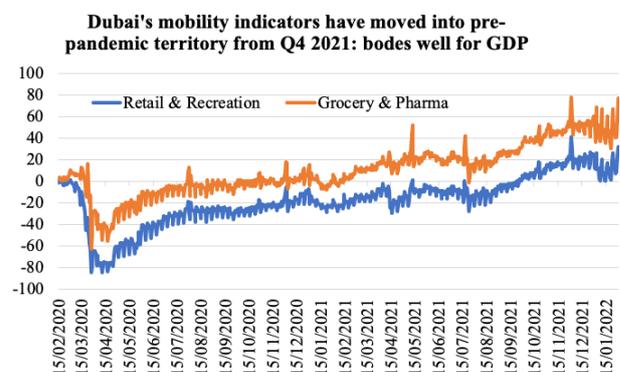
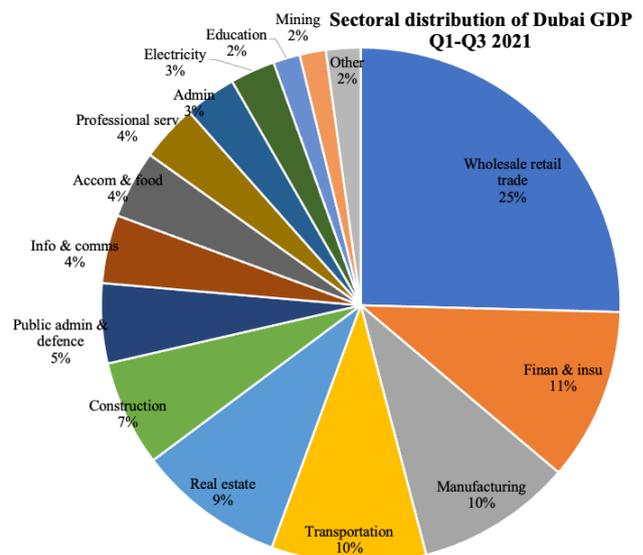
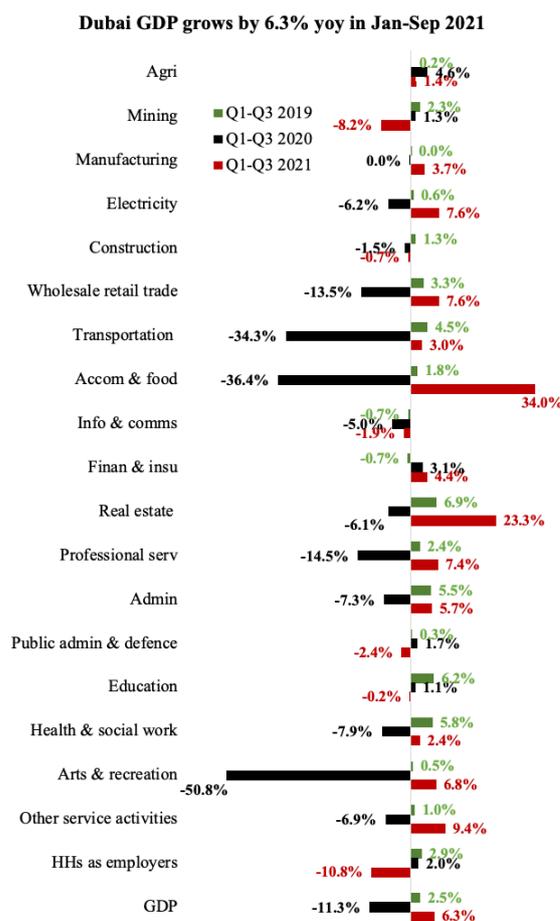


Weekly Insights 3 Feb 2022: UAE's reforms-paved road to recovery

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1. Dubai GDP recovers in Q1-Q3 2021 (+6.3%), following the plunge in 2020

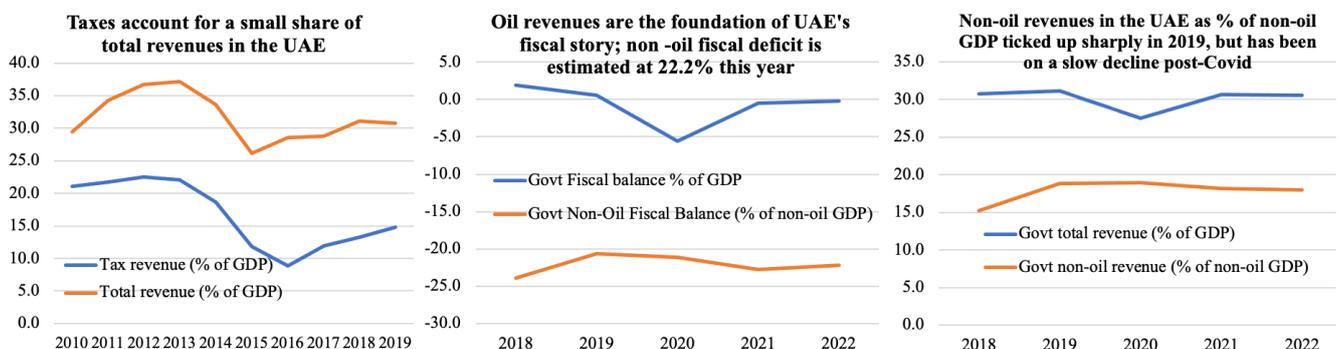
- Accommodation & food sector posted the sharpest recovery (+34% yoy) followed by real estate (23.3%)
- Wholesale & retail trade accounted for the largest share of GDP (25%) while together, real estate and construction contributed 16% to the economy



Source: Dubai Statistics Centre, Google Mobility Indicators. Charts by Nasser Saidi & Associates

2. UAE's corporate tax proposal of 9% will boost tax revenue & increase transparency

- The UAE will impose a federal corporate tax of 9% from Jun 2023, applicable on companies with profits in excess of AED 375,000. This move will also allow UAE to increase tax transparency & prevent the nation from being considered a non-compliant corporate tax haven and home to 'hot money & financial flows'
- The corporate tax rate is competitive compared to other jurisdictions and its collection will add to UAE's coffers: tax revenue collected accounted for just 15% of GDP in 2019 (supported by the rollout of VAT and excise taxes a year+ prior). This move will diversify & broaden tax receipts and help reduce its dependence on oil revenues (& hence push greater economic diversification).
- For firms this tax would be an added cost, and might be passed on to consumers: so, Dubai considering to reduce government fees on various activities will come as a welcome relief, supporting the ease of doing business
- This comes on the heels of an agreement in Oct 2021 of a 15% global minimum tax, backed by 136 nations and jurisdictions (UAE is one of the nations; negotiations were led by the OECD) for companies with revenues above EUR 750mn. Details of this global rollout and implementation are yet to be disclosed.



Source: IMF database; forecasts from IMF REO (Oct 2021). Charts by Nasser Saidi & Associates

3. UAE's recent labour reforms increases its attractiveness as

a destination for young & skilled workforce

- New Labour rules came into force in the UAE from 2nd Feb 2022.
- These changes support **labour mobility** (renewable 3-year contracts vs permanent, no non-competing clauses, 180 days till residency visa expires after job loss), while also supporting **work structures in a post-Covid world** (flexible working, part-time work, job sharing, remote work) and prohibiting gender-based discrimination (promote equal rights for women, extended maternity leave)
- Along with earlier positive reforms (like long-term and remote working visas), this will **further enhance UAE's attractiveness as a destination** for both young and skilled workforce to “live, work and play”
- According to the UAE central bank's (in-house) data, **both employment and average salary remained roughly flat in Q3 2021, and higher than pre-crisis month of Feb 2020** – which suggests that the labour outflow seen during the earlier months of Covid19 has already been compensated for
- However, **structural changes would further enhance growth of the non-oil private sector:**
 - Reduce fragmentation of labour markets: introduce steps to encourage citizens to join the private sector workforce
 - Invest in curricula that support job readiness
 - Encouraging research and innovation, invest in & promote STEM (among others)

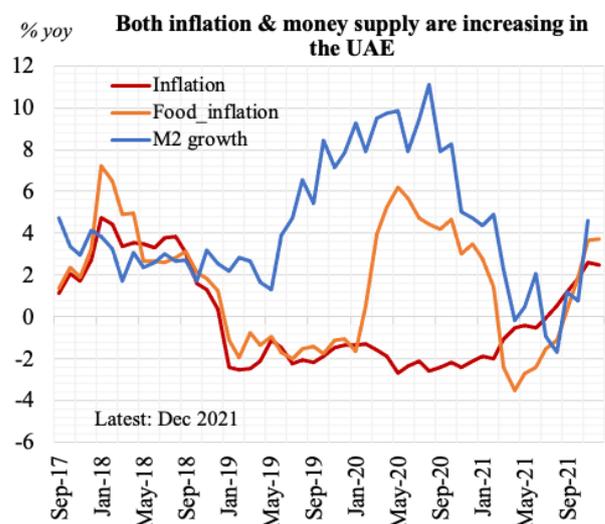
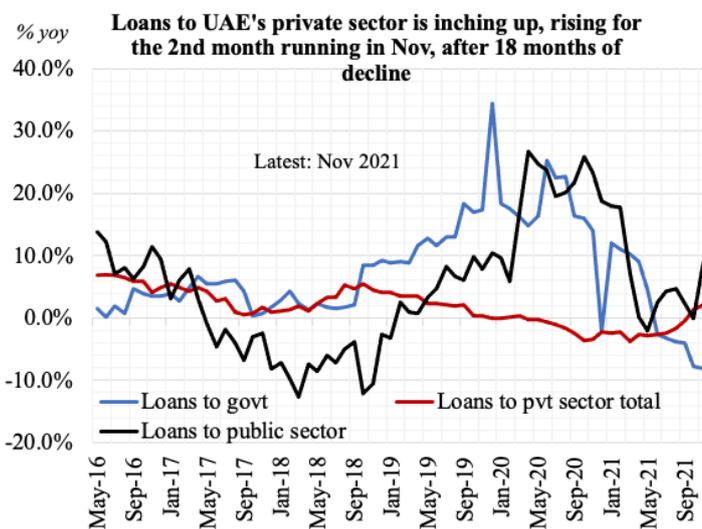
4. Latest in supporting the UAE's Capital Market Development: SPACs regulatory framework

- The latest in the spate of capital markets reforms/ changes in the UAE is the approval of the first **special purpose acquisition company (SPAC) regulatory framework** in the GCC.

- SPACs are **also being discussed elsewhere in the region**: Egypt is planning a SPAC listing by this month, while Saudi is studying if there is demand from investors as well as issuers.
- SPACs are corporations formed for raising capital (or investment) with the purposed of combining with a private company. It **allows for start-ups/ early-stage and later-stage growth firms that want financing to raise capital**: this process can be cheaper than and less time-consuming than an IPO route
- Recent SPACs globally have been **focused on firms/ sectors that can be labelled “disruptive”** (e.g. assurance technology, biotech etc) which might involve high capital requirements with limited guarantees on revenue/ viability
- **UAE’s regulatory framework gives it a first mover advantage** in attracting listings from the region; offers potential as a global SPAC destination if the UAE maintains a good track record (learning from other regulators “mistakes”), if the US/ Europe increase scrutiny on SPACs
- Listing of SPACs will allow for **diversification of sectors on the UAE exchanges** (away from the concentration on banks and real estate firms). Given the UAE’s prominence in the **start-up ecosystem** in the region, SPACs are an obvious next step to support the development of these companies
- This **move will also aid in the development of liquid and deep capital markets**. While the SPACs framework is another reform in addition to earlier announcements of listing of state-owned firms in Dubai and incentives to encourage new listings in DFM/ ADX, **a sufficient pipeline is needed to enable a successful rollout & provide a stamp of approval** to the UAE’s framework

5. Loans to UAE private sector growth for the 2nd consecutive month in Nov; inflation is ticking up

- **Overall domestic credit disbursed in the UAE inched up by 2.2% yoy in Nov 2021**, following the 1.3% rise in Oct. This follows 18 months of yoy declines in credit growth
- **Inflation in the UAE has been rising** (both headline and food, by 2.5% and 3.7% respectively in Dec), partly due to higher raw material prices and rising wages (a global phenomenon and not limited to the UAE). In the recent months, **money supply has also been rising** (by 4.6% in Nov 2021, but not at the pace during Mar-Dec 2020 when it averaged 8.4%). This needs to be tracked closely in the coming months, as an inflationary spiral is the last thing needed as the economy is on its way to recovery



Source: UAE Central Bank. Charts by Nasser Saidi & Associates.

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