Dubai and the Global Economy (in 2017-2018)
Dubai’s economic base is diversified, yet closely intertwined with the growth rates of its international trading partners, and this complex relationship can positively boost or lower the impact of financial trends worldwide. This chapter presents historical data on Dubai’s annual GDP and the correlating economic performance of other selected advanced and emerging world economies. Background data is also presented on Dubai’s trading relationships with regional GCC partners as well as major players such as China, the US, Russia and India.

- Dubai’s annual GDP growth rate was 4.6 percent in 2014, but from 2016 onwards, Dubai’s growth has lagged behind that of the world economy. In 2017, global real output rose by 3.7 percent from 3.3 percent the year before that. In contrast, Dubai’s real GDP grew by 2.8 percent in 2017 and lagged global GDP by close to a full percentage point. The main reasons for this discrepancy has arisen from the impact of lower oil prices on the economic growth and spending power of neighbouring oil-exporting economies, particularly Saudi Arabia.

- The IMF adjusted global and regional growth forecasts, in October 2018, citing less balanced expansion across region and uncertainty over trade policy as the main reasons. Consequently, growth in advanced economies which slightly rose by 2.3 percent in 2017 is expected to remain above trend before and easing to 2.1 percent in 2019 reflecting growth moderations in the euro area and Japan.

- Real growth among the Emerging Market and Developing Economies is predicted to continue to rise, from 4.4 per cent per annum in 2016 to 4.7 per cent in 2019. Growth is depending on a country’s position as an exporter or importer of energy.

- In contrast, the MENA (Middle East, North Africa) region experienced a fall in real GDP growth from 5.0 per cent in 2016 to 1.8 per cent in 2017. This was a result of the delayed impact on demand due to the slide in oil prices, which began in 2014, but the IMF predicts recovery. Real GDP in the region is anticipated to have risen to 2.0 per cent in 2018 and forecast to rise to 2.5 per cent in 2019, in line with the rise in global GDP.

- Dubai is the fourth most open economy in the world and the most exposed economy in the Gulf to foreign trade and capital investment flows. In 2017, the value of the ratio of foreign trade as a proportion of Gross Domestic Product (GDP), was at 321 percent.
Bright Spots in an Economic Slowdown

Despite Dubai’s lower than average global GDP growth rates since 2016, there are some bright spots.

1. Attractiveness and competitiveness among 110 Financial Centres Worldwide

Dubai ranks 15th ahead of Abu Dhabi, Doha, Bahrain and Riyadh.

2. Foreign Direct Investment (FDI)

In 2017, Foreign Direct Investment (FDI) capital grew by 7 percent to AED 27.3 billion (US$7.4 billion), ranking Dubai as 10th among global destination cities for capital investment.

3. Oil Prices

Oil prices rebounded from less than US$27 per barrel in January 2016 to US$53 per barrel at year’s end, averaging at US$51 throughout 2017.

- 2016: US$27
- 2017: US$51

The image includes a graphic that visualizes these key points, with Dubai ranking 15th in attractiveness and competitiveness, foreign direct investment capital growing by 7%, and oil prices rebounding from US$27 per barrel in 2016 to US$53 per barrel in 2017.
In 2017, the world economy continued to strengthen. Real global output rose by 3.7 per cent from 3.3 per cent the year before and the IMF predicts that it will continue to expand at this rate (3.7 per cent) in 2018 and 2019. In contrast, Dubai’s real GDP grew by 2.8 per cent in 2017, and 3.1 per cent from the year before.

Dubai’s diversified economic base and the composition and growth rates of its main international trading partners often multiplies or augments / diminishes the impact of trends in the world economy. For example, the Emirate grew faster than global output from 2012 to 2015 but from 2016 onwards Dubai’s growth has lagged behind that of the rest of the world. The main reason for this discrepancy has arisen from the impact of lower oil prices on the economic growth and spending power of neighboring oil-exporting economies particularly Saudi Arabia. (Figure 1.1)

Despite a global cyclical economic upswing that has continued for over two years as is forecast by the IMF to produce world output growth of just under 4 per cent per year for two additional years, this will not be evenly spread among countries. The rate of expansion in some economies appears to have peaked and growth has become less synchronized among economies. Having grown by 2.3 per cent in 2017 advanced economies are expected to remain above trend before easing to 2.1 per cent in 2019 reflecting growth moderations in the euro area and Japan. Economic growth in the USA rose to 2.2 per cent in 2017 from 1.6 per cent the year and is expected by the IMF to continue to rise by 2.9 per cent and 2.5 per cent in 2018 and 2019 respectively. (Figure 1.2)

Meanwhile, real growth among the Emerging Market and Developing Economies is predicted to continue to rise, from 4.4 per cent per annum in 2016 to 4.7 per cent in 2019, although growth is increasingly uneven across nations depending on a country’s position as an exporter or importer of energy. Growth in China is expected to slow from 6.9 per cent in 2017 to 6.6 per cent and 6.2 per cent in 2018 and 2019 respectively. India’s growth rate slipped in 2017, but still remained high at 6.7 per cent, and is expected to rise to 7.3 per cent and 7.4 per cent in 2018 and 2019 respectively. Economic growth in Turkey has been very strong reaching 7.4 per cent in 2017 but it is predicted to fall sharply to 3.5 per cent in 2018 and 0.4 per cent in 2019. This sharp slowdown is a result of the depreciation of the Turkey Lira, the rise in interest rates, uncertainty and the consequent impact on investment and consumer demand. In contrast, the MENA (Middle East, North Africa) region experienced a fall in real GDP growth from 5.2 per cent in 2016 to 1.8 per cent in 2017. This was a result of the delayed impact on demand due to the slide in oil prices, which began in 2014, but the IMF predicts recovery. Real GDP in the region is anticipated to have risen to 2.0 per cent in 2018 and forecast to rise to 2.5 per cent in 2019, but the pattern of growth is mixed. Real output in Egypt is predicted to rise to 5.3 per cent in 2018 and to 5.9 per cent in 2019 compared to 4.2 per cent in 2017. In contrast, economic growth in Iran is expected to fall to minus 1.5 per cent in 2018 on the back of the re-imposition of sanctions by the United States, and to decrease further to minus 3.6 per cent in 2019. (Figure 1.3)

Dubai’s economic performance in 2017 has been influenced by its exposure to economic conditions in the region in which it resides and to the prospects of some of its main trading partners, particularly Saudi Arabia, Oman, Kuwait, and Iraq. Falling oil prices dampened demand in this region, particularly in the GCC, holding back the strength of Dubai’s growth in 2017. Economic growth in Saudi Arabia turned negative in 2017 falling by minus 0.9 per cent in constant prices from 1.7 per cent in 2016. A similar pattern occurred in Oman, Kuwait and Iraq while growth in the UAE was weak rising by only 0.8 per cent and the growth rate in Qatar slowed to 1.6 per cent. The continuing recovery in the price of oil, however, is predicted to lift growth among the GCC nations in both 2018 and 2019. Dubai’s regional exposure to these trends will aid the emirate’s growth particularly if the Saudi economy continues to benefit from firm oil prices and generates a predicted annual growth of 1.9 per cent in 2018 and 2019. (Figure1.4)
CHAPTER 1 | Dubai and the Global Economy (in 2017-2018)

**Figure 1.1:** % YoY Real Growth in Global GDP and in Dubai 2012-2019

![Graph showing % YoY Real Growth in Global GDP and in Dubai 2012-2019](image)

Source: IMF, World Economic Outlook, October 2018, Dubai Statistics Center

**Figure 1.2:** Real GDP Growth (%) World and Advanced Economies

![Graph showing Real GDP Growth (%) World and Advanced Economies](image)

Source: IMF, World Economic Outlook, October 2018
**Figure 1.3: Real GDP Growth (%) World and Emerging and Developing Economies**

![Real GDP Growth (%) World and Emerging and Developing Economies](image)

Source: IMF, World Economic Outlook, October 2018

**Figure 1.4: Real GDP Growth (%) GCC and Iraq 2016-2019F**

![Real GDP Growth (%) GCC and Iraq 2016-2019F](image)

Source: IMF, World Economic Outlook, October 2018, Dubai Statistics Center

*Dubai projected growth rates for 2018 and 2019 are approximated using IMF projections for the UAE.*
Global & Regional Trade

The rate of growth of world merchandise trade volume accelerated in 2017 to 4.7 per cent from 1.8 per cent the year before, according to the World Trade Organisation (WTO). The WTO estimates that merchandise trade volume will rise by 4.4 per cent in 2018. However, growth is expected to moderate to 4.0 per cent in 2019, below the average rate of 4.8 per cent since 1990, but above the post-crisis average of 3.0 per cent.

The fastest regional trade volume growth in both exports and imports in 2017 occurred in Asia with annual rates of expansion of 6.7 per cent and 9.6 per cent respectively. In North America, volume trade in exports grew by 4.2 per cent and imports rose by 4.0 per cent, a bounce back in 2017 following a flat 2016.

South and Central America and the Caribbean’s import growth turned positive again in 2017 with an increase of 4.0 per cent after three years of declining trade. European trade flows continued to expand moderately experiencing growth of 3.5 per cent for exports and 2.5 per cent for imports. The WTO categorises Africa, the Middle East and the Commonwealth of Independent States, as ‘other regions’. This group experienced steady export growth of 2.3 per cent by volume terms since the demand for oil and other natural resources is relatively stable in terms of quantity. Higher primary commodity prices, increasing export revenues in resource exporting countries, allowed more imports to be purchased which rose by 0.9 per cent as a result.

Economic activity in the emirate of Dubai is affected strongly by these trends in the global and regional economy because of its openness to international trade in merchandise goods and in services such as finance and tourism. It is also impacted by capital investment flows. Dubai is the fourth most open economy in the world.

In 2017, the value of the ratio of foreign trade (the value of imports plus total exports) as a proportion of Gross Domestic Product (GDP), was estimated by Dubai Statistics at 321 per cent. This ratio might be below the exposure of highly open trade exposure of Luxembourg at 424 per cent, Hong Kong at 375 per cent and Singapore at 322 per cent, but it is well above the 173 per cent registered for the UAE as whole and the 62 per cent registered for Saudi Arabia. By this measure in 2017, Dubai is the most exposed economy in the Gulf to foreign trade. (Figure 1.5)
Dubai is also an open economy in terms of its participation in global capital markets, which attracts cross-border capital flows into the emirate. These include Foreign Direct Investment (FDI), encouraged by the Dubai FDI, part of the Dubai Department of Economic Development, portfolio investment flows (equity and debt) and other private capital flows, mainly bank lending. These flows have been facilitated by the growth in Dubai’s role as an offshore financial center to provide services to residents and non-residents.

From increasing much faster than world GDP from just under US$4 trillion in 2000 global capital flows fell sharply as a result of the global financial crisis. According to a report by McKinsey the US$4.3 trillion that flowed around the world in 2016 was only a third of the peak of US$12.4 trillion in 2007. The biggest contributor to the changing picture of capital flows has been the large fall in cross-border bank lending, with European banks responsible for much of the collapse. The improving global economic environment has led to a recovery of aggregate capital flows in 2017 reaching 6.9 per cent of global GDP, up from a pre-crisis low of 4.7 per cent in 2015. (Figure 1.6)
Dubai International Financial Centre

Despite the global slowdown in cross-border capital flows since 2007, the Dubai International Financial Centre (DIFC), acting as an offshore financial hub in the Middle East, Africa and South Asia (MEASA) region, has steadily expanded its role and was ranked first in the area as a result of its achievements in 2017. Set up in 2004, the DIFC lies in a strategic location midway between the global financial hubs of London and New York in the west and Singapore and Hong Kong in the east. The Global Financial Centres Index (GFCI) published in September 2018, an evaluation of the attractiveness and competitiveness of 110 financial centres worldwide ranked Dubai in 15th position, up from 18th the year before and ahead of other GCC locations: Abu Dhabi 26th, Doha 34th, Bahrain 59th and Riyadh, 69th.

In 2017, DIFC grew strongly and reached US$3.55 billion in total assets, up by 15 per cent on 2016. The registration of international companies rose by 12 per cent to 1,853 and increased further to 2,003 by the first half of 2018, but the geographic representation of companies in DIFC remained broadly similar year-on-year, with 36 per cent originating from the Middle East, 33 per cent from Europe, 11 per cent from Asia, 10 per cent from the United States, and 10 per cent from other countries.

The growth experienced in 2017 puts the DIFC on track to achieving its goal set in 2014 of tripling its scale by 2024. The DIFC is looking at the financial services sector to increase its capital investment supporting companies through fund raising and lending throughout the MEASA (Middle East South Asia) region. In November, 2017, the DIFC announced the launch of a US$100 million FinTech start-ups fund to accelerate the development of financial technology by investing in start-ups from incubation through to growth stage. Already, FinTech Hive at DIFC, the first-of-its-kind accelerator in the region, received over 100 applications from more than 32 countries, before 11 finalists were selected to work alongside financial institutions to create effective solutions that address the evolving needs of the region’s financial services industry.
Foreign Direct Investment

According to the Dubai FDI Monitor, in 2017 AED 27.3 billion (US$7.4 billion) in Foreign Direct Investment (FDI) capital entered the emirate, a rise of 7 per cent over the previous year, an increase greater than the growth in real GDP. FDI, net inflows, as a percentage of GDP in the emirate stood at 6 per cent in 2017 compared with 2.7 in the UAE as a whole, 0.2 per cent in Saudi Arabia, 4.0 per cent in Oman and 1.8 per cent in the MENA region as a whole.

The Dubai FDI Monitor recorded a total of 367 projects in 2017, an increase of almost 50 per cent up on the previous year, of which 71.1 per cent were new Greenfield projects. These data places the emirate in 10th position in terms of global cities as destinations when ranked by FDI Markets Data based on the value of total global capital flow into Greenfield FDI projects only, and 4th globally in terms of the number of projects initiated.

Dubai’s relative success in attracting external capital contrasts sharply with global investment trends. The World Investment Report for 2018 by UNCTAD estimates that global foreign direct investment (FDI) flows fell by 23 per cent in 2017, to US$1.43 trillion from a revised US$1.87 trillion in 2016. The 2017 fall in FDI globally is in line with a longer-term negative cycle that followed the global financial crisis. It is being driven by several factors; asset-light forms of overseas operations (i.e., where companies have relatively few capital assets to turnover), which are causing a structural shift in FDI patterns; and a significant decline in rates of return on FDI over the past five years.

The provenance of international FDI capital into Dubai by country is concentrated by country in terms of the total capital coming into the emirate and the number of projects with seven countries dominating. According to data compiled by Dubai FDI Monitor, in 2017, the top five countries accounted for 67 per cent of all FDI capital into Dubai and 52.3 per cent of all projects. The United States reclaimed the leading position with 35.6 per cent of FDI capital deployed in the emirate followed by Austria, 9.3 per cent; France, 8.4 per cent; the United Kingdom, 7.3 per cent and Saudi Arabia, 6.4 per cent. (Figure 1.7)

Figure 1.7: Top Five Source Countries FDI Capital % of Total 2017

Source: Dubai FDI Monitor

6 Tracked by Dubai FDI Monitor 2017.
7 https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS
Global Commodity Prices, Oil and Inflation

1.9 As an open economy, Dubai is also affected by changes in commodity prices since its currency exchange rate is fixed against the dollar. Higher oil prices raise the demand of GCC-based buyers of the emirate’s exports, but rising commodity prices also means that Dubai imports experience inflationary pressures if the dollar weakens.

Reflecting supply shortfalls, global oil prices increased steadily from a low of less than US$27 per barrel in January 2016, ending the year at US$53 per barrel, and averaging US$51 throughout 2017. This supported a rebound in the growth of Dubai’s GCC trading partners, which has continued into 2018, and is expected to support growth in the economies of energy exporters in 2019.

In June 2018, the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC oil producers agreed to raise oil production by about 1 million barrels per day from current levels, correcting the undershooting of a November 2016 group target. The impact of these restrictions on prices is likely to be subdued since declining production capacity in Venezuela and US sanctions on Iran limit the ability of the group to deliver a consistent increase in production. Futures markets, however, indicate prices could decline over the next 4–5 years (in part due to increased US shale production).

The upturn in global growth has had an impact on non-oil commodity prices, particularly base metals, which have also been rising since 2016. Copper rose from a low of US$1.93 per pound at January 11, 2016 to US$2.69 by July 10, 2017, increasing to over US$3.00 a year later. Rising prices of commodities other than fuel is slowly lifting headline inflation in both the advanced and emerging market economies. Prices of agricultural commodities have increased marginally, reflecting diminishing excess supply.

Stronger world economic growth in 2017 and 2018 and rising commodity prices means that inflation is picking up in some economies. Economic growth and a tight labour market have delivered rises in core inflation in the United States, which rose steadily throughout 2017 and 2018. In the European Union, the CPI rose throughout 2017 and 2018 mainly as a result of the increase in oil prices, but core inflation remains subdued. The fixed exchange rate between the dirham and the United States dollar subjects Dubai’s economy to these global commodity price movements and inflationary pressures, but also to international monetary influences, particularly interest rate conditions in the United States.
Financial Conditions in Advanced Economies & in Emerging, Regional and GCC Economies

Financial Conditions in Advanced Economies

Interest Rates

1.10 During 2017 and into 2018 policy interest rates in some of the advanced economies rose in measured steps without a negative impact on growth rates or on capital asset values, particularly equity prices in the United States. The Federal Reserve continued the process of normalising interest rates in the United States in 2017 by raising the benchmark interest rate three times during the year. The policy Federal Funds rate was raised from 0.75 per cent to 1.0 per cent on March 5, to 1.25 per cent on June 14 and to 1.5 per cent on December 13, 2017. In 2018, there have been two further rises in the policy rate to 1.75 per cent on March 21 and to 2.0 per cent on June 13. The rate of job creation and firming inflation in the US economy have led the US Federal Reserve to signal two possible additional rate rises in 2018 and three in 2019. (Figure 1.8)

The Federal Reserve has so far led the central banks in the normalisation of interest rates among the advanced economies. The Bank of England maintained its base rate at its post-Brexit referendum low of 0.25 per cent throughout most of 2017, raising it by 25 basis points to 0.50 per cent on 2 November of that year and again to 0.75 per cent on 2 August, 2018. In contrast, monetary policy in Europe and Japan has been much more accommodating. The European Central Bank (ECB) has maintained its refinancing policy rate steady at 0.0 per cent throughout 2017 and into 2018 and has indicated it will maintain policy rates at their current levels at least through the summer of 2019. The ECB has also announced that it will taper its monthly asset purchases from the current €30 billion to €15 billion in October 2018, with an anticipated end to the program on December 31. The Bank of Japan has removed the time limit on achieving its 2 per cent inflation target and has maintained policy rates at minus 0.1 per cent during 2017 and 2018.

Figure 1.8: Policy Interest Rates in Advanced Economies (%) per annum 2015 to 2018

Source: Bank of International Settlements
Equity Prices

The interest rate hikes by the Federal Reserve during 2017 did not dampen equity prices in the United States and across the world in that year, but the MSCI World Equity Index peaked in September 2018 and fell sharply on global trade fears and rising bond yields. Global stock markets ended 2017 on record highs with strong gains in the advanced economies. The MSCI World Index, which is dominated by the advanced economies with a weight of less than 12 per cent for emerging markets rose by a fraction under 20 per cent in 2017. In the United States the S&P 500 gained over 17 per cent during the year while the Nasdaq index increased in value by 25 per cent. In the United Kingdom, which also experienced an interest rate rise in 2017, the FTSE 100 hit an all-time closing high of 7687.77, a rise of close to 7 per cent. In Japan the Nikkei rose by 17 per cent and in Germany the DAX gained by over 11 per cent. (Figure 1.9)

Financial Conditions in Emerging/Developing and GCC Economies

Interest Rates

Monetary conditions remained relatively stable in many key emerging markets throughout 2017. There were some individual country exceptions, such as Argentina, where the Central Bank raised rates several times in response to inflationary pressures during the year. In 2018, however, central banks in many key emerging market economies, including Argentina again, but also Indonesia, Mexico, and Turkey, have raised policy rates, in response to the interest rises that led to a stronger US currency producing lower rates of other currencies against the dollar and rising outward capital flows. Long-term bond yields in the emerging economies have also increased in 2018 and spreads have generally widened. (Figure 1.10)

During 2017 and into 2018 most of the GCC countries central banks followed the US Federal Reserve’s lead in the setting of interest rates. Monetary policy throughout the region has to balance the aims of simultaneously maintaining links to the US dollar while ensuring that liquidity conditions reflect the needs of individual economies. This affects the extent to which GCC central banks have shadowed the Federal Reserve. The UAE Central Bank raised its rates by 25 basis points on its certificates of deposit in March 2017 in line with US rates to 1.25 per cent, then to 1.5 per cent in June and to 1.75 per cent in December. In 2018, the UAE continued to shadow the Federal Reserve and raised rates by 25 basis points twice in March and June up to 2.25 per cent and to 2.5 per cent in September 2018. The Saudi Arabian Monetary Authority (SAMA) kept its official repo rate fixed at 2.0 per cent throughout 2017 and then began raising rates ahead of the Federal Reserve to 2.25 per cent in March and to 2.5 per cent in June and to 2.75 per cent in September 2018. The Central Bank of Oman, in contrast, raised only the interest rate it offers on mandatory capital deposits in March 2018 by 50 basis points to 1.5 per cent reversing a cut of the same order in February 2015, the most recent policy move it made. The Central Bank of Kuwait increased its discount rate only twice in the current round of Federal Reserve tightening on March 15, 2017 by 25 basis points to 2.75 per cent and on the 21 March 2018 to 3.0 per cent. (Figure 1.11)
**Figure 1.9: Advanced Economies Stock Market Gains in 2017 and 2018 (%) change**

<table>
<thead>
<tr>
<th>Stock Market</th>
<th>2017</th>
<th>2018 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI World Index</td>
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<td>25.0</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>1.6</td>
<td>13.1</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>6.5</td>
<td>17.4</td>
</tr>
<tr>
<td>FTSE 100</td>
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<td>-4.8</td>
</tr>
<tr>
<td>Nikkei 225</td>
<td>17.0</td>
<td>11.4</td>
</tr>
<tr>
<td>DAX</td>
<td>-7.1</td>
<td>-7.1</td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Capital International, Market Indices

**Figure 1.10: Policy Interest Rates in Emerging Economies (%) per annum 2015 to 2018**

Source: Bank of International Settlements

**Figure 1.11: Policy Interest Rates in GCC Economies (%) per annum 2016 to 2018**

Source: GCC Central Banks
Equity Prices

Most emerging market equity indices have declined modestly, reflecting, in some cases, concerns about imbalances (e.g., Argentina and Turkey), and, more generally, rising downside risks to the global economic outlook. (Figure 1.12)

The value of equity prices in the GCC region are captured in the MSCI GCC Countries Index which is based on the weighted market capitalizations of large and mid-size listed companies across the 6 GCC countries. The index includes 81 constituents companies, covering about 85 per cent of the free float-adjusted market capitalization in each country. (Figure 1.13)

Exchange Rates

Dubai’s currency, the UAE dirham, is linked to the US dollar at a rate of US$0.27. The exchange value of the American currency against other international trading currencies and regional currencies affects the emirate’s terms of trade with its partners impacting on the relative cost of Dubai’s imports and exports.

The US dollar weakened throughout 2017 falling against the Euro from €0.95 on 31st December 2016 to €0.83, a depreciation of 13 per cent reducing the purchasing power of Dubai’s currency throughout the year, but increasing the international competitiveness of its exports. The dollar has subsequently recovered in 2018 and stood at €0.86 by 8th September, a rise of 4 per cent. Throughout 2017 British pound regained some of its value against the US dollar, starting the year at £0.81 and ending it at £0.74, and appreciation that continued into 2018 with the dollar falling to £0.71 by March. But uncertainties surrounding the nature of the United Kingdom’s future relations with the European Union after Brexit in March 2019 subsequently weakened the British currency and it was trading at £0.77 by September 8, 2018.

China and Japan are both major sources of Dubai’s imports accounting for a combined value of nearly 26 per cent in 2017. The Japanese Yen traded in a more stable range against the US dollar and the UAE dirham, starting 2017 at ¥117.0 and ending the year at ¥112.7, and has stayed within this range throughout 2018 reaching ¥111.0 by September 8. In contrast, the value of the dollar and the UAE dirham has been more volatile, depreciating from the Chinese Yuan 6.92 at the start of 2017 to reach Yuan 6.57 at the end of year, a fall of 5 per cent. This weakness continued into 2018 with the dollar reaching a low of Yuan 6.27 in April before steadily strengthening to Yuan 6.84 by September 8.

In contrast to the stability of some of the world’s main currencies in 2017 and 2018, some of the emerging market currencies have depreciated sharply against the dollar, particularly those which account for a significant portion of Dubai’s exports and re-exports, notably Turkey, India and Iran. The AED dirham strengthened steadily against the Turkish Lira throughout 2017 rising from TL 0.99 to TL 1.03, an appreciation of 4 per cent over the course of the year. In 2018, however, the Turkish currency value has depreciated sharply. Turkey’s widening current account deficit and large foreign currency denominated debts has led to an acceleration of capital outflows. By September 8, the Turkish Lira had fallen to a value of TL 1.74 to the AED dirham, a depreciation of 44 per cent since the start of 2017.

Within the Gulf region, the Iranian Rial has steadily depreciated in value against the US dollar and the AED dirham. Even after the lifting of sanctions in 2016, political uncertainty and other negative factors continued to make Iran unattractive to inflows of foreign capital and the relative value of the AED dirham rose from 8,813.2 Iranian Rial at the start of 2017 to 9,9763.9, an appreciation of 11 per cent in the relative cost of Dubai’s exports to Iran. Capital flight from the country continued into 2018 and by September 8 the AED dirham was valued at 11,462.5 Iranian Rial, a rise in relative value of 30 per cent since January 2017.

The relative cost of Dubai’s exports for Indian purchasers was reinforced (have become cheaper) for Indian buyers during 2017 as the AED dirham weakened slightly against the Indian Rupee with a value of 18.56 rupees at the start of 2017 depreciating to 17.39 rupees by the end of the year, a fall in the value of Dubai’s currency of 6 per cent. During 2018, however, the Indian currency has depreciated against the dollar and there have been capital outflows from the Indian bond market with the result that the value of the AED dirham had reached 19.6 rupees by September 8, reversing the gains of the year before raising the relative value of Dubai’s exports for one of its main trading partners. In contrast, the value of the AED dirham against the Iraqi dinar remained relatively stable throughout 2017 and into 2018. One dirham bought 318.9 Iraqi Dinar at the start of 2017 and 324.4 Iraqi Dinar at the end of the year. The cost of Dubai’s exports to Iraq appreciated slightly (marginally more expensive for Iraqi buyers) in 2018 with a currency value of 325.1 Iraqi Dinar by September 8 2018. (Figure 1.14)

Equity Prices

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**Figure 1.12: Emerging Economies Stock Market Gains in 2017 and 2018 (%) change**

![Chart showing stock market gains for various emerging economies in 2017 and 2018.]

**Source:** Morgan Stanley Capital International, Market Indices

**Figure 1.13: Equity Returns GCC and Emerging Markets % Per Annum 2012-2018**

![Chart showing equity returns for GCC and Emerging Markets from 2012 to 2018.]

**Source:** Morgan Stanley Capital International

**Figure 1.14: AED Exchange Rate Index against Trading of Partners (1/1/2016 =100)**

![Chart showing AED exchange rate index against trading partners from 2016 to 2018.]

**Source:** Gulf Economics
Going forward, despite the forecasts for continuing global real GDP growth and growth in world trade, there are a number of downside risks. Growth is becoming more uneven among emerging market and developing nations and between these countries and the advanced economies. Rising oil prices, higher bond yields in the United States as a result of the Federal Reserve’s normalization of policy rates and rising trade tensions between the United States, China and the European Union are affecting sentiment and dampening equity prices. Rising interest rates and a stronger dollar also means higher borrowing costs in many developing countries and challenges to the servicing of existing debt. The risks of a debt crisis is rising among poorer countries as these nations have extended their borrowing levels. The IMF has calculated that the median level of public debt to GDP among low income countries rose by 13 percentage points between 2013 and 2017 to reach 47 per cent.

Rising oil prices will impact the relative growth prospects of energy exporters and importers among the developing economies, which is good for Dubai since it will reinforce growth in the GCC region, but will negatively impact some of the emirate’s trading partners such as India. India could face pressure on its currency as a result of capital outflows pushing up interest rates and depressing growth in a replay of the trade imbalances currently plaguing Turkey and Argentina. Turkey, in particular, still faces the danger of further currency depreciation and a halt to capital inflows. The possible impact of sanctions and the relations between Iran and the United States, along with the diplomatic dispute between the other Gulf States and Qatar, could impact on oil prices and regional growth prospects.

Growth among the advanced economies could be negatively affected in 2019 by trade issues. The WTO has already noted that lower export orders and car sales in the second half of 2018 could slow world trade and GDP growth as the America First protectionist policy by U.S. President Donald Trump takes further effect. The 25 per cent tariff on imported steel and the 10 per cent rate on aluminium imposed in March 2018 have already raised significant revenues for the United States, but have had negative economic effects on other economies, which will reverberate.

The UAE, with a major global position in the aluminium-smelting sector and as a trading partner with both the United States and China, is in a difficult position and may face higher import costs on products using this metal. Policy uncertainty about the Federal Reserve’s monetary policy in 2019, when aligned with the escalating trade tensions and political turmoil in the administration, could have a negative impact on investment and economic growth. Finally, uncertainty about the future relations between the EU and the United Kingdom could unsettle global and regional trade until at least 2020.