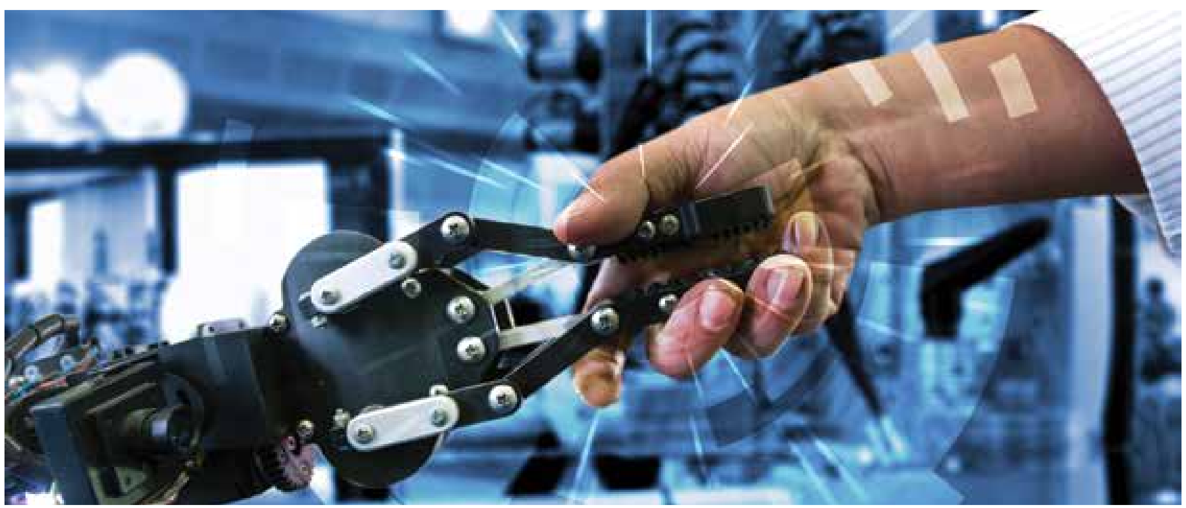
- Today, investments in the field of artificial intelligence surpass their oil exploration counterparts.
- 47% of the current jobs will disappear during the next years because of artificial intelligence.
- In the future, it is expected that automation will replace about 83% of crafts which wages not exceeding USD 20 per hour, which constitutes a source of concern due to its implications on the unemployment rates and income disparities for countries whose citizens take these endangered crafts as professions.
- In 2030, it is expected that artificial intelligence will add to the international gross domestic product more than USD 15 trillion, which is 10 times more than the international oil sales.
- The impact of artificial intelligence on medical advancement will add five new years to the age of human beings in each decade, which means that a person aged 90 years old, will enjoy the health of someone aged 60 years old today.

02 Financial inclusion and the revolution of financial technology

Introduction

Many governments have adopted policies to expand the scope of financial inclusion. These efforts have begun to bear fruits, as the World Bank data showed that 69% of adults have bank accounts worldwide in 2017, which means that 515 million adults were able to benefit from the financial tools.

Financial services can help driving development through facilitating and enhancing investment in various economic sectors and business activities. It also facilitates the management of emergency financial crisis. Many people around the world lack financial services such as bank accounts and digital payments. Instead, they rely on cash that can be unsafe and difficult to manage. Thus, enhanced inclusion, i.e. enabling access to the official financial services and their use is a key priority.



The concept of financial inclusion

According to the World Bank, financial inclusion means "providing and using all financial services from all society categories, its institutions and personnel through official channels, including bank savings accounts, payment and transfer services, insurance, finance and credit, and creating more suitable financial tools at competitive prices, and maintaining the rights of users of financial services and encouraging them to manage their funds and savings properly in order to avoid resorting to unofficial channels and means, which are not under control and supervision and which often adopt high prices.

Financial inclusion is measured by the availability of financial services which represent the supply on the one hand, and the extent of their use and implementation on the other hand represented by demand. Thus , financial inclusion aims to expand the opportunities of access to financial services through the development of both supply and demand.

The importance of financial inclusion for development

The concept of financial inclusion is to enable low-income people to benefit from high quality financial services at acceptable costs, and to give them the appropriate importance and priority in the framework of economic policies adopted, the development of legislations, regulations and control frameworks that help to improve the spread of financial and banking services, and to encourage innovation in this field. Therefore, the expansion of beneficiaries of financial services will contribute to the empowerment of society as a whole, and to enhance the financial independence of individuals, in addition to supporting the banking sector and encourage savings.

The importance of empowering the financial inclusion lies in that it is an important axis in the system of supporting entrepreneurs and emerging companies for their role in providing support and financing in order to turn into small and medium enterprises that generate business and job opportunities.

There are many developmental benefits that can be achieved from financial inclusion, particularly from the use of digital financial services, including financial services through mobile phones, payment cards and other financial technology applications.

Financial inclusion around the world

Several studies have shown that mobile financial services which allow users to save money and transfer it through a mobile phone can help improve their earning potentials.

In Kenya, the access to these services has achieved considerable benefits, especially for women, which enabled the families that are supported by women to increase their savings by more than a fifth, allowing for about 185 thousand women to leave farming and to set up retail project or activities, which helped to reduce the proportion of extreme poverty among these families by 22%.

Also, digital financial services can help people manage financial risks through facilitating fundraising from distant friends and relatives at hard times. In addition, digital financial service can reduce the cost of receiving payments. In a five-month relief program in Niger, the shift to send the monthly payment of government social assistance through mobile phones instead of paying in cash saved an average of 20 hours to the beneficiaries, which is the total period of movement and waiting to receive payments.

Financial services can also help people accumulate savings and increase spending on necessities. In Kenya, the female owners of micro projects were provided with savings accounts, so their savings increased and investments in their projects rose by 60%, while in Nepal, the spending of families supported by women increased on food by 15% and on education by 20% after receiving free savings accounts. Also in Malawi, the farmers spending on agricultural equipment increased by 13%, and the value of their crops increased by 15%.

As for governments, the shift from cash payments to digital payments may limit corruption and improve efficiency. In India, for instance, the leaking proportion of funds assigned for pensions dropped by 47% when payments were made through smart cards with an electronic fingerprint rather than cash delivery, and in Niger, the distribution of social transfers through mobile phones, rather than cash, reduced the variable cost of administering these subsidies by 20%.

According to the statistics of the World Bank, around 3.8 billion people worldwide have bank accounts or companies that provide mobile financial services, equivalent to 69% of the total adult population in the world in 2017, while this proportion amounted to 62% in 2014, and it did not exceed 51% in 2011, and during the period of 2014 and 2017, 515 million adults have got bank accounts.

In Sub-Saharan Africa, mobile financial services have enhanced financial inclusion. Although the proportion of adults with accounts in financial institutions remained constant, the proportion of those with mobile accounts almost doubles to 21%. Since 2014, mobile financial accounts have spread from East Africa to West Africa and beyond. This region includes all eight countries where 20% or more adults only use these accounts: Burkina Faso, Côte d'Ivoire, Gabon, Kenya, Senegal, Tanzania, Uganda, and Zimbabwe. There are many opportunities available to increase accounts holders. About 95 million adults do not have bank accounts in the region that receive payments for agricultural products in cash, and about 65 million save money by using semi-formal means.

East Asia and Pacific region: the use of digital financial transactions has grown even with the stability in the number of accounts holders, where 71% of adults have accounts in 2017 which has not changed a lot since 2014. Indonesia is an exception, where the proportion of accounts holders raised up to 49%. Furthermore, the level of gender inequality is low, so men equal women in the potential of holding accounts in Cambodia, Indonesia, Myanmar and Vietnam. The digital financial transactions picked up the pace, especially in China, where the proportion of accounts holders who use the internet to pay bills or to purchase increased to more than double to 57%, digital technology can be useful to achieve greater increase of account utilization. 405 million of account holders in the region pay the bills of facilities in cash, although 95% of them have mobile phones.

In Europe and Central Asia, the proportion of accounts ownership among adults raised from 58% in 2014 to 65% in 2017. This increase was helped by the government's payment systems for wages, pensions and social subsidies. Among accounts holders, 17% have opened their first account to receive the government's payments, where the proportion of adults who send or receive digital payments increased to 60%. By paying all public pension payments digitally, the number of adults who do not have bank accounts can be reduced up to 20 million.

In Latin America and Caribbean Region, rapid growth in the use of financial technology can be achieved by expanding access to digital technology, as 55% of adults have mobile phones and can access the internet, which is higher than the average in the developing world. About 20% of adults who have accounts use mobile phones or the internet to make transactions through accounts in Argentina, Brazil and Costa Rica.

In the Middle East and North Africa Region, the opportunities of increasing financial inclusion are high, especially among women. According to 2017 statistics, 52% of men have accounts against a proportion that does not exceed 35% of women. Which is the largest gender gap compared to other regions. The relatively high ownership of mobile phones gives way for expanding the scope of financial inclusion. Among those who do not have bank accounts, 86% of men and 75% of women have mobile phones, and 20 million of adults in the region who do not have bank accounts send or receive the domestic transfers in cash or through the service of paying counter.

In South Asia, the proportion of adults with accounts increased up to 70%. This progress was led by India, where the proportion of accounts holders raised to around 80% driven by government adoption of a policy to increase financial inclusion through electronic fingerprint identification, achieving considerable gains among the poorest women and adults. With the exception of India, the proportion of accounts ownership in the region has increased, but men have benefited more often than women, whereas in Bangladesh, the proportion of accounts ownership among women increased, but this proportion almost doubled among men. By digitizing payments of agricultural products, the number of adults without bank accounts can be reduced by some 40 million at the level of the region.

Financial inclusion in the Arab region

Most Arab countries have embraced financial inclusion as a major topic in the agenda of economic and financial development, and have sought national strategies for financial inclusion.

The development of a strategy at the Arab level that includes all efforts and requirements is the best way to achieve financial inclusion. Within this context, the creation of a national strategy for financial inclusion requires five fundamental pillars, which are:

1. Studying the gap between the sides of supply and demand to be the starting point in the formulation of future goals and preparing a national strategy for financial inclusion.
2. Providing a strong financial infrastructure by enhancing the geographic spread of financial institutions, developing payment and settlement systems, providing comprehensive databases by activating the role of credit information companies and providing an

appropriate legislative environment that supports financial inclusion.

3. Giving access to financial services and products by developing the financial services and products that meet the needs of all categories of society and creating new financial products.

4. Protecting the consumer by setting up supervisory instructions to treat clients fairly and transparently, and creating a mechanism to deal with their complaints, while providing them with adequate information and advisory services.

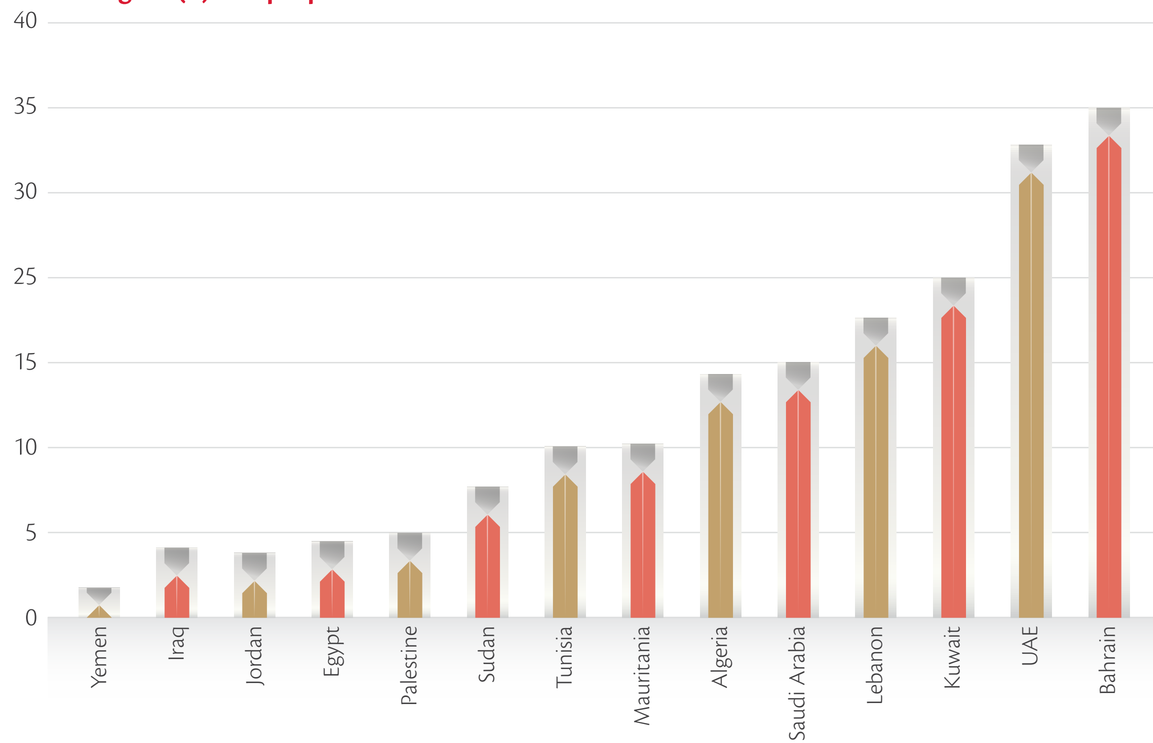
5. Enhancing and developing the financial teaching and education through setting up a national strategy for financial teaching and education, and to raise awareness and financial knowledge among the various segments of society, especially young men and women and small, medium and micro enterprises.

It is noteworthy that achieving financial inclusion is a top priority for the governments of Arab countries for the financial inclusion has a role in enhancing financial and social stability and achieving sustainable development.

The statistics reflect the efforts made by Arab countries to enhance access to financial services, noting that the proportion of adult people in the Arab countries without access to formal financial and funding services has decreased to an average from about 71% in 2014 to 63% in 2017, and from about 78% to 74% with regard to women, and from 84% to 72% with regard to low-income categories for the same period.

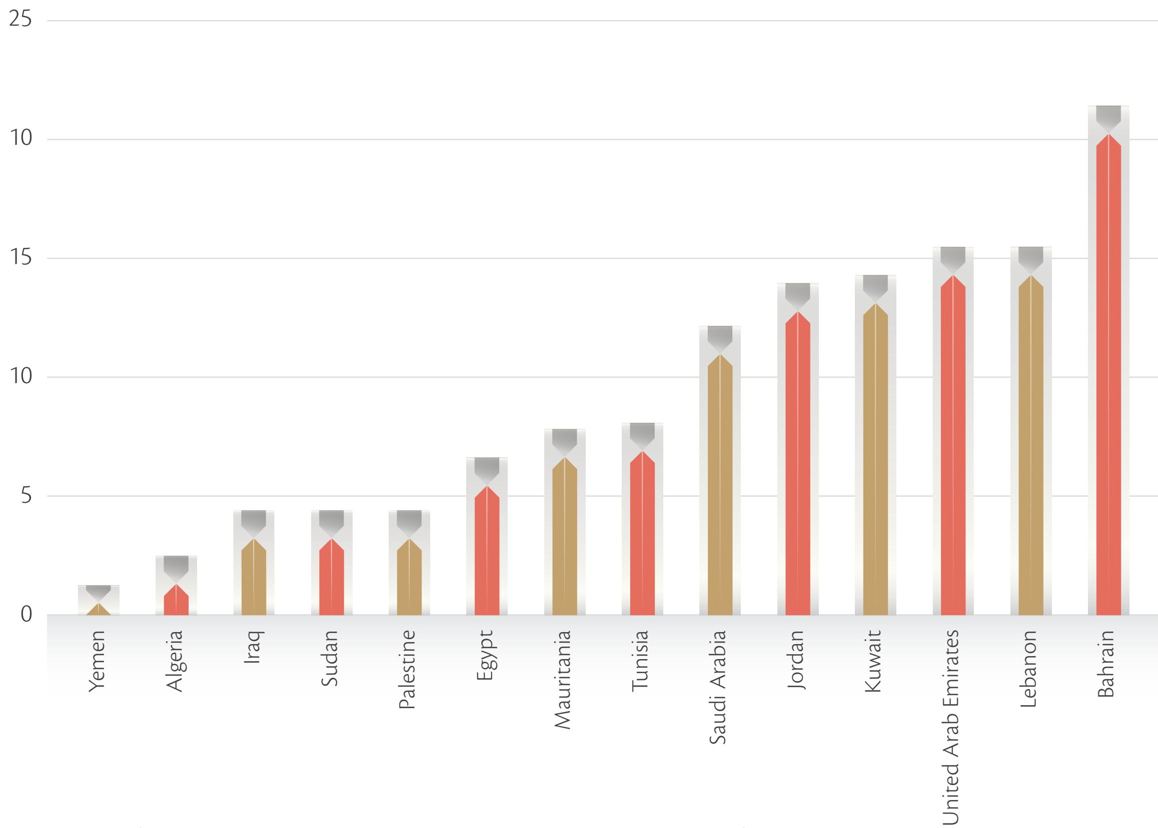
In spite of this, there is a necessity to integrate all groups and segments of society in the formal financial system, especially the youth, women and entrepreneurs, by enhancing their access and use of financial services and products that commensurate with their needs with reasonable costs and conditions, protecting their rights and enhancing their knowledge and financial awareness, enabling them to make the right investment decision. In order to achieve the desired objective and enhance the financial inclusion, there is a necessity to develop laws and regulations that aim at enhancing the dissemination of financial and banking services, developing payment systems, credit information and identifying the gaps and obstacles on both the supply and demand sides, and take measures and policies to stimulate the private sector, financial and banking institutions and related parties to play their role in spreading awareness and financial culture to enable and enhance the capabilities of society.

Figure (8) The proportion of adults with financial accounts in the official institutions



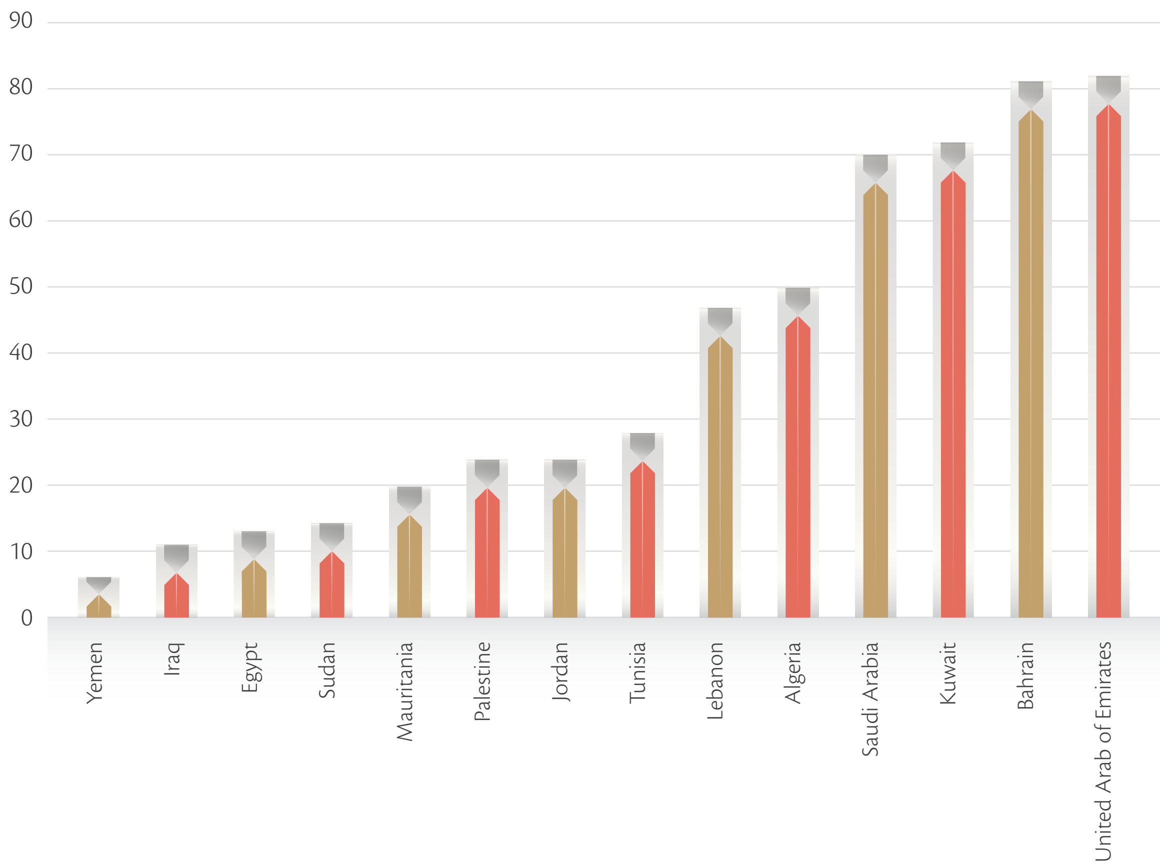
The source of data used in the graphs: http://www.worldbank.org/globalfindex

Figure (9) The proportion of adults who saved money in the official financial institutions



The source of data used in the graphs: http://www.worldbank.org/globalfindex

Figure (10) The proportion of adults who have borrowed from official financial institutions



The source of data used in the graphs: http://www.worldbank.org/globalfindex

Financial inclusion in the GCC countries

The GCC countries are among the leading Arab and international countries in applying the concept of financial inclusion, where the financial and banking services in the Gulf countries are characterized by their spread, development and use of the latest technologies to provide all services through mobile phones and internet.

UAE, for instance, was one of the first states which sought to achieve the concept of financial inclusion, through wage protection system approved by the Central Bank, allowing the exchange companies to provide services to the groups that cannot deal with banks. Moreover, the application of digital payments and e-portfolio system open the door to include more groups within the financial system due to easy access and low costs. Saudi Arabia and the UAE also issued prepaid cards to non-financial groups within the wage protection system.

In Qatar, the National Strategy Committee for financial inclusion and education was formed in 2015, which set out a plan of action and a mechanism to implement the national strategy in several stages, including conducting a study of the current situation, identifying gaps and needs and the extent of inclusion of financial services and products. The committee works to enhance and protect the rights of consumers of financial services, as well as encouraging citizens to save and invest in a proper manner.

In Saudi Arabia, the Saudi Arabian Monetary Agency (SAMA) strategy included four axes: the development of the Saudi payments system, providing prepaid cards, the development of

SADAD system, and the development of the system of financial transfers for low value payments to attract and introduce a group of the society into banking sector to benefit from banking services.

This strategy comes in the context of SAMA's efforts as legislator and regulator of the financial sector to enhance the initiatives and plans of financial inclusion by incorporating the principles of clients' protection. According to its legislations, the financial inclusion aims at giving all segments of society the appropriate financial services and products at suitable, fair and transparent costs.

The UAE is at the forefront of the states that provide the customers with smart mobile banking services, where the proportion of adults who have banking accounts amounted to 88% of the UAE total population, and the proportion of men who have banking accounts amounted to 93% of the UAE's total men population, whereas the proportion of women amounts to 76% according to the statistics of World Bank.

The UAE has taken great strides towards improving and activating an environment conductive to financial inclusion, innovating and improving the required technology that facilitates access to significant banking services. The UAE also works to encourage competition among banks in order to enhance the competitiveness of the entire state, as there is a close relationship between financial inclusion, financial stability, economic growth, achieving sustainable development and social welfare.

Recommendations and mechanisms to enhance financial inclusion in the Arab region

The following are some of the recommendations and suggestions to enhance and expand financial inclusion in the Arab region. It is noteworthy that most central bank and Arab banks have started developing policies, plans and programs to achieve the following targets:

- Developing the infrastructure of the financial system, establishing credit information bureau, maintaining creditors' rights, facilitating guarantee systems and developing payment and settlement systems and electronic banking operations.
- Establishing comprehensive databases that include the history of credit data records of individuals, small, medium and micro enterprises.
- Expanding the provision of digital financial services
- Digital financial services, as well as mobile payment in order to facilitate access to financial services at a lower cost and more efficiently.
- To put the channels of unofficial finance under the control and supervision of central banks, and increase the financing of entrepreneurs and small and medium enterprises which play an important role in combating poverty and unemployment and raising the level of economic, social and human development in the Arab region.
- Transforming the non-government micro financing institutions into financial institutions or banks.
- Enhancing geographical spread by expanding the network of bank branches and financial services providers, especially microfinance, in addition to the establishment of access points for financial services, such as bank agents, mobile banking services, and points of sale, ATMs, insurance services, securities and others.

- Diversifying and developing the financial products and services in the Arab region in order to provide innovative services at low cost for poor people. It is necessary to take into consideration the needs and requirements of clients when designing services and products for them, in addition to the creation of new financial products, based on savings, insurance and means of payment, not just on lending and financing.
- Ensure financial protection of the consumer through financial awareness and education by informing them of their rights and obligations, and the advantages and risks related to financial products, in addition to keeping clients informed of all updates and changes which arise on financial products and services.
- Increasing and expanding the role of Islamic banking to push financial inclusion forward by allowing individuals and small and medium enterprises who prefer Sharia-compliant banking operations, dealing with the banking system, since the demand for Islamic financial services in the Arab region is high, where estimates refer to that 35% of small and medium enterprises are outside the banking sector because they are not able to obtain financing from Sharia-compliant financial institutions.
- The development of a unified definition and mechanism for measuring financial inclusion based on three elements: access to financial services, the use of financial services and the quality of financial products and services provided.

- Emphasizing the importance of including the financial inclusion as a comprehensive strategic objective for Arab governments and central banks in order to support financial and social stability in the Arab region.
- Urging Arab banks to pay special attention to the financing of small, medium and micro enterprises sectors, and to consider it as an integral part of their financial inclusion initiatives.
- Establishing clear and specific objectives for financial inclusion initiatives and projects, with precise identification of the groups targeted by each initiative or project in order to ensure their success and access to the targeted sectors.
- Developing risk managements in Arab banks in line with the requirements of expansion and spread resulting from the policies of financial inclusion.
- Maximize the benefit of the great development in innovative financial services and products through modern communication devices and social media, as that would positively affect the transition from the financial transactions in cash to banking transactions, which will maximize the economic benefit thereof.
- The importance of joint Arab cooperation to develop and implement a comprehensive Arab strategy to enhance financial inclusion, combating money laundering and terrorism finance.
- Enhancing the disclosure and transparency of banking transactions, making them the basis of the principles of consumer financial protection, which strengthens confidence in the banking system and contributes to the expansion of the clients base, enabling them to take proper financial decisions based on accurate information.

- Call on the Union of Arab Banks to adopt an ambitious strategic vision to improve financial inclusion in the Arab region by enhancing cooperation with central banks, banks associations and banking institutes to support financial education and improve access to financial services.
- Enhancing and developing the system of financial learning and education by setting a national strategy aims at enhancing financial awareness and knowledge of the segments of society, especially the youth, women and small, medium and micro enterprises.
- Call on the Union of Arab Banks to increase its efforts to encourage innovation and creativity in the design of financial products that fulfill the needs of excluded groups. Arab banks should play a deeper and more comprehensive role in the service of Arab societies and to create financial instruments and services that meet the needs of the poor, women and excluded segments.
- The necessity to develop special policies to make use of digital technology and financial services to avoid obstacles that prevent access to financial services.
- The necessity to update the system of money markets by increasing its investment depth, expanding the base of customers and raising the levels of investment awareness.
- Improving the business environment through legislative and economic reforms that would attract direct investments and enhance growth and employment.

Conclusion

The financial inclusion data of 2017 reflects the continued progress in this regard. The progress achieved was driven by digital payment systems, government policies and issuance of a new generation of financial services that can be accessed through mobile phones and the internet.

The financial technology proved its ability to expand the scope of access to accounts and use them in a more convincing way in Africa, where about 21% of adults have financial accounts via mobiles in 2017, double the percentage of 2014, which is the highest rate of any region in the world. Although mobile financial services have centered on East Africa, the 2017 data shows that these services have spread in West Africa and beyond.

The continued involvement of business institutions will be of great importance to release opportunities to expand the scope of financial inclusion. There are still companies that pay in cash to about 230 million adults worldwide, so the transition to electronic wages payment may help those workers to join the official financial system. Also, mobile phones and the internet offer a strong opportunity to make global progress, where billion people around the world, who are actually deprived of financial services, have mobile phones, and about 480 million have access to the internet.

The private sector, governments and development organizations should focus more on increasing the uses of bank accounts rather than limiting them to saving and borrowing.

05

V. Expectations for the UAE economy for 2018

In regard to the growth horizon of 2018, it is expected that the stimulating environment for private sector activities might be of help, with the continuous positive expectations in the general business climate, along with activating the diversification policy and acceleration of spending on investment projects, strategic projects and infrastructure and those related to the hosting of EXPO 2020, which will benefit a large number of economic sectors to develop the economic activity, as the growth rate in the current year 2018 is expected to reach 2.5%.

The economic growth is also expected to rise in 2019 in the light of recovery in the oil sector that will be achieved as soon as the agreement to reduce the quantities of production is concluded, this is on one hand, on the other, based on the continued momentum of private sector activities and the impetus of investment spending on the projects referred to, it is expected that growth will continue improving in the next year 2019 to reach about 2.7%.

In terms of inflation expectations, according to the expectations of the Arab Monetary Fund during 2018 and 2019, it is expected that the general level of prices will be affected by a number of factors, the most important of which is the decline in housing prices and rents, the liberalization of energy prices and the application of the Harmful Consumer Tax and Value Added Tax which entered into force in January 2018. In light of this, the inflation rate is expected to reach about 2.5% in 2018. As for 2019, inflation is expected to fall to about 2.0%, reflecting in part the expected decline in world oil prices.

Exports are expected to rise by 9% to reach USD 332 billion in 2018 as a result of the expected rise in both oil and non-oil exports due to the rise in international oil prices and the improvement of the global economy. Imports are expected to increase by 4.1% compared to the previous year 2017, reaching to about USD 24 billion in 2018. As a result of these developments, the surplus in balance of trade is expected to rise by 24.2% to reach USD 92 billion in 2018 compared with a surplus of USD 74 billion in 2017.