

## United Arab Emirates Fiscal Policy Facing Global Economic Crisis during the Covid-19 Pandemic

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### ABSTRACT

*This research aims to analyze the fiscal policy implemented by the United Arab Emirates (UAE) in facing of the global economic crisis throughout 2020. Global macroeconomic indicators that indicate an economic crisis are, the negative movement of world GDP growth which was recorded at minus 3.3%, and the volatility of world commodity prices such as oil and natural gas which was recorded at the lowest position in April 2020. The negative global growth brought negative conditions for the UAE's domestic economy reflected in the UAE real GDP was recorded negative 6.1% and inflation recorded negative 2%. There are four areas of fiscal policy including mechanism zakat system that are considered effective in dealing with global economic crisis. First, strengthening domestic diversification other than oil and natural gas commodities. Second, optimizing the distribution of state spending to the public sector, especially allocated for recovery funds for the Covid-19 pandemic. Third, realizing the transformation of a cashless society and Fourth, developing blockchain technology and artificial intelligence in government financial services. The implementation of this policy proves that the UAE is targeting recovery in various sectors, primarily ensuring the health and safety of UAE citizens during the Covid-19 pandemic, as characteristics in implementation of Islamic public policy.*

*Key words: UAE, Fiscal Policy, Global Economic Crisis, Covid-19*

*JEL classification: G18; G21; G28*

### INTRODUCTION

In February 2020, the World Health Organization (WHO) announced that there had been a very massive spread of a virus in the world with the name Coronavirus Disease 2019 (Covid-19). According to WHO (2020), Covid-19 can be transmitted through people who have been infected with the virus. This causes the importance of maintaining distance and self-isolation or reducing interactions with other people. In March 2020, even the WHO officially determined that this Covid-19 case was categorized as a pandemic disease, which means an extraordinary event or phenomenon where the spread of infection

can occur among the community and even be able to cross several countries (globally) causing mild illness and even death (Saputri and Huda, 2020).

Although the trend of the spread of the virus has shown a decreasing rate, in a number of countries, several regional-scale social restrictions are still imposed to slow the rate of transmission of the virus. Global financial and economic performance throughout 2020 is indicated to have contracted, due to the widespread outbreak of the Covid-19 pandemic. The spread of the virus, which primarily weakened the health sector, then expanded to reduce the stamina of the global economy. In fact, in many cases in several countries the spread

of this virus has a very wide impact, causing a multidimensional crisis in all aspects of life, not only in the economic aspect.

The United Arab Emirates (UAE) as one of the high-income Islamic countries, could be exemplary model to other countries, especially Islamic countries as they have unlimited resources to reconstruction fiscal system especially a dynamic zakat system, including facing zakat governance issues, such as transparency and public trust.

### *Background*

A number of countries simultaneously coordinated international policies in issuing a number of policy mixes (mixed policies, including fiscal and monetary policies) in the context of global economic recovery. The identification of the fiscal policies prepared by each country becomes very interesting to analyze, because it reflects the country's ability to mitigate the impact of Covid-19 on economic stability. In strengthening the recovery process, in the monetary sector, the central banks of each country played a role in issuing a number of monetary policies as a step to optimize the economic stimulus, especially in encouraging the role of the intermediary function of banking institutions and maintaining financial system stability.

This study will analyze the implementation of fiscal policy including analyze zakat system carried out by one of the countries in the Middle East region, namely the United Arab Emirates (UAE), in dealing with the impact of the global economic recession during the Covid-19 pandemic. The test is carried out by analyzing the implementation of public policy during the period, accompanied by data and information on the movement of macroeconomic indicators (including inflation, gross domestic product and exchange rates). The form of a country's resilience in the face of macroeconomic contraction can also be analyzed through the movement trend of state financial

performance indicators as reflected in the state financial performance report.

The spread of the Covid-19 outbreaks in 2020 provided three main lessons for the structure of the global economy (Bank Indonesia, 2020). First, Covid-19 encourages all countries to optimize domestic sources of growth in order to support domestic performance and stability (inward looking policy). With the restrictions on mobility between regions imposed globally, causing an increase in the vulnerability of production supply chains globally. Second, the global flow of funds to financial assets denominated in world currencies will have an impact on vulnerabilities in global financial aspects (safe heaven currencies). Third, the increasing influence of technology in transactions that use cross-border algorithmic trading mechanisms, so that it can increase the vulnerability of the global financial system. The three indicators will also be an analytical tool in the implementation of public policies implemented by the UAE.

### *Objective of The Study*

The spread of the Covid-19 outbreak in 2020 provided three main lessons for the structure of the global economy (Bank Indonesia, 2020). First, Covid-19 encourages all countries to optimize domestic sources of growth in order to support domestic performance and stability (inward looking policy). With the restrictions on mobility between regions imposed globally, causing an increase in the vulnerability of production supply chains globally. Second, the global flow of funds to financial assets denominated in world currencies will have an impact on vulnerabilities in global financial aspects (safe heaven currencies). Third, the increasing influence of technology in transactions that use cross-border algorithmic trading mechanisms, so that it can increase the vulnerability of the global financial system. The three indicators will

also be an analytical tool in the implementation of public policies implemented by the UAE.

## LITERATURE REVIEW

### *Background Theory*

#### a. Islamic Fiscal Policy

Conventionally, fiscal policy is a public policy carried out by the government in directing government revenue and expenditure activities or the state revenue and expenditure budget, to achieve a country's economic stability and public welfare (Isnaini, 2017). In another sense, fiscal policy is prepared because of the failure of the market mechanism that occurs due to disturbances in the supply or demand aspect, resulting in an imbalance in aggregate supply or demand (Murtadho, 2013). In general, it can be concluded that through fiscal policy, the government can regulate aggregate supply and demand in order to create economic stability. The basis for conducting fiscal policy in general is to create equitable development and public welfare.

In Islam, welfare does not only include material welfare, but also includes aspects of spiritual welfare. These activities are accompanied by values based on Islamic law in every policy issued. To achieve the welfare of the community, there needs to be effective and proportional government intervention so that the policies issued can meet all the needs of the people. The practice of fiscal policy has been carried out since the time of the Prophet and continued during the time of *Khulafaur Rashidin*, which was then developed during the time of Muslim scholars after him, as was done by Abu Yusuf (731-798 AD) in the book of *Al-Kharaj* regarding the responsibility of the government in meeting the needs of the government. the community (Al Hasan and Iman, 2017), and Ibn Khaldun (1332-1406M) regarding the government's role in balancing the

economy through reducing taxes and reducing government spending (Mubyarto, 2014).

In the Islamic concept, fiscal policy is a government tool to achieve the goal of improving the welfare and benefit of the community by maintaining faith, property, intellectual property and ownership (Murtadho, 2013). In Islam, fiscal policy plays a more important role than monetary policy, especially in implementing the prohibition of usury activities in every transaction and optimizing the distribution of zakat. The operation and administration of state revenues and expenditures is centralized in an independent institution known as the *Baitul Maal*, as well as the center for managing state funds and assets to the distribution process of expenditure. This shows that the management of state finances is a public mandate carried out by the government through effective and efficient procedures (Murtadho, 2013). The management of *Baitul Maal* is the same as that carried out by the Ministry of Finance (treasury) (Supangat, 2013). The Ministry of Finance has the responsibility to handle state financial problems and everything related to the state treasury.

One of central and vital purposes in fiscal policy in the Islamic concept is zakat system. Zakat system implemented by accordance with *Al-Quran* and *Hadist*, also all Muslim can refer to a council or an authority to calculate amount of zakat (Muhammad, 2019). Zakat system could support economic and development of community, with good collection and distribution zakat. Many Islamic countries are facing issues of managing zakat governance, moreover identify complexities to calculate the correct amount of zakat. The high income Islamic countries should be the exemplary models to reconstruction a zakat system that includes participation from renowned Islamic scholars and the use of modern technologies to promote good governance,

transparency and compliance in managing zakat system.

#### b. Global Economic Crisis

The global economic crisis is an event where all sectors of the world economy experience a continuous decline, and affect other sectors throughout the world (Sari and Fakhrudin, 2016). The economic crisis began with a global economic downturn that affected the economies of countries in the world. The greater the dependence of a country on the global economy, the faster the recession will occur in that country. This has caused developing countries, which have a greater dependence on global transactions, to be very vulnerable to a recession. However, each country has a different level of impact on the effects of the global economic downturn. Every country needs to make efforts to maintain domestic economic activity so that the global economy does not weaken, and the domestic economy can run normally (Miraza, 2019).

Some of the main indicators, which can reflect the conditions of the global economic crisis, include the decline in GDP for two consecutive quarters, the decline in exchange rates on the foreign exchange market, and unstable world commodity prices such as crude oil prices and gold prices on the commodity market (Burhanuddin and Abdi, 2020). The rise of a country from a recession is marked by innovation from technological advances, creative human resources and higher education (Miraza, 2019).

#### Corona Virus Diseases 2019 (Covid-19)

Covid-19 was first discovered in Wuhan, China in mid-December 2019. WHO said there are common symptoms that occur when a person is infected with this virus, namely fever, fatigue and dry cough. Some other patients may also experience aches and pains, nasal congestion, runny nose, sore throat, difficulty breathing and diarrhea. These symptoms are mild and occur gradually until eventually leading to organ failure. The spread of this virus is very fast in almost 178 countries or 99.5% of countries in the world (Bank Indonesia, 2020). In line with its very massive spread, in March 2020, WHO designated Covid-19 as a pandemic with a global impact, which means an extraordinary event or phenomenon where the spread of infection can occur among the community and even be able to cross several countries (globally) so that it causes mild or even mild disease. death (Saputri and Huda, 2020).

WHO revealed that the impact and risk of death caused by Covid-19 is very difficult to calculate, because cases are different in each country. In general, this virus causes the most deaths in the elderly who have a relatively lower immune system, while cases that occur in children tend to be found less. During 2020, the Covid-19 pandemic has infected more than 178 million people and resulted in the deaths of more than 3.8 million people globally, causing poverty levels to increase in the world. The health crisis caused contractionary economic growth throughout the country.

Table 1. Comparison of the Number of Cases of Covid-19 in Various Countries

| Country      | Total Cases        | Deaths           | Deaths Level | Recovered          |
|--------------|--------------------|------------------|--------------|--------------------|
| USA          | 21,113,528         | 360,078          | 1.71         | 12,436,958         |
| India        | 10,341,291         | 149,686          | 1.45         | 9,946,867          |
| Brasilia     | 7,733,746          | 196,018          | 2.53         | 6,813,008          |
| Russia       | 3,236,787          | 58,506           | 1.81         | 2,618,882          |
| French       | 2,655,728          | 65,037           | 2.45         | 195,174            |
| Indonesia    | 743,198            | 22,138           | 2.98         | 611,097            |
| UAE          | 207,822            | 669              | 0.32         | 184,442            |
| <b>Total</b> | <b>178,254,136</b> | <b>3,859,134</b> | <b>2.16</b>  | <b>162,750,639</b> |

Source: [www.worldometers.info/coronavirus/](http://www.worldometers.info/coronavirus/); as of December 31th, 2020

METHODOLOGY

The research in this paper uses a descriptive method with a quantitative approach. The descriptive method is carried out with the aim of describing the facts and characteristics of the object being studied accurately and systematically (Santoso, 2012). In quantitative research, data is in the form of numbers indicating the intensity and existence of symptoms obtained from observations. This study focuses on an analysis of the implementation of the UAE's fiscal policy during a global macroeconomic contraction, due to the widespread Covid-19 outbreak. The data collected comes from secondary data obtained from the Ministry of Finance of The UAE (MoF UAE), Central Bank of The UAE (UAE Central Bank), Emirates News Agency, Federal Competitiveness Statistics Center of the UAE, as well as scientific articles and scientific sources.

RESULTS AND ANALYSIS

*Results United Arab Emirates (UAE)*

The UAE was founded on December 2, 1971 since Britain had no power in the Gulf

region. The UAE is a country located in the Middle East region in the form of a constitutional monarchy and a federation consisting of seven emirates (regions) that are rich in crude oil and natural gas. The seven federations are Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah and Umm al-Quwain, with Abu Dhabi as the largest federation and the nation's capital, and each emirate is responsible for its economy. The election mechanism for the president and vice president of the UAE is carried out by a Supreme Assembly consisting of seven Emirs (leaders), each of which represents the seven emirates that joined the UAE (Menpan, 2020).

Table 2. Highest Population in UAE By Emirates Region

| Emirates       | Population       |
|----------------|------------------|
| Abu Dhabi      | 1,395,899        |
| Dubai          | 1,141,963        |
| Sharjah        | 620,183          |
| Ajman          | 234,905          |
| Ras al-Khaimah | 187,535          |
| Fujairah       | 113,316          |
| Umm al-Quwain  | 56,253           |
| <b>Total</b>   | <b>3,750,054</b> |

Source [www.zhujiworld.com/ae/](http://www.zhujiworld.com/ae/), 2021



Figures 1. Map of UAE

Source: [www.cia.gov](http://www.cia.gov), 2021

The UAE is located on the Arabian Peninsula with an area of 83,600 km<sup>2</sup> (± 2/3 of the island of Java) which is surrounded by the Gulf of Oman and the Persian Gulf

(Simmons, 2020). The UAE borders on the east with Oman and on the west with Saudi Arabia. With this geographical location, the UAE is in a very strategic location and has

become a transit center for international flights. In addition, the UAE is a business center and a door for other countries to enter the Middle East region. The UAE is also the world's third oil-producing country, after Saudi Arabia and Iran (Khaeruddin and Hidayat, 2020). The UAE has a number of points of location for the oil and natural gas industry, with the largest areas being in the areas of Abu Dhabi, Dubai, Sharjah and Ras al-Khaimah.

The World Bank has classified the UAE as the high-income countries. The main sources of income for this country is oil, petroleum and natural gas trading. The UAE has more than 60 percent of Muslim population and has minimum Gross National Income (GNI) per capita is US\$12,476 (Muhammad, 2019).

In the past, the UAE was an area dominated by a vast expanse of desert on the coast of the Persian Gulf and surrounded by the sea. With the phenomenon of geographical location, the inhabitants of the UAE initially relied on the sea as a source of life and economy, through fishing and looking for pearls in the sea. This condition changed when the Gulf country discovered oil resources in the Persian Gulf and Murban Desert, in 1958 and 1960. The discovery of these oil sources became the beginning of an economic revival for the UAE. When the income derived from the sale of petroleum increases, the government undertakes large-scale infrastructure development, such as the construction of public facilities, educational facilities, health facilities and housing. However, with its sole dependence on revenue sources from the sale of petroleum, the UAE is very vulnerable to fluctuations in world oil prices. The UAE is diversifying its economy and developing the quality of its human resources as another source of income.

### *The Global Economy During 2020*

The impact of the spread of Covid-19 had an extraordinary on the global economy

throughout 2020. The implementation of a number of health policies and limitation in mobility policies between regions in order to reduce the spread of Covid-19 caused crisis in the economic and financial sectors. This resulted in a significant slowdown in consumption, production and investment activities. The peak of pressure on global economic activity occurred in the second quarter of 2020 due to the added impact of the trade war between the United States (US) and China, as well as geopolitical tensions. World per capita income growth in 2020 experienced a slowdown due to a decline in the manufacturing sector, especially in advanced economies (World Bank, 2020). One indicator of a global crisis is the high volatility of world commodity prices, one of which is the price of crude oil. Chart 1 illustrates the downward trend in crude oil and natural gas prices throughout 2020, with the biggest declines in April 2020.

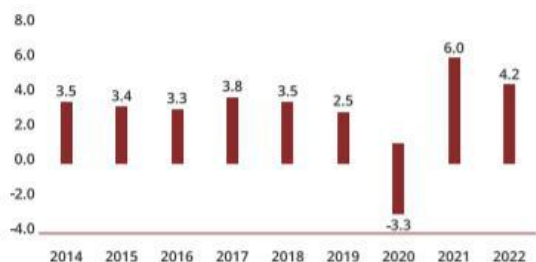


Source: *Central Bank of The UAE*, 2021

Chart 1. World Crude Oil and Natural Gas Price Movements

Another macroeconomic indicator capable of detecting a global crisis is the aggregate growth rate as reflected in the global real GDP growth rate. In 2020, global real GDP decreased by 0.1%-0.2% to minus 3.3% in 2020 (IMF, 2020) or was at its lowest point in recent years. However, the projected GDP growth is assessed to continue to improve in 2021 and 2022, supported by a number of fiscal and monetary policies in each country. The existence of an easing policy on restrictions on community activities (mobility of people and goods) was able to accelerate the increase in domestic and international

demand which in turn was able to positively stimulate global trade activities. Based on the World Economic Outlook 2020 report published by the IMF, the timing and strength of recovery is assessed to differ between countries depending on the strength of the public health system, the effectiveness of policies adopted, exposure to exposures and other structural characteristics of the economy.



Source: IMF, 2021

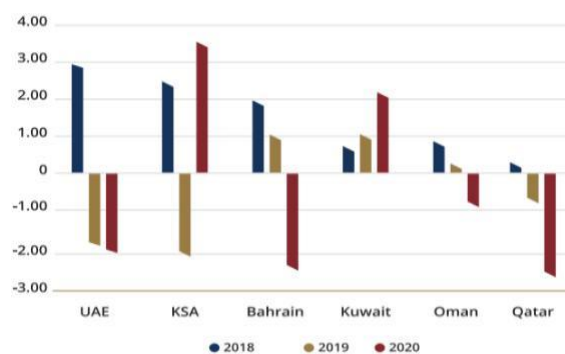
Chart 2. Global Real GDP Growth Rate and Projection

### UAE Fiscal Policy During 2020

The UAE MoF places a very central position on accelerating policies that regulate the financial economy sector in promoting economic development, sustainability and stability. MoF UAE is committed to modernizing and developing fiscal policies that are in line with global best practices. In dealing with the spread of the Covid-19 outbreak, the UAE government has implemented a number of public policies in balancing controlling the spread of the Covid-19 outbreak with maintaining the stability of the main sectors of the economy so that they can continue to grow in the midst of the global economic crisis. In fact, the UAE government is targeting to be the first country to successfully recover from the crisis due to the impact of the Covid-19 pandemic.

Several UAE economic indicators show a declining or negative performance. One of the domestic indicators that is able to describe these conditions is the inflation rate based on the consumer price index for the last three years by comparing the inflation rate in countries that are members of the

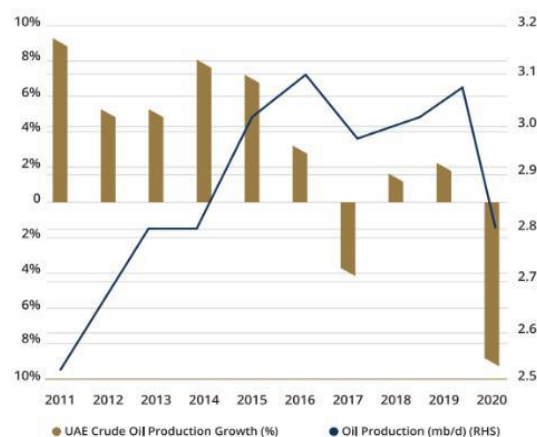
Gulf Cooperation Council (GCC). The UAE's domestic economic condition is considered to be exposed to the global economic crisis and the decline in property prices due to falling demand for property in the UAE, which resulted in a negative inflation rate in 2020, along with Bahrain, Oman and Qatar, as follows:



Source: Bloomberg in *Central Bank of the UAE*, 2021

Chart 3. Consumer Price Index at GCC Countries

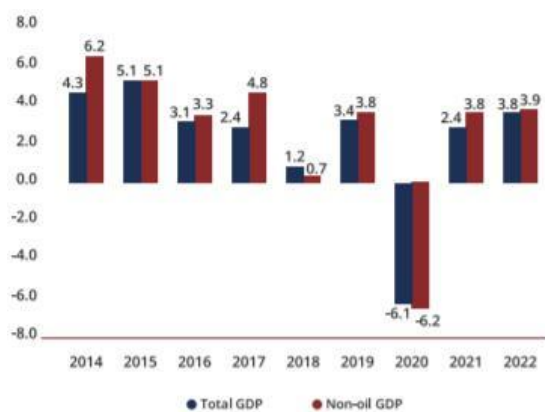
The UAE, which is known as a regional hub for trade, logistics and tourism, as well as the open nature of the economy has been greatly affected by the impact of the Covid-19 pandemic. This was mainly influenced by the significant decline in oil prices and the decline in world oil demand due to the global economic contraction. This decline was also driven by restrictions on oil production by OPEC+ in order to stabilize oil prices, so that UAE oil production fell by 9.1% in 2020.



Source: OPEC+ in *Central Bank of The UAE*, 2021

Chart 4. Average Crude Oil Production (in Million Barrels Per Day)

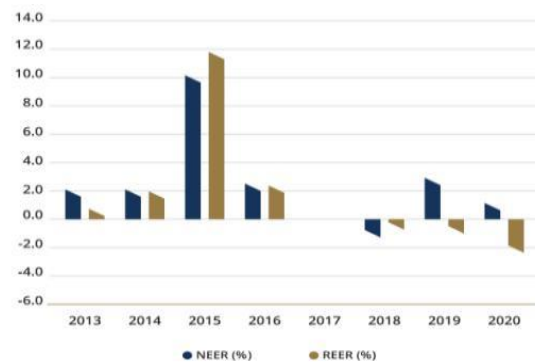
Another domestic macro indicator that reflects negative growth is the initial real GDP value which fell to 6.1% in 2020, compared to 3.4% in 2019. The negative GDP growth was due to a 6.2% decline in real GDP in the non-oil sector, in addition to a decline in real oil GDP due to OPEC's restrictions on oil supply as an effort to stabilize prices. Based on the projections of the UAE's Federal Competitiveness Statistics Center (2020) projections, real GDP recovers to 2.4% in 2021, with non-oil GDP growing by 3.8%. Meanwhile, in 2022, a full recovery is expected, with overall real GDP increasing to 3.8%, while real non-oil and gas GDP rises to 3.9%.



Source: Federal Competitiveness Statistic Center, 2021

Chart 5. Total and Non-Oil Growth Rate and Projected GDP of The UAE

During 2020, the UAE Dirham exchange rate (Dirham – Real Effective Exchange Rate/REER), taking into account the difference in the inflation rate of its trading partners, depreciated by 3.3%. The decline in the value of this currency, due to the negative inflation rate in the UAE compared to the prevailing inflation rate in its trading partners. Meanwhile, the average nominal effective exchange rate (Dirham – Nominal Effective Exchange Rate / NEER) has appreciated by 0.7%, lower than the 2019 appreciation of 3.4%, this is due to taking into account the bilateral exchange rate of the UAE's trading partners.



Source: Central Bank of The UAE, 2021

Chart 6. Movement of the Dirham Exchange Rate (Appreciation – Depreciation)

### Analysis

Under these conditions, several fiscal policies were implemented to mitigate the impact of the decline in the UAE's economic performance. The implementation of fiscal policy issued by the UAE government is mainly analyzed through three parameters, namely (a) strengthening the country's internal resources, (b) low dependence on world currencies and (c) UAE mitigation of digital financial transactions. The implementation of the policy is reflected in the following activities:

#### 1. Strengthening Domestic Sector Diversification

In order to optimize economic diversification in 2020, the UAE government issued several stimulus, including (a) the UAE government through the MoF proactively maintains a balance between supply and demand for the property sector which experienced a downward trend during 2020, thereby restoring price balance in the property market, (b) the government maintains the corporate financing portfolio to grow 1.3% during 2020, especially lending to the transportation, housing, oil and gas services sector, as well as restraining the loan growth rate in the trade and construction sectors, the government prioritizes the distribution of bank loans to the MSME sector, (c) The UAE MoF provides a number of stimuli aimed at the insurance sector, including strengthening infrastructure in providing services and

implementing contingency plans as well as the integration of supervisory authorities, (d) encouraging growth in the financial technology industry, especially in digital banking, payment activities, delivery money and e-commerce as a solution for people to transact amid restrictions on social mobility in the UAE.

Strengthening national resources is not a new thing for the UAE. There are several businesses that have long been pioneered by the UAE in order to diversify the economy, including the aviation sector, the UAE has two airlines that are very influential in the international world, namely Etihad Airways and Emirates Airways (Bafadal, 2016). In addition, the UAE has also diversified its business in the tourism sector which is a source of support for the country's GDP, including the construction of the Mall of the World and the Burj Khalifa as the world's tallest skyscraper, as well as the construction of the Khalifa Port in the Emirate of Abu Dhabi (Rohman, 2015). The diversification of the economy makes each emirate, especially Dubai and Abu Dhabi, reduce dependence on sources of income derived from crude oil.

## 2. Allocation of the State Budget to the Public Benefit Sector

In 2020, the UAE Government approved the federation's budget using a zero-deficit mechanism with a total budget of AED 61.35 billion. This budget is an increase compared to the 2019 fiscal budget which was recorded at AED 60.29 billion compared to the 2019 fiscal year and the largest since the establishment of the UAE. One-third of the budget is allocated for social development and public facilities, especially recovery after the Covid-19 pandemic, one-third for government administration matters, and the rest will be allocated for infrastructure development, economic resources, and other social benefits.

The federation's budget (The Federal Budget) in 2020, reflects the strength of the domestic economy and the sustainability of the country's economic and social development. The second largest allocation of the federation's budget is allocated to the development sector and social benefits, with a total budget of AED 21.90 billion (31.13%) used for social development, a total budget of AED 9.85 billion (14.00%) allocated for development infrastructure and economic resources and for social benefits amounted to AED 4.56 billion (6.49%).

Table 3. UAE Budget Allocation (in AED Billion)

| Budget Allocation                     | Amount       | %             |
|---------------------------------------|--------------|---------------|
| Government Affair                     | 22.95        | 32.61         |
| Social Development                    | 21.90        | 31.13         |
| Infrastructure and Economic Resources | 9.85         | 14.00         |
| Social Benefits                       | 4.56         | 6.49          |
| Financial Assets and Investments      | 2.63         | 3.74          |
| Other Federal Expenses                | 8.46         | 12.02         |
| <b>Total</b>                          | <b>61.35</b> | <b>100.00</b> |

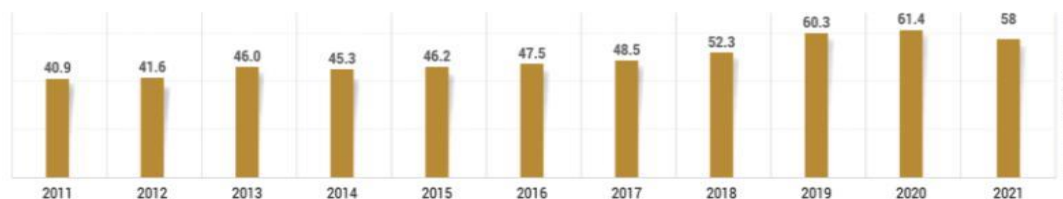
Source: Ministry of Finance of The UAE, 2021

In order to improve a decent standard of living for citizens and residents of the UAE, budget allocations for the social development and social benefits sector are prioritized for programs, projects and

initiatives that will improve the quality of education programs (AED 10.41 billion), improve quality and health care facilities to provide the highest level of medical services (AED 4.84 billion), increase the

pension program budget (AED 4.56 billion) and support Sheikh Zayed's housing program (AED 1.75 billion).

This increase in the UAE's federal budget is an increase of almost 50% compared to the total budget of the last ten years.



Source: Ministry of Finance of the UAE, 2021

Chart 7. UAE Budget Percentage Increase between 2011 – 2021

In order to accelerate economic growth, the UAE government also approved a series of economic incentives totaling AED126.5 billion to support the national economy and assist the SME sector (Ministry of Finance of The UAE, 2020). The UAE countries have not only expanded their economic resources with improved performance in these various commercial sectors, but the UAE has also expanded their focus on various supporting areas such as ecology. By expanding their focus in the field of ecology can support their diversification goals. This shows to the international community that the UAE is not only focused on diversification for commercial gain but also pays full attention to the environmental field. The UAE's economic diversification strategy is a broad application of diversification compared to other countries.

In the UAE, managing zakat fund under the Minister of Islamic Affairs and Endowments. Zakat fund could be collection on share, business, gold, silver, money and livestock (Muhammad, 2019). Zakat fund work together with banks, hospitals, and various agencies, including charities entities in managing and administering zakat fund. As one of the five pillars of Islam, zakat requires Muslims of the UAE to donate 2.5 per cent of their wealth to helping people struggling to cover medical, education and food bills.

### 3. Transforming Cashless Society

The easing of US monetary policy and the weakening of the US dollar throughout 2020 did not significantly affect the UAE dirham exchange rate. In order to strengthen the currency domestically, the UAE has built an ecosystem that is technologically advanced and highly innovative, most of which is carried out in banking, insurance and financial service activities. One of the transformations carried out is to turn the emirate into a cashless society. The innovation was primarily initiated by the Dubai Ministry of Finance to integrate the Smart Dubai program and become a national transformation throughout 2020. This innovation is the first in the Middle East region to strengthen the UAE in the regional financial sector.

With the limitation of transactions using physical money, the growth of this program will increase in 2020. In addition to the economic benefits, it can also improve health standards because it is able to minimize physical contact interactions. In addition, as long as there is a lockdown policy, people are more comfortable doing transactions using e-commerce with digital payments. This electronic wallet service (E-Dirham Mobile – EDMobile) provided by the UAE government is free of charge, which is able to accommodate all types of payment cards owned by the public so that it can replace the role of physical

payment cards. The application can be downloaded via the AppStore or Google Play to create a virtual account and has no expiration date. Besides being easy, EDMobile is able to maintain the stability of UAE currency transactions.

In reducing dependence on world currencies in 2020, the Central Bank of the UAE and the Central Bank of Saudi Arabia officially launched a multi-currency platform program, namely a cooperation project in the form of a Central Bank Digital Currency. In the trial process, all correspondent banks in the UAE and Saudi Arabia can make transactions without any time and area limitations (real time). This is considered to be a currency integration center (multi-currency platform) in supporting investment and financial relations with trading partners in Arab countries. Moreover, in order to create a cashless future.

In managing zakat fund, the UAE implemented advance technology to handle the large numbers of asnaf and to reach out who really need help in the society. The asnaf can apply for zakat fund by website, this technology can improve zakat governance structure and build better coordination with an authority. This efforts in collection and distribution zakat fund, also can reducing physical payment, as the main aim of transforming cashless society.

#### *4. Strengthening Technology and Artificial Intelligent*

The UAE has optimized the use of blockchain technology in government financial transactions. This has made it possible for every transaction in the general ledger to be distributed with identical copies stored in each member involved. All members can see all transaction entries made previously and can enter new transactions, so this is considered to be able to maintain transparency. Transaction after

transaction is grouped into different blocks, eventually forming a long chain of blocks, called blockchain.

The UAE's artificial intelligence strategy for sustainable development is predicted to boost the UAE's economic growth by \$182 billion by 2035. The UAE is also the first country to appoint a Minister of Artificial Intelligence (Ministry of Artificial Intelligence). The integration of artificial intelligence into bureaucratic and public life has been strategically mapped out by the UAE government from large industry to the SME and professional services sectors. There are five critical activation points in its implementation, namely (1) strategic involvement at both national and international levels, (2) activation of all government agencies, (3) optimizing the active role and skills of top government leaders in the use of technology and digital, (4) activation public services, (5) security and supervision.

In the MoF bureaucracy, there are at least four main areas that use blockchain technology, namely (a) insurance (insurance), blockchain technology helps reduce fraud and automate compliance in the insurance industry, (b) anti-money laundering activities and customer recognition (Anti money). laundering and know your customer), the use of blockchain in transactions, making every transaction more secure, immutable, and distributed, as well as ensuring compliance and security, (c) trade finance, with blockchain implementation able to increase efficiency, transparency, create opportunities for new revenues, and a lower cost base, and (d) smart contracts, helping to automate the execution of commercial transactions and agreements and being able to enforce obligations for all parties, without incurring additional costs.

The UAE provide zakat fund's website which serve interactive and user friendly tools. Moreover, this website

serve online zakat payment with 15 zakat payment methods, such as internet banking, mobile applications, and auto teller machine (ATM). The website also provide information about zakat collections and distributions, so public could access easily. Zakat management in the UAE shows transparency and good governance achievements. The Zakat Fund also provide online tools for asnaf, this tools beneficial for them to reach zakat fund easily and provide asisstances to them promptly. In advanced, the government of the UAE provide payment portals, especially to collect zakat fund, which will ensure easier access to payment services for new and existing zakat payers.

In addition, the UAE through the MoF was able to realize many programs, especially in the federation's financial bureaucracy by utilizing digital means, including the following initiatives:

- a. Integrated Digital Platform → MoF launched the first phase of a unified digital platform, which can automate the settlement of every local government transaction with each federation, with the aim of increasing the speed, efficiency and effectiveness of government transaction settlement.
- b. Smart system for Budget System → This system connects automatic budgeting system, transportation system, Federation Financial Management Information System, so as to reduce document-based transactions.
- c. Transactions of Accounting Records to the Accrual System → This program aims to manage and develop the financial resources of the federal government effectively and accurately in accordance with international practice. The ministry team developed the system (accrual basis) remotely.
- d. Federal Automated Revenue Estimation System (FARES) → The FARES system is implemented

simultaneously across all federations, to automate the revenue model so as to integrate data from individual states. It aims to estimate or project income in aggregate for the sake of decision making.

In addition to issuing a number of public policies as fiscal stimulus, in 2020 the UAE carried out a broad overhaul of the government structure. It aims to create a modern and more flexible bureaucratic system in the organizational structure of government. Through these various fiscal policies, the UAE government has proven that published public policy initiatives target recovery in various sectors, as reflected in the positive growth of several macroeconomic indicators for the first quarter of 2021. Mainly, the UAE government continues to ensure the health and safety of UAE citizens during pandemic of the Covid-19, as one of the characteristics of the implementation of Islamic fiscal policy.

## CONCLUSION & RECOMMENDATION

### *Conclusion*

The extraordinary phenomenon in the global economy that occurred in 2020 was proved that Covid-19 is not only a health hazard, but also capability of economic stability in a country even on a global scale. The analysis was carried out on the implementation of fiscal policies by the UAE during the Covid-19 pandemic, to determine the resilience of the UAE's domestic economy, using three parameters, namely (a) strengthening the country's internal resources, (b) low dependence on world currencies and (c) UAE's mitigation of digital financial transactions. Based on the assessment of these three parameters, the UAE's fiscal policies and stimulus include policies (a) strengthening in economic diversification as one of the supports for state revenues, to reduce non-oil and gas revenues, (b) optimized budget allocations for recovery

from the economic crisis, (c) digital transformation by creating a cashless society ecosystem in order to strengthen the domestic currency, and (d) strengthening technology in the UAE's bureaucracy and financial operations.

This implemented fiscal policy has become the main long-term strategy of the UAE in restoring economic stability after the global crisis that occurred in 2020. Over the last few decades, the UAE has been one of the countries experiencing high economic expansion, which places the UAE as a modern country. sovereign in the international world. This study also found that the UAE has implemented a centralized zakat system. In terms of the services provided to zakat both payers and beneficiaries, the UAE is one of the most advanced and transparent in managing and governance. The UAE Zakat Fund provide several channels for zakat payers to pay zakat and also provide various methods of zakat payment to increase zakat compliance and collection. UAE citizens enjoy the performance of their country's economic growth through housing subsidies, free of cost of education up to college level, as well as free facilities for health services. This was achieved due to the consistency of the UAE government to strengthen the basic foundation of the country's economic stability through increasing the diversity of its economic resources accompanied by an increase in the quality of human resources which can be the main foundation of all economic progress.

#### *Recommendation*

The results of this study are expected to be one of an alternative recommendation for governments of other Islamic countries (especially in Indonesia) in formulating appropriate action plans in public policies in the middle of the global economic crisis. This is especially in formulating fiscal policies, including in zakat fund governance that are based on Islamic values while at the same time having humanitarian

content in the future. Furthermore, this research is also contribution as a reference for advance scientific research by including quantitative elements in supporting qualitative explanations in this study, so as to be able to provide more comprehensive and accurate illustrations.

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