Quarterly Economic Review

Second quarter 2019

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List of Abbreviations

AED	*United Arab Emirates Dirham*
CAR	*Capital Adequacy Ratio*
CBUAE	*Central Bank of the UAE*
CDs	*Certificates of Deposit*
CET	*Common Equity Capital*
CPI	*Consumer Price Index*
DFM	*Dubai Financial Market*
DSC	*Dubai Statistics Center*
ECB	*European Central Bank*
EIBOR	*Emirates Inter-Bank Offer Rate*
EMDEs	*Emerging Markets and Developing Economies*
FCSA	*Federal Competiveness and Statistics Authority*
Fed	*The Federal Reserve*
FMI	*Financial Market Infrastructure*
GCC	*Gulf Cooperation Council*
GDP	*Gross Domestic Product*
GREs	*Government Related Entities*
IMF	*International Monetary Fund*
KSA	*Kingdom of Saudi Arabia*
L/D	*Loan-to-Deposit*
LIBOR	*London Inter-Bank Offer Rate*
M1	*Monetary Aggregate 1*
M2	*Monetary Aggregate 2*
M3	*Monetary Aggregate 3*
mb/d	*Million Barrels per Day*
MENA	*Middle East North Africa*
MENAP	*Middle East, North Africa, Afghanistan and Pakistan*
MoF	*Ministry of Finance*
M-o-M	*Month-on-Month*
NEER	*Nominal Effective Exchange Rate*
OPEC	*Organization of Petroleum Exporting Countries*
PCE	*Private Consumption Expenditure-US*
PMI	*Purchasing Managers' Index*
Q-o-Q	*Quarter-on-Quarter*
RBI	*Reserve Bank of India*
SCA	*Securities and Commodities Authority*
SCAD	*Statistics Center – Abu Dhabi*

SDR	*Special Drawing Rights*
UAE	*United Arab Emirates*
UK	*United Kingdome*
US/USA	*United States of America*
USD	*United States Dollar*
VAT	*Value Added Tax*
WEO	*World Economic Outlook*
Y-o-Y	*Year-on-Year*

Executive Summary

The IMF has revised global growth downward to 3.2% for 2019 and to 3.5% for 2020, due mainly to sluggish growth in developed economies amid trade wars, low productivity growth, and rising market volatility; all these factors are having ripple effects on emerging economies. Growth is expected to decline this year to 2.6% in the US, 1.3% in both the Eurozone and the UK, and 4.1% in Emerging and Developing Economies, albeit projected growth remains relatively high in China (6.2%) and in India (7%).

Real growth in the UAE, as estimated by CBUAE, exhibited Y-o-Y growth of 2.2% in 2019 Q2, lower than in the previous quarter. Non-oil GDP growth is estimated to have grown from 0.3% in Q1 to 1.5% in Q2. However, oil GDP growth is estimated to have moderated from 12.4% in 2019 Q1 to 4% in 2019 Q2. The pickup in non-oil activities is also reflected in the rise in the Purchasing Managers' Index (PMI), which reached an average of 58.2 in Q2 2019. Meanwhile, employment in the private sector increased Y-o-Y by 1% in Q2 2019.

Y-o-Y CPI inflation remained negative in the second quarter at -1.6% due to negative inflation for both Tradables (-1%) and Non-Tradables (-1.8%). In addition to the fading impact of the VAT, tradable inflation declined due to low international inflation and an appreciating Dirham, while non-tradable inflation declined due to declining prices, particularly in housing.

In the second quarter of 2019, customer deposits at banks increased on a yearly basis led by a rise in government deposits. On the other hand, credit continued its growth, underpinned by healthy Financial Soundness Indicators (FSIs) that underline a sound and stable banking system.

The CBUAE balance sheet exhibited a slight increase in 2019 Q2, reflecting steady flows of foreign exchange and growth in the banking sector balance sheets. The increase in total assets of CBUAE was mainly in Cash and Bank Balances abroad, while on the liabilities side the increase was across Required Reserves, Certificates of Deposit and Currency Issued. Meanwhile, interest rates in the UAE witnessed a downward trend in line with the widely expected Fed's policy rate cut. The spread of EIBOR against the US Dollar LIBOR remained flat on average, reflecting confidence in the UAE economy, while the spread of the 10-year swap rate of the AED relative to the USD slightly increased, but remaining at a low level.

Chapter 1. International Economic Developments

Global growth was revised downward in 2019 Q2 due to rising uncertainties and continued trade frictions, while inflation remains below target in the developed world, with the exception of the UK where imported inflation is boosted by the depreciation of the Sterling. Meanwhile, oil and other commodity prices remained firm thanks to resilient demand, and yields on 10-year government bonds fell due to low inflation expectations and weakened growth outlook.

1.1 Economic Growth

Global growth has been revised downward by 0.1 percentage points, to 3.2% and 3.5% respectively for both 2019 and 2020, by the International Monetary Fund (World Economic Outlook-July 2019). The slowdown is mainly due to sluggish growth in developed economies amid trade wars, low productivity growth, and rising market volatility; all these factors are having ripple effects on emerging economies (Table 1.1.a).

In the US, growth is expected to decline from 2.9% in 2018 to 2.6% in 2019 and to 1.9% in 2020. On a quarterly basis, Year-on-Year growth slowed down from 3.2% in 2019 Q1 to 2.1% in Q2 (Table 1.1.b) which has been reflected amply in activity based indices like the PMIs in the US. The declining outlook is primarily due to trade tensions with China, which have reflected rising tariffs and deteriorating investment opportunities. In addition, the US slowdown is linked to the fading impact of the Trump tax cuts as well as low productivity growth and constraints on immigration, which put a cap on labor force growth and sustained demand.

In the Eurozone, growth is estimated by the IMF to reach 1.3% this year and 1.6% in 2020, and Y-o-Y growth is estimated at 1.2% in Q1 and 1.1% in Q2 (table 1.1.b). Reflecting this slowdown, the IHS Markit Manufacturing PMI has decreased from 49.1 in Q1 to 47.7 in Q2, and Q-o-Q growth went down from 0.4% in 2019 Q1 to 0.2% in Q2. The sluggish outlook is mainly due to the fall in manufacturing activities, which was impacted by trade uncertainties, tougher rules on carbon emissions, and uncertainties in anticipation of a no-deal Brexit. The manufacturing industry woes started also to show signs of seeping into services and consumer spending, particularly in Germany.

In the UK, growth is expected to reach 1.3% this year and 1.4% in 2020. On a quarterly basis, the IHS Markit Manufacturing PMI decreased from 53.3 in Q1 to 50.2 in Q2. However, much will depend on the way Brexit is resolved. According to the Bank of England, the Brexit process exhibits a major source of risks for the UK business, especially for those that are more dependent on trade with the EU and on EU migrant labor; the transition arrangements are also expected to impact UK business over the long term[1].

Japan's growth is projected at 0.9% growth this year and 0.4% next year. The main reasons are the protracted U.S.-China trade war and Japan's feud with South Korea, which are taking a big toll on the export-oriented economy. In addition, domestic demand remains disappointingly weak due to contracting consumption in line with falling consumer confidence. This does not obviously bode well for the scheduled sales tax increase from 8% to 10%, which is planned for October. Investment is also weakening as confidence among large manufacturers fell to a near three-year low in Q2.

Growth estimates for Emerging Markets and Developing Economies (EMDEs) declined from 4.5% in 2018 to 4.1% in 2019, due to serious pressures in some countries where currencies weakened, in tandem with rising

[1] Bank of England: Brexit and uncertainty: insights from the Decision Maker Panel, Staff Working Paper No. 780, February 2019.

imported inflation and debt overhang. The slowdown in the large economies of China and India affected also EME's slowdown, even though these economies continue to achieve relatively high growth rates of 6.2% and 7%, respectively, this year, with an expected decline to 6% next year for China and an expected growth of 7.2% for India.

Table. 1.1.a Real GDP Growth in Selected Advanced Countries (%)

	2018	2019*	2020*
World Output	**3.6**	**3.2**	**3.5**
Advanced Economies	**2.2**	**1.9**	**1.7**
USA	2.9	2.6	1.9
Eurozone	**1.8**	**1.3**	**1.6**
France	1.5	1.3	1.4
Germany	1.5	0.7	1.7
United Kingdom	1.4	1.3	1.4
Japan	0.8	0.9	0.4
EMDEs[2]	**4.5**	**4.1**	**4.7**
China	6.6	6.2	6.0
India	7.1	7.0	7.2
MENAP[3]	**1.8**	**1.0**	**3.0**
GCC			
-Saudi Arabia	**2.2**	**1.9**	**3.0**
-UAE**	**1.7**	**2.8**	**3.3**
-Bahrain**	**1.8**	**1.8**	**2.1**
-Kuwait**	**1.7**	**2.5**	**2.9**
-Oman**	**2.1**	**1.1**	**6.2**
-Qatar**	**2.2**	**2.6**	**3.2**

Source: IMF, WEO, July 2019,*Projections of WEO, July 2019 **Projections of WEO April 2019

Table. 1.1.b Year-on-Year Growth Rates in Selected Countries (%)

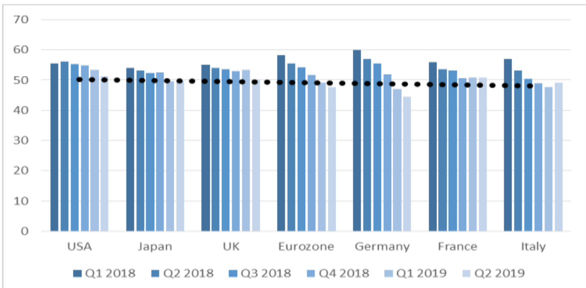
	Q4 2018	Q1 2019	Q2 2019
USA	**3**	**3.2**	**2.1**
Eurozone	**1.2**	**1.2**	**1.1**
France	1	1.2	1.3
Germany	0.9	0.6	-0.3
United Kingdom	1.4	1.8	1.2
China	6.4	6.4	6.2
Japan	0.3	1.0	1.2

Source: Bloomberg

In the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)[as defined by the IMF, economic growth forecast was revised downward from 1.8% in 2018 to 1% this year, due mostly to weak output growth for oil producers, and lower export prospects for export-oriented economies. The fallback from geopolitical instability affected also some countries in the region, most notably in Yemen, Syria and Libya and crippling US sanctions on Iran.

The IMF projects a better growth outlook for 2020 as the region is expected to achieve 3% growth, thanks to expected oil sector growth in countries like Saudi Arabia and better export prospects for export-oriented economies. Saudi Arabia's growth is projected to increase from 1.9% in 2019 to 3% in 2020, thanks to expected higher oil prices, which will make it possible to adopt a more supportive fiscal policy, with the aim to further diversify the economy and implement Saudi Vision 2030.

Figure 1.1.a PMI Levels for Selected Countries

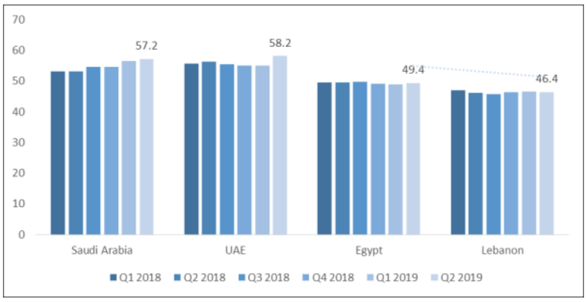


Source: Bloomberg

[2] Emerging Market and Developing Economies.

[3] MENAP oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen. MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia.

Figure 1.1.b PMI levels for Selected MENA Countries



Source: Bloomberg

1.2 <u>Inflation</u>

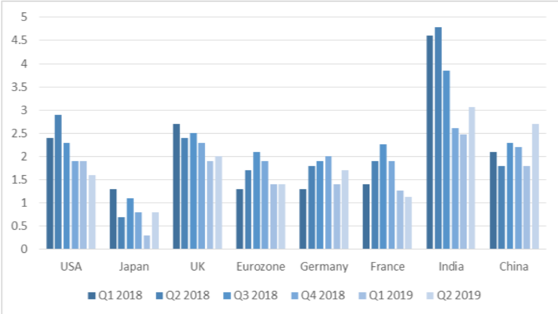
Year-on-Year inflation measured by the percentage change in the CPI remained below target in 2019 Q2 in developed economies, except in the UK where it reached 2% (1.8% for Core inflation). This is due to the depreciation of Sterling leading to higher import prices and inflation in the Tradables sector. In the US, Y-o-Y inflation reached 1.6% in 2019 Q2, for both the CPI and the Fed's preferred inflation indicator, the price index for the Core Personal Consumption Expenditures (Core PCE), which excludes volatile items such as food and energy.

In the Eurozone, inflation remained subdued in 2019 Q2 at 1.4%, the same rate as in Q1, which is below the ECB 2% target. This is due to the struggling manufacturing sector, subdued demand as well as low imported inflation.

In large Emerging Economies, Y-o-Y CPI inflation increased from 1.8% in 2019 Q1 to 2.7% in 2019 Q2 in China, and from 2.5% to 3.1% in India. Nonetheless, the priority in both economies seem to be focused on supporting economic growth. The People's Bank of China's priority is to reduce the cost of financing for firms and enhance credit growth. As a result, total social financing, a broad measure of credit and liquidity in the economy, increased by 13.23 trillion yuan in the first half of 2019, compared with an increase of 10.05 trillion yuan during the same period of 2018. Whereas, the priority for the Reserve Bank of India are interest rate cuts to boost growth.

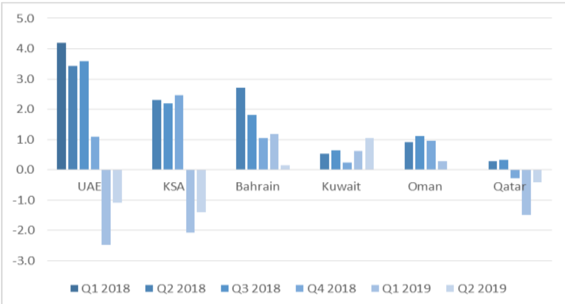
In the GCC, Y-o-Y CPI inflation in 2019 Q2 was negative for Saudi Arabia (-1.4%), the UAE (-1.1%), and Qatar (-0.4%). This was mostly due to the fading effect of VAT implementation for Saudi Arabia and the UAE, which became effective in early 2018, low imported inflation, and declining housing prices in the case of the UAE. For other GCC member countries, inflation was zero in Oman, and positive but at low 0.2% in Bahrain and 1.1% in Kuwait (Figure 1.2.b).

Figure 1.2.a Y-o-Y Consumer Price Inflation for Selected Developed and Emerging Economies (%)



Source: Bloomberg

Figure 1.2.b Y-o-Y Consumer Price Inflation for GCC Countries (%)

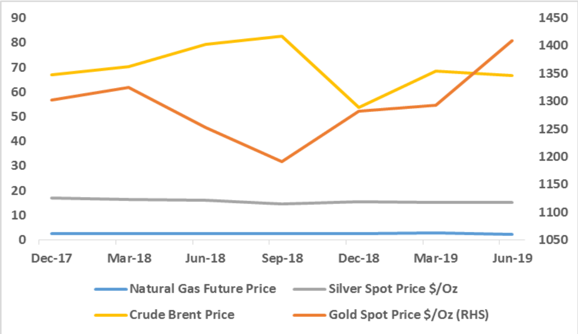


Source: Bloomberg

1.3 <u>Commodities and Precious Metals:</u>

Commodities and precious metals witnessed mixed changes during the second quarter in line with the developments in global supply and demand. For oil, despite the continued increase in US shale oil production, total oil supply in Q2 remained at about 98.56 million barrels per day (29.83 mb/d from OPEC and 68.73 mb/d from non-OPEC members), according to OPEC's Monthly Oil Market Report (MOMR) dated July 2019. This means that supply remained lower than global oil demand, which is estimated at 99.24 million mb/d, during the same period.

Figure 1.3 Selected Commodity Prices



Source: Bloomberg

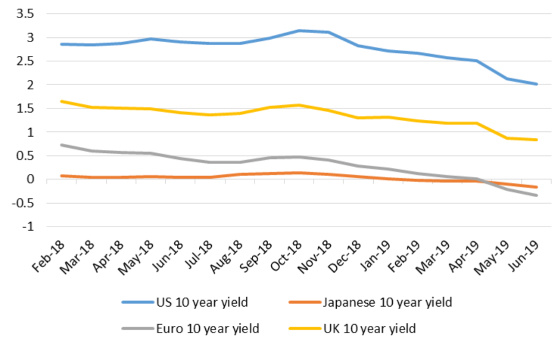
As a result, Brent Crude price declined from an average of $68.4 per barrel in March but remained firm at $66.6 per barrel in June. Meanwhile, the natural gas future price declined from $2.8 per Metric Million British Thermal Unit (MMBtu) to $2.3 per MMBtu. Gold however witnessed a large increase from $1292.4 per ounce to $1409.6, driven by declining interest rates and global uncertainties, both of economic and geopolitical nature, which boosted the safe haven status of the precious metal.

1.4 Government Bond Yields

Government bond yields worldwide continued a downward trend in 2019 Q2. Treasury 10-year yields fell in the US from 2.57% at the end of 2019 Q1 to 2.04% at the end of 2019 Q2, mainly reflecting investors' caution over growth prospects, low inflation and expected Fed policy rate cuts. Meanwhile, the UK 10-year bond yield fell from 1.18% to 0.83%, amid sustained concerns over the prospect of no-deal Brexit.

In the Eurozone, the yield on the 10-year government bonds dipped into negative territory as investors scrambled to buy less risky assets, while Bank of Japan is forced to buy large amounts of bonds to keep the yields on 10-year Japanese government bonds at the target range of 0-0.1%, leading to an increase in bond prices and declining yields.

Figure 1.4 The 10-Year Government Bond Yields for Selected Countries (%)



Source: Bloomberg

GCC bond yields followed generally the world downward trend. The average yield on Bloomberg Barclays GCC Bond Index fell from 4.08% in April to 3.94% in May and to 3.60% in June, due mainly to increase in GCC bond prices boosted by recovering economic outlook as well as the inclusion of some GCC member countries (Saudi Arabia, UAE, Bahrain, and Kuwait) in the Emerging Market Bond Index Global (EMBIG). Nonetheless, the higher costs associated with GCC bonds compared to the US, as an example, are largely attributed to persistent geopolitical risks in the region.

Chapter 2: Domestic Economic Developments

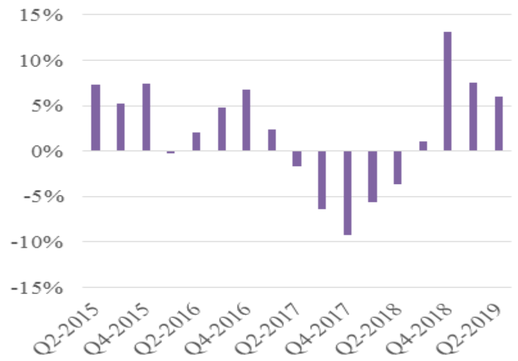
According to the quarterly CBUAE GDP growth estimate of non-oil activity for the UAE, the pace of economic growth picked up in the second quarter of 2019. Meanwhile, CPI inflation rates witnessed softer declines compared to the previous quarter, reflecting the movements of rent prices as well as fuel prices in the domestic market.

2.1 Economic Activity and Growth

Oil prices were pressured down by concerns about global economic growth and oil demand growth amid intensifying trade disputes between the US and China, as well as the rising stock of the US crude oil (see chapter 1).

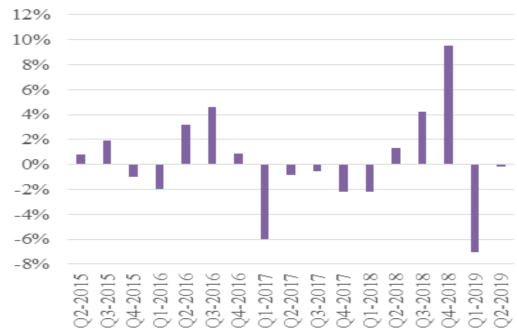
On the supply side, OPEC+ Russia agreed to extend the oil production cuts through the second half of 2019 as well as planned outages. Saudi Arabia decreased its output from 10.8 million barrels per day (mb/d) in 2018 Q4 to 9.8 (mb/d) in 2019 Q2, or 10.6% decline. In the UAE, oil production declined mildly in the second quarter Q-o-Q by 0.2%, averaging 3.05 (mb/d) (see Figure 2.1.c) compared to 7.0% Q-o-Q decline in the first quarter of 2019. On a yearly basis output increased by 7.6% and 6.0% in the first and the second quarters of 2019, respectively, due to the base effect of the declining output in the corresponding quarters of 2018 below the 3.0 (mb/d) threshold (see Figure 2.1.a).

Figure 2.1.a UAE's Oil Production Growth (%, Y-o-Y)



Source: EIA

Figure 2.1.b UAE's Oil Production Growth (%, Q-o-Q)



Source: EIA

Estimated Real growth in the UAE by CBUAE[4] — exhibited Y-o-Y growth of 2.2% in 2019 Q2, (see Figure 2.1.d).

Moreover, the non-oil real GDP, estimated by CBUAE, remained robust and registered a Y-o-Y growth of 1.5% compared to an official estimate of growth by the FCSA of 0.3% in the first quarter (see Figure 2.1.d).

Economic sentiment is estimated to have improved in the second quarter of the year based on the following indicators: (i) a stronger Purchasing Managers' Index (PMI), which reached 58.2, on average, in 2019 Q2, the highest since 2014 Q4, (ii) a significant increase in the Dubai Economic Tracker (DET) from 56.4 in 2019 Q1 to 58.3 in 2019 Q2, (iii) an increase in employment in the private sector by 1.0% in 2019 Q2, compared to a milder rise of 0.1% in the previous quarter, and (iv) increase in the extended credit by 4.3% in the

[4] CBUAE's estimate of non-oil GDP is through a regression with a drift where the dependent variable is the quarterly non-oil GDP Y-o-Y growth and the independent variables are the Y-o-Y growth of the quarterly credit, UAE real estate sales prices, PMI and employment. The oil GDP growth is estimated based on hydrocarbon output and considering other value adding activities in the sector.

second quarter of 2019, compared to its growth rate in 2019 Q1.

Figure 2.1.c Overall GDP Growth (%, Y-o-Y)

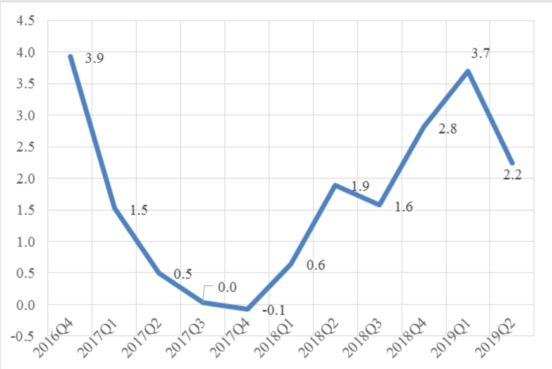
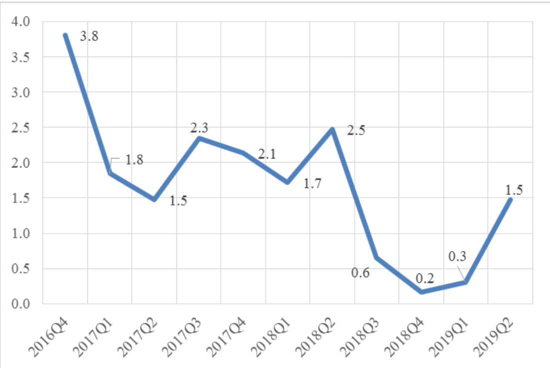


Figure 2.1.d Non-Oil GDP Growth (%, Y-o-Y)



Source: FCSA for 2016Q4–2019Q1 and CBUAE estimate for 2019 Q2.

The overall real GDP is projected to grow by 2.4% in 2019 driven by the growth in the non-oil sector, which is projected to reach 1.4% in 2019 compared to 1.3% in 2018 and by the oil sector that is expected to grow by 5% in 2019 compared to 2.8% in 2018. Improved outlook for growth is due to expected rising public and private spending at the Federal and Emirate levels, higher investment ahead of the highly anticipated Expo 2020 and continued regional economic recovery, in light of the monetary policy easing in the US. On the other hand, the oil sector is expected to grow, notwithstanding current output levels, benefiting from the ADNOC initiative of investing in value added goods and services by more than AED 400 billion over five years.

Table 2.1.a Quarterly and Annual Growth Rates in the UAE (Y-o-Y, %)

Item	2018	2019				2019
		Q1	Q2	Q3	Q4	
Overall GDP	1.7%	3.7%	2.2%	2.0%	1.8%	2.4%
Non-oil GDP	1.3%	0.3%	1.5%	1.8%	2.1%	1.4%
Oil GDP	2.8%	12.4%	4.0%	2.6%	1.0%	5.0%

Source: FCSA for 2018 and 2019 Q1 and CBUAE estimates and projections for the whole 2019 and 2019 Q2-Q4.

Box 1 summarizes the progress of the structural reforms in the UAE, while Box 2 describes the recent developments in the real estate market in the UAE.

Box 1: Progress on Economic reforms in the UAE

The pace of economic reforms has been gaining more momentum in the UAE since early 2019. The Federal government as well as the local governments have adopted several measures since early 2019 to stimulate the economy. Most of these measures are aimed at boosting non-oil growth and enabling the private sector to lead the efforts of economic development through residency visa reforms, fostering the SMEs and startups, instant licensing, and reducing costs borne by private companies.

Federal Government

During 2018, the federal government adopted several measures that are aimed at facilitating granting residency visa for experts in medical, research, and technical fields as well as a 10-year visa and up to 2 years training for university graduates following the completion of their studies. These measures are aimed at enriching the human capital in the UAE and promoting a sustainable environment for experts.

Moreover, the federal government issued a new decree for relaxing foreign ownership requirements (law No. 19), which has been in effect since early 2019. The new law has aimed at enhancing the attractiveness of the UAE as a regional destination for FDI investments. The cabinet also expanded the list of economic activities and sectors where majority foreign investment permission is allowed. The updated list covers 122 economic activities and 13 sectors, subject to approval from local governments.

The publication of this list is expected to change the investment landscape in the UAE, particularly to those wishing to invest a controlling majority in UAE Onshore companies. In addition, it will trigger a restructuring process for the existing companies for the shareholding arrangements.

Local Governments

The local government has contributed to the efforts of boosting non-oil economic growth in the UAE. In June 2018, the government of Abu Dhabi announced a fiscal stimulus package, worth 50 billion dirhams (13.6 billion USD), as well as 10 economic initiatives to ease the cost of doing business and to accelerate the non-oil GDP over the next three years to enhance the economic environment in support of higher share of private sector economic activity and address the structural bottlenecks. These initiatives are aimed at supporting SMEs and startups, implementing an instant licensing system, in order to attract more value added investments in technology, providing additional and estimated 10,000 jobs for Emiratis in the private sector.

In 2019, Abu Dhabi launched nine new initiatives to reinforce its commitment to private sector development, with the goal of increasing the private sector's contribution to Abu Dhabi's GDP from the current 32% to 37% by 2021. The initiatives included a new scoring mechanism for industrial tariffs to enhance the competitiveness of Abu Dhabi and support the development of the industrial sector. The scoring mechanism is based on three criteria, economic impact, productivity and electric load. In addition, these initiatives included the introduction of new licenses for technology businesses. It provides 13 new business activities in the Tech sector, positioning Abu Dhabi as a global tech beacon.

In addition, Abu Dhabi Investment Office (ADIO), the Department of Finance and First Abu Dhabi Bank have launched the 'SME Credit Guarantee' scheme, which will provide more accessible financing opportunities for SMEs based in Abu Dhabi through a guarantee provided by the Abu Dhabi government to Abu Dhabi banks. The scheme guarantees up to 75% of the loan value, which will be provided to the bank in case of default, enabling banks to secure a certain level of lending to the market.

Moreover, ADIO also launched a dedicated 'Corporate Research and Development Program'. The Program is the first fund dedicated to supporting companies' research and development activities in Abu Dhabi, where AED 4 billion are designated to providing rebates on R&D spending and commercialization costs of new R&D activities planned in the emirate. The remaining initiatives include facilitating access to public data to support R&D and tourism.

On the other hand, the Emirate of Dubai has adopted several measures to bolster business sentiment focusing on reducing the costs of industries, both onshore and in the free zones. The Dubai Free Zones (DFZ) Council launched a new initiative that would allow companies licensed at a single free zone in Dubai to operate in other free zones in the emirate, without the need for a second license, which would improve the ease of doing business across the free zones in Dubai.

In addition, Dubai municipality reduced fees imposed on businesses from 5% to 2.5%. The initiatives include cutting fees imposed by the Dubai Government on municipality for commercial entities by 50%, cancelling 19 fees related to the aviation industry and aircraft landing permits, waiving 4% late property registration fees imposed by the Dubai Land Department, and immediate freeze on tuition fees of all private schools in Dubai for 2018-2019.

The reforms in the UAE have focused on multiple sectors that are considered key in the non-oil economy. Establishing a new flexible visa residency system and provide new licensing in the Tech sector as well as allowing more sharing of public information for the R&D purposes that are targeted to help the UAE economy towards boosting the value added content in the ICT sector.

Moreover, relaxing the restrictions on foreign ownership is expected to promote FDI and support diversification and sustainable non-energy economic growth.

Box 2: Recent Developments in the Residential Real Estate Market

The conditions in the real estate market continued to be challenging in Q2 2019, with continued price fluctuations.

Government entities continued to support the market with different initiatives. The Abu Dhabi government lately introduced new freehold land and property ownership rules for expatriates. Previously, in Abu Dhabi, expatriates were only granted a leasehold of 99 years. The change in legislation is expected to increase the demand in the Abu Dhabi real estate market, being more attractive for investors and residents. At the federal level, the UAE Government offered also a new investment regime to give long term visas, which proved to be encouraging for foreign investors. Foreigners are also now allowed 100% ownership of the companies in the country.

In Dubai, the average sales prices and rents have become more affordable across most communities in Q2 2019. However, the rental yield, which measures the rate of income return over the cost associated with an investment property experienced an increase, reaching between 6% and 10% in different areas, attracting 11,000 new investors, in addition to 16,000 investors previously.

In 2019 Q2, off-plan transactions still dominated the market, by accounting for more than 25% of all sales until the end of June 2019. The Ruler of Dubai, HH Sheikh Mohamed bin Rashid Al Maktoum, gave instructions to establish higher committee for the real estate and set up a strategy to increase the value added of real estate projects in Dubai and the competition in the sector and its attractiveness for investors. Another objective of the committee is to create a balance between demand and supply in the market.

In Abu Dhabi, prices and rents also declined, with the rental yield rising, compared to 2019 Q1, due to the lower drop in rents, compared to the bigger reduction in sales prices. In 2019, until the end of June, Abu Dhabi registered AED 31 billion worth of real estate sales transactions, according to a report from the Department of Urban Planning and Municipalities, aiming to increase the level of transparency for investors and businesses

2.2 Consumer Price Index and Inflation

The decline in oil prices Y-o-Y by 6.6% during the first half of 2019 as well as the continued fall in rent prices have affected inflation in the UAE as it declined in the second quarter of 2019 Y-o-Y by 1.6% compared to a sharper decline of 2.5% in the previous quarter (see table 2.2).

Table 2.2. UAE CPI Inflation (%, Y-o-Y)

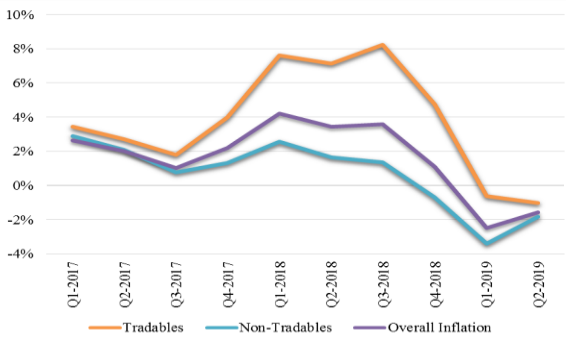
	Weight	Q1-19		Q2-19	
	%	Y-o-Y	Contribution	Y-o-Y	Contribution
Total Inflation	100	-2.5%	-2.5%	-1.6%	-1.6%
Tradables	**34**	**-0.6%**	**-0.2%**	**-1.0%**	**-0.3%**
Food and soft drinks	14.3	-1.2%	-0.2%	-1.3%	-0.2%
Beverages and tobacco	0.3	2.6%	0.0%	2.2%	0.0%
Textiles, clothing and footwear	3.2	8.4%	0.3%	-4.9%	-0.2%
Furniture and household goods	5.6	2.7%	0.2%	2.1%	0.1%
Transportation	7.3	-6.2%	-0.5%	-1.0%	-0.1%
Miscellaneous goods and services	3.2	-0.1%	0.0%	-1.6%	-0.1%
Non-Tradables	**64**	**-3.4%**	**-2.3%**	**-1.8%**	**-1.2%**
Housing	34.1	-6.1%	-2.1%	-5.5%	-1.9%
Medical care	1.4	-0.2%	0.0%	-0.1%	0.0%
Transportation	7.3	-6.2%	-0.5%	-1.0%	-0.1%
Communications	5.4	0.2%	0.0%	0.4%	0.0%
Recreation and culture	3.2	3.9%	0.1%	15.7%	0.5%
Education	7.7	1.4%	0.1%	1.3%	0.1%
Restaurants and hotels	4	1.9%	0.1%	5.2%	0.2%
Miscellaneous goods and services	3.2	-0.1%	0.0%	-1.6%	-0.1%

Source: Federal Competitiveness and Statistics Authority (FCSA)

The decline in tradable prices (tradables account for 34% of the CPI consumption basket) by 1.0% on a Y-o-Y basis was attributed to the decline in food & soft drink prices, which fell by 1.3%. The decline was a result of fading VAT effect as well as the price movements of some basic commodities prices in international markets. Prices of coffee, tea, rice, wheat, and chicken declined in 2019 Q2 Y-o-Y by 8.1%, 10.2%, 7.7%, 6.5%, 19.4%, respectively. On the other hand, prices of barley, beef, and sugar increased Y-o-Y by 10.8%, 7.7%, and 3.7%, respectively.

Moreover, the decline in textiles clothing, and footwear as well as in the group of transportation contributed to the decrease in tradable prices Y-o-Y by 4.9% and 1.0%, respectively. These developments, dominated the rise in furniture and households group, which increased by 2.1% in 2019 Q2 compared to a faster increase of 2.7% in the previous quarter.

Figure 2.2.a. Tradables and Non-Tradables Inflation (%, Y-o-Y)



Source: Federal Competitiveness and Statistics Authority (FCSA)

On the other hand non-tradable prices (non-tradables account for 66% of the CPI consumption basket) continued its decline since 2018 Q4 as a result of the fall in the housing group, which declined in 2019 Q2 Y-o-Y by 5.5% compared to a sharper decline of 6.1% in the previous quarter.

The main contributor of the housing decline was the rent of residential and retail units, which went down Y-o-Y by 9.1% and 10.0% in Abu Dhabi and Dubai during 2019 Q2 compared to a decline of 9.1% and 10.4%, respectively, in the previous quarter.

Moreover, the groups of medical care, transportation, and miscellaneous goods and services declined by 0.1%, 1.0%, and 1.6% in 2019 Q2, compared to a decline of 0.1%, 6.2%, and 0.1%, respectively in the previous quarter.

Inflation, excluding housing and transportation, eased, increasing in the second quarter of 2019

Y-o-Y by 0.9% compared to an increase of 1.1% in the previous quarter.

The continued trade disputes weighed in negatively on global demand of oil as the IMF has revised its growth projections for the global economy from 3.3% to 3.2%, which will weigh in negatively on oil prices in international markets throughout 2019. However, the OPEC+ oil production adjustments and cuts are likely to aim at mitigating downward pressures on oil prices.

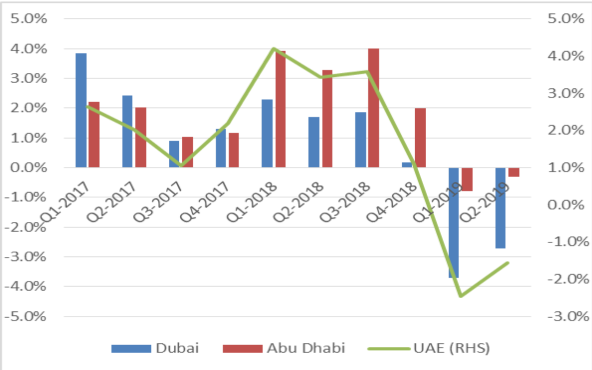
Therefore, the CBUAE projects that overall inflation in 2019 will reach -1.2% as a result of the decline in the tradable and non-tradable prices by 0.8% and 1.5% due to the expected decline in oil prices in 2019 and projection of continued decline in housing and oil prices.

Box 3 below discusses and compares inflation developments by Emirate.

Box 3: Inflation in the UAE: Comparison By Emirate

During the second quarter of 2019, inflation in the UAE reached -1.6%, on a Y-o-Y basis, compared to a sharper decline of 2.5% in the previous quarter. The continued decline in the rent prices as well as the softening in domestic fuel prices, combined with the fading impact of the VAT, contributed to the decline of prices compared to the previous year.

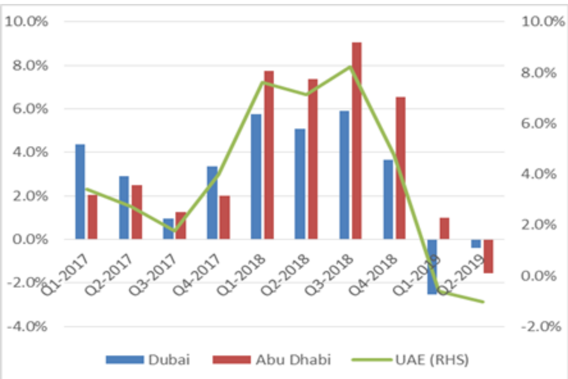
Figure1. Quarterly Y-o-Y Headline Inflation in the UAE and the Emirates of Abu Dhabi and Dubai



Source: FCSA. SCAD and DSC

At the Emirate level, inflation registered Y-o-Y -0.3% and -2.7% in Abu Dhabi and Dubai, respectively, compared to a decline of 0.8% and 3.7% in the previous quarter (see Figure 1).

Figure 2. Quarterly Y-o-Y Tradable Inflation in the UAE and the Emirates of Abu Dhabi and Dubai

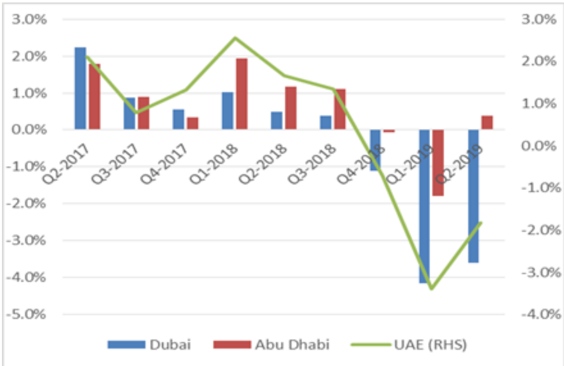


Source: FCSA. SCAD, DSC and CBUAE

The negative CPI inflation in 2019 Q2 resulted from the decline in the tradable and non-tradable prices Y-o-Y by 0.4% and 3.6%, respectively, in Dubai. On the other hand, non-tradable prices increased mildly by 0.4% in the Emirate of Abu Dhabi, while inflation declined for the tradable goods and services by 1.6% compared to an increase of 1.0% in the previous quarter.

The decline in the tradable prices in the UAE came as a result of the decreasing tradable inflation in Abu Dhabi and Dubai Y-o-Y by 1.6% and 0.4% respectively (see Figure 2). The Emirate of Abu Dhabi witnessed larger declines in the groups of food & beverages as well as transportation, which declined by 2.2% and 2.5% compared to a decline in food prices by 0.1% and a rise in transportation by 0.4% in the Emirate of Dubai. The reduction of food prices came in line with movements in commodities prices in international markets.

Figure 3. Quarterly Y-o-Y Non-Tradeable Inflation in the UAE and the Emirates of Abu Dhabi and Dubai



Source: FCSA. SCAD, DSC and CBUAE

On the other hand, non-tradable prices witnessed divergent trends in both emirates as it rose by 0.4% in Abu Dhabi and declined in Dubai by 3.6%. Housing prices continued their downward trend in both emirates, declining by 3.6% and 6.3% in Abu Dhabi and Dubai, respectively. Moreover, the emirate of Abu Dhabi witnessed a significant increase in prices for the groups of recreation and culture and restaurants and hotels, increasing Y-o-Y by 23.8% and 10.2%, while increasing moderately by 3.8% and 2.4% in Dubai, respectively (see Figure 3).

Differences in inflation rates across Emirates are attributed to the weights of the different components in the consumption basket (Table 4). For instance, the Transportation category, which accounts for a large weight in the tradeable inflation, has a lower weight in Dubai than in Abu Dhabi as well as in the UAE aggregate consumption basket. Further, in Dubai, the Housing category has a larger weight compared to Abu Dhabi and the UAE.

Table 1. Weights Assigned for the Different Categories per Statistic Authority

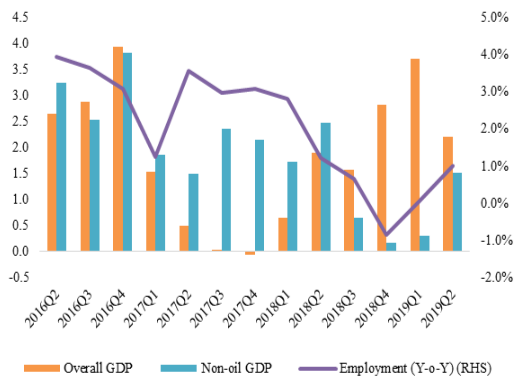
CPI Main Groups	UAE	Abu Dhabi	Dubai
Food and Beverages	14.3%	12.3%	13.1%
Tobacco	0.3%	0.2%	0.4%
Textiles, Clothing and Footwear	3.2%	5.4%	2.0%
Housing, Water, Electricity, Gas	34.1%	31.2%	43.6%
Furniture and Household Goods	5.6%	7.2%	3.8%
Medical Care	1.4%	1.6%	0.8%
Transportation	14.6%	14.7%	10.6%
Communications	5.4%	5.0%	5.2%
Recreation and Culture	3.2%	4.8%	2.3%
Education	7.7%	6.9%	8.5%
Restaurants and Hotels	4.0%	3.8%	4.0%
Miscellaneous Goods and Services	6.3%	7.0%	5.6%

Source: FCSA. SCAD and DSC

2.3 Employment and Labor Market Dynamics

This section covers only employment in the private sector based on data provided by the Ministry of Human Resources and Emiratization (MOHRE).[5] The employees in the private sector represented about 81.5% of total registered employees at MOHRE at the end of 2018 compared to 80.7% at the end of 2017. Positive macroeconomic developments during the first and the second quarters of 2019 were reflected on the labor market as employment in the private sector increased by 1.0% in 2019 Q2 compared to an increase of 0.1% in the previous quarter. On a Q-o-Q basis, employment increased by 0.5% in 2019 Q2 compared to a 1.2% increase in the previous quarter (Figure 2.3.a).

Figure 2.3.a. GDP Growth and Employment (Y-o-Y, %)



Source: Ministry of Human Resources and Emiratization, FCSA for GDP growth for 2016 Q2 – 2019 Q1 and CBUAE estimate for GDP growth for 2019 Q2

The rise in the employment rate during 2019 Q2 was the result of the increase in the real estate sector and in other sectors, which include the agricultural, mining, hotels and restaurants, financial intermediation, education and health. The real estate sector and other sectors increased Y-o-Y in 2019 Q2 by 5.0% and 8.2% compared to a similar rise of 4.4% and 4.9% in the previous quarter, respectively (Table 2.3).

Table2.3. Employment Growth by Sector

Sector	Share in Employment	Q-o-Q Growth	Contribution to Growth Q-o-Q	Y-o-Y Growth	Contribution to Growth Y-o-Y
Construction	33.2%	-0.7%	-0.2%	-1.1%	-0.4%
Services	21.7%	0.2%	0.0%	-1.1%	-0.2%
Manufacturing	9.2%	0.4%	0.0%	-0.1%	0.0%
Real estate	12.5%	1.3%	0.2%	5.0%	0.6%
Transport, Storage and Communication	6.8%	-1.1%	-0.1%	-3.5%	-0.2%
Other sectors	16.6%	3.3%	0.5%	8.2%	1.2%
Total Employment	**100.0%**	**0.5%**	**0.5%**	**1.0%**	**1.0%**

Source: Ministry of Human Resources and Emiratization, CBUAE

Moreover, the construction sector (33.2% of total private sector employment) is declining at a milder rate since the beginning of 2019 as it declined Y-o-Y by 1.3% and 1.1% during the first and the second quarters of 2019, respectively. The services sector has the same trajectory as it declined by 1.8% and 1.1% during 2019 Q1 and Q2, respectively, preserving its share of total private sector employment at 21.7%.

Furthermore, employment in the manufacturing sector, which constitutes around 9.2% of total employment in the private sector declined by 0.1% in 2019 Q2 compared to a decline of 1.1% in the previous quarter. In addition, Transport, Storage and Communication sector, which has the lowest share of private sector employment at 6.8%, declined by 3.5% compared to a decline of 3.7% in the previous quarter.

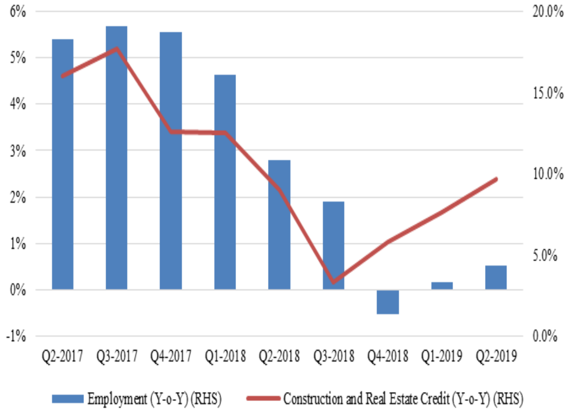
On a quarterly basis, employment in the private sector slowed down in 2019 Q2 as it grew by 0.5% compared to 1.2% in the previous quarter. Employment in the construction and the Transport, Storage and Communication sectors declined by 0.7% and 1.1% compared to an increase of 0.9% and 0.1% in the previous quarter. Employment in the manufacturing, services, and real estate sectors slowed down as it increased at a softer pace by 0.2%, 0.4%, and 1.3% compared to a higher employment growth

[5] The database on private sector employment also excludes the Free Zone activities.

in the previous quarter. On the other hand, other sectors witnessed a higher rate of growth in employment of 3.3% in 2019 Q2, compared to a 2.7% rise in the previous quarter.

The construction and real estate sectors together absorb 45.7% of the labor force in the UAE. Employment in both sectors increased by 0.5% Y-o-Y in the second quarter of 2019, against a milder rise of 0.2% Y-o-Y in the previous quarter. Credit extended to these sectors rose Y-o-Y by 9.7% at the end of the second quarter of 2019 compared to an increase of 7.6% in the previous quarter (see Figure 2.3.a). Box 4 illustrates the developments in the labor market by Emirate (Figure 2.3.b).

Figure 2.3.b Employment and Domestic Credit Developments in the Construction and Real-Estate sector (%, Y-o-Y)

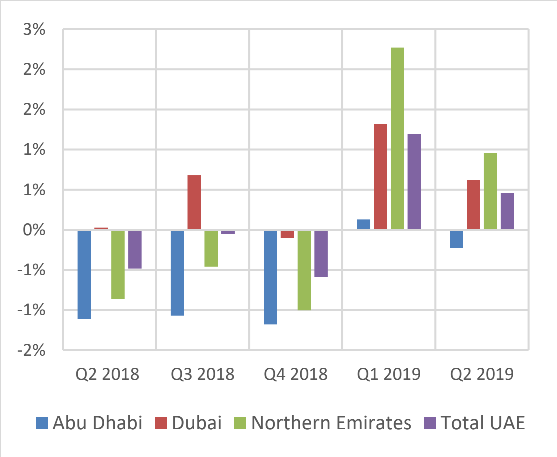


Source: Ministry of Human Resources and Emiratization and CBUAE.

Box 4: Developments in the Labor Markets by Emirate

The labor market in the UAE encompasses three main regional groups: Abu Dhabi, Dubai and Northern Emirates; and covers the private sector (excluding the Free Zones). Data from the Ministry of Human Resources and Emiratization show that the total private sector employment in the UAE at the end of Q2 of 2019 was 5.1 million, of which 26.9% are based in Abu Dhabi, 51.6% are in Dubai and around 21.5% are based in the Northern Emirates.

Figure 1. Employment Change (%, Q-o-Q)



Source: Ministry of Human Resources and Emiratization.

In Abu Dhabi, employment declined Q-o-Q by 0.2% in Q2 2019, compared to an increase of 0.1% in the previous quarter. This decline was driven by the manufacturing, construction, services and transport, storage and communications sectors, which decreased by 0.4%, 2.3%, 0.9% and 2.0%, respectively. Moreover, employment in the real estate sector registered a rise of 0.5% in Q2 2019, compared to a 1.9% increase in Q1 2019. These sectors employ around 77% of total employment in the emirate of Abu Dhabi.

In contrast, employment in Dubai increased Q-o-Q by 0.6% in Q2 2019, compared to a growth of 1.3% in the previous quarter. This increase was influenced by the significant rise in job opportunities in the real estate sector, which increased by 1.6%. In addition, employment in the manufacturing and transport, storage and communications sectors showed a moderate increase of 0.3% and 0.2% in Q2 2019. Jobs in the above-mentioned sectors represent around 28% of total employment in Dubai.

In the Northern Emirates, employment increased Q-o-Q by 1.0% in the second quarter of 2019. This increase was mainly driven by the real estate, services, manufacturing and construction sectors, which increased by 2.8%, 1.6%, 0.7% and 0.4% respectively. These sectors employ around 80% of total employment in the northern emirates.

Figure 2. Employment Change by Sector (%, Q-o-Q)

Source: Ministry of Human Resources and Emiratization.

Overall, at the aggregate level, employment growth in the UAE increased Q-o-Q by 0.5% in Q2 2019 compared to an increase of 1.2% in the previous quarter.

On a sectoral level, real estate, construction and services sectors increased Q-o-Q in Q2 2019 by 1.3%, 0.4% and 0.2%, respectively. These sectors account for about 43% of total employment in the UAE.

Developments in the Labor Market (Working Permits):

According to the data from the Ministry of Human Resources and Emiratization, total net newly issued work permits in the UAE had an increase of 164,306 in the first six months of 2019 compared to the same period of the previous year. In fact, the Emirate of Dubai registered the highest increase (almost 55% of the net increase in the UAE) with 90,304 new work permits compared to 74,108 in the previous year, which corresponds to a rise of 21.9%.

In Abu Dhabi, total net work permits issued until the end of Q2 2019 has significantly improved compared to the same period of last year, reaching 26,034 work permit (almost 16% of the total net increase). Similarly, newly issued work permits in the Northern Emirates increased by 49.3% in the first six months of 2019 compared to a year ago, reaching a net of 47,968 work permits (see Table 1).

Table 1: Work Permits by Emirate

Period		Jan-18 to Jun-2018	Jan-19 to Jun-2019	Change (%)
Abu Dhabi	New	143,844	182,731	27.0%
	Cancelled	148,755	156,697	5.3%
	Net	(4,911)	26,034	-----
Dubai	New	347,206	409,833	18.0%
	Cancelled	273,098	319,529	17.0%
	Net	74,108	90,304	21.9%
Northern Emirates	New	112,580	168,075	49.3%
	Cancelled	113,395	120,107	5.9%
	Net	(815)	47,968	-----
Total UAE	New	603,630	760,639	26.0%
	Cancelled	535,248	596,333	11.4%
	Net	68,382	164,306	140.3%

Source: Ministry of Human Resources and Emiratization

The labor market in the UAE can be classified into seven main types of positions: managers, professionals, technicians, clerks, services and sales professions, skilled laborers and unskilled laborers. Data from the Ministry of Human Resources and Emiratization show that almost all work categories registered an increase in net work permits in the first six months of 2019 compared to a year ago, except for professionals and technicians. The latter have decreased by 7.6% and 17.7% compared to a year ago, respectively. For clerks, skilled and unskilled, the growth was more than double in the first six months of 2019 compared to the previous year (see Table 2).

Table 2: Work Permits by Type of Position

Period		Jan-18 to Jun-2018	Jan-19 to Jun-2019	Change (%)
Managers	New	22,804	28,380	24.5%
	Cancelled	17,855	19,880	11.3%
	Net	4,949	8,500	71.8%
Professionals	New	66,195	67,877	2.5%
	Cancelled	50,180	53,072	5.8%
	Net	16,015	14,805	-7.6%
Technicians	New	36,284	38,091	5.0%
	Cancelled	30,586	33,403	9.2%
	Net	5,698	4,688	-17.7%
Clerks	New	50,448	60,825	20.6%
	Cancelled	42,897	44,089	2.8%
	Net	7,551	16,736	121.6%
Services and sales professions	New	105,726	129,898	22.9%
	Cancelled	87,861	94,636	7.7%
	Net	17,865	35,262	97.4%
Blue Color Skilled Labor	New	180,044	224,356	24.6%
	Cancelled	176,200	199,383	13.2%
	Net	3,844	24,973	549.7%
Blue Color Unskilled Labor	New	142,129	211,212	48.6%
	Cancelled	129,669	151,870	17.1%
	Net	12,460	59,342	376.3%
Total	New	603,630	760,639	26.0%
	Cancelled	535,248	596,333	11.4%
	Net	68,382	164,306	140.3%

Source: Ministry of Human Resources and Emiratization

During the first six months of 2019, and in line with the deflationary pressures, almost all work categories experienced a decline compared to the previous year (see Table 3). At the end of Q2 2019, the highest decline was observed for unskilled laborers and managers. For the latter, the average salary declined Y-o-Y and year-to-date by 3.3% and 2.3%, respectively. For unskilled laborers, the decline in average salary was even higher. It declined Y-o-Y and year-to-date by 6.6% and 19.1%, respectively.

Table 3: Average Salaries by Type of Position (in AED)

Period	Mar-19	Apr-19	May-19	Jun-19
Managers	**22,832**	**22,620**	**22,432**	**22,258**
Year-to-Date (%)	0.2%	-0.7%	-1.5%	-2.3%
Y-o-Y (%)	-1.6%	-2.1%	-2.9%	-3.3%
Professionals	**11,642**	**11,614**	**11,610**	**11,578**
Year-to-Date (%)	-0.3%	-0.5%	-0.5%	-0.8%
Y-o-Y (%)	-0.7%	-0.8%	-0.7%	-0.8%
Technicians	**7,001**	**6,981**	**6,971**	**6,943**
Year-to-Date (%)	-0.5%	-0.8%	-0.9%	-1.3%
Y-o-Y (%)	-0.7%	-0.9%	-1.1%	-1.3%
Clerks	**4,706**	**4,694**	**4,692**	**4,683**
Year-to-Date (%)	-0.5%	-0.7%	-0.8%	-0.9%
Y-o-Y (%)	-0.2%	-0.3%	-0.7%	-0.8%
Services and sales professions	**3,049**	**3,048**	**3,052**	**3,048**
Year-to-Date (%)	-0.2%	-0.2%	-0.1%	-0.2%
Y-o-Y (%)	1.8%	1.5%	1.2%	1.0%
Skilled laborers	**1,846**	**1,849**	**1,849**	**1,847**
Year-to-Date (%)	-0.3%	-0.1%	-0.1%	-0.2%
Y-o-Y (%)	0.9%	0.6%	0.1%	0.0%
Unskilled laborers	**6,000**	**5,869**	**5,871**	**5,869**
Year-to-Date (%)	-17.3%	-19.1%	-19.1%	-19.1%
Y-o-Y (%)	20.7%	-9.7%	-12.0%	-6.6%

Source: Ministry of Human Resources and Emiratization.

2.4 Exchange Rate Fluctuations

In 2019 Q2, the Dirham appreciated against the currencies of the top 10 non-dollarized import partners by 0.29% Q-o-Q and by 2.54% Y-o-Y. Against the currencies of the top 10 non-oil export partners, the appreciation was 0.42% and 2.56% respectively.

Table 2.4.a. Dirham Appreciation Against Currencies of Top Non-Dollarized Import Partners (%, Y-o-Y).

Imports	Share of total imports	Q-o-Q		Y-o-Y	
		Q1 2019	Q2 2019	Q1 2019	Q2 2019
China	15.5	-2.41	1.12	6.13	6.95
India	9.4	-2.23	-1.30	9.40	3.79
Japan	5.6	-2.28	-0.26	1.74	0.69
Germany	4.5	0.46	1.04	8.25	6.02
UK	3.1	-1.31	1.40	6.83	5.84
Vietnam	3.1	-0.48	0.44	2.06	2.20
Italy	2.7	0.46	1.04	8.25	6.02
France	2.7	0.46	1.04	8.25	6.02
Switzerland	2.4	0.14	0.54	5.18	1.74
South Korea	2.3	-0.21	3.64	4.91	7.92
Weighted Average	51.4	-0.73	0.29	3.26	2.54

Source: Data on Import shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2017. Data for the bilateral exchange rates are the quarterly average observations of monthly data, recorded and reported by Bloomberg.

Bilateral exchange rates show that the Dirham appreciated, Q-o-Q, mainly against the Chinese Yuan (by 1.12%) , the Euro (by 1.04%), the Pound Sterling (by 1.4%), the Swiss Franc (by 0.54%), and the Korean Won (by 3.64%). Furthermore, the Dirham depreciated against the Indian Rupee Q-o-Q by 1.3% compared to a larger depreciation of 2.23% in the previous quarter.

Table 2.4.b. Dirham Appreciation Against Currencies of Top Non-Dollarized Partners for Non-Oil Exports (%, Y-o-Y),

Exports	Share of total exports	Q-o-Q		Y-o-Y	
		Q1 2019	Q2 2019	Q1 2019	Q2 2019
India	8.7	-2.23	-1.30	9.40	3.79
Turkey	5.2	-2.29	9.38	40.68	34.31
Iraq	4.4	0.16	0.54	0.71	0.71
Switzerland	3.9	0.14	0.54	5.18	1.74
China	2.5	-2.41	1.12	6.13	6.95
Egypt	1.9	-1.66	-3.44	-0.32	-4.36
Netherlands	1.9	0.46	1.04	8.25	6.02
Singapore	1.8	-1.49	0.61	2.73	2.13
Germany	1.6	0.46	1.04	8.25	6.02
Japan	1.4	-2.28	-0.26	1.74	0.69
Weighted Average	33.2	-0.44	0.42	3.67	2.56

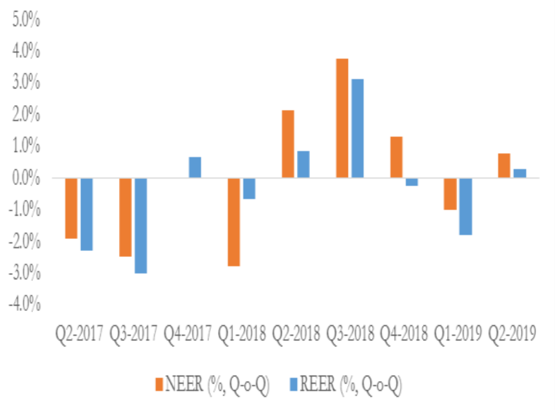
Source: Data on Import shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2017. Data for the bilateral exchange rates are the quarterly average observations of monthly data, recorded and reported by Bloomberg.

Using non-oil export weights, the Dirham exhibited a Q-o-Q appreciation of 0.42% against the currencies of the top 10 Non-Dollarized export partners (see Table 2.4.b.) compared to a Q-o-Q depreciation of 0.44% during the previous quarter. The appreciation was mainly due to the depreciation in the Turkish lira (by 9.38%) as well as the deprecation of the Euro (by 1.04%)[6]. The Dirham appreciation against the Indian Rupee is the result of the slower pace of growth in India as well as the escalation of trade disputes with the US, which has had a negative impact on the Indian economy.

[6] Turkey, the Eurozone and China account for 8.7% of the total non-oil exports of the UAE.

Accounting for all of the UAE's major trading partners, the Nominal Effective Exchange Rate (NEER) has displayed the same pattern of appreciation relative to a basket of the weighted average of the currencies of major import and Non-Oil export partners. In particular, the average NEER increased by 0.8% in the second quarter of 2019, compared to a decline of 1.0% in the previous quarter (see Figure 2.4.a.).

Figure 2.4.a Nominal and Real Effective Exchange rates developments (%, Q-o-Q)



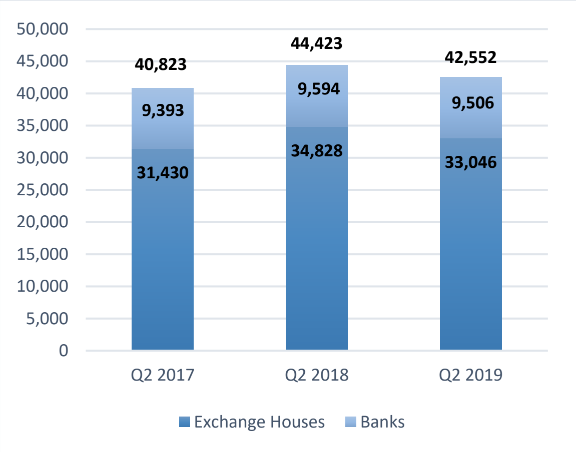
Source: Bank for International Settlement (BIS)

In real terms, the Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, appreciated by 0.3% in the second quarter of 2019 compared to a drop of 1.8% in the previous quarter. The mild appreciation in the REER came despite the deflationary cycle in the UAE due to the impact of the nominal Dirham appreciation. Box 6 presents the developments in the outward remittances and the effects of developments in the exchange rate on bilateral flows, while Box 7 assesses the indicators of the tourism sector.

Box 5: Outward Personal Remittances from the UAE

The outward personal remittances measure the data provided by the exchange houses and the banks, which capture transfers by expatriates as well as personal transfers by UAE nationals. Over the period of April-June 2019, remittances registered a decrease of 4.2% or AED 1.9 billion compared to the same period of 2018 (Figure 1). During the second quarter of 2019, the outward personal remittances that were settled through the banks slightly declined by 0.9% or AED 88.2 million. Meanwhile, the outward personal remittances that were settled through the exchange houses registered a decrease by 5.1% or AED 1.8 billion, compared to the same period of 2018.

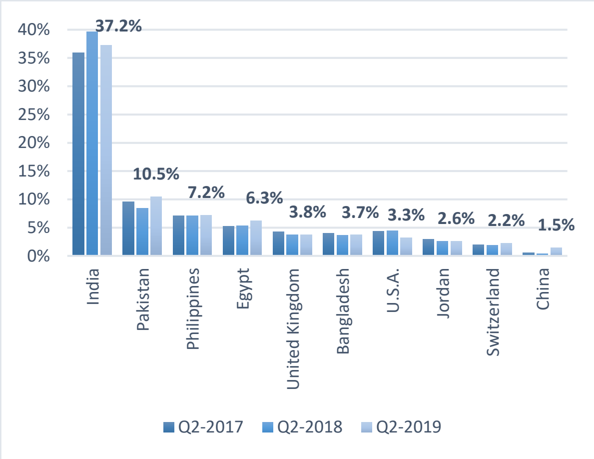
Figure 1. Evolution of Outward Personal Remittances Settled through Banks and Exchange Houses, April-June 2017-2019 (AED Millions)



Source: CBUAE

The highest destination country for outward personal remittances during April-June 2019 was India (37.2%) (Figure 2). This high share is in accordance with the significant share of expats from India working in the UAE. According to the latest (January 2019) UAE population statistics published by the Global Media Insight, 59.5% of the expat population in the UAE originate from South Asian countries, and expats from India account for 27.5% of the total expat population in the UAE. The next five most important countries in the share of outflows of personal remittances were Pakistan (10.5%), Philippines (7.2%), Egypt (6.3%), the U.K. (3.8%), and Bangladesh (3.7%).

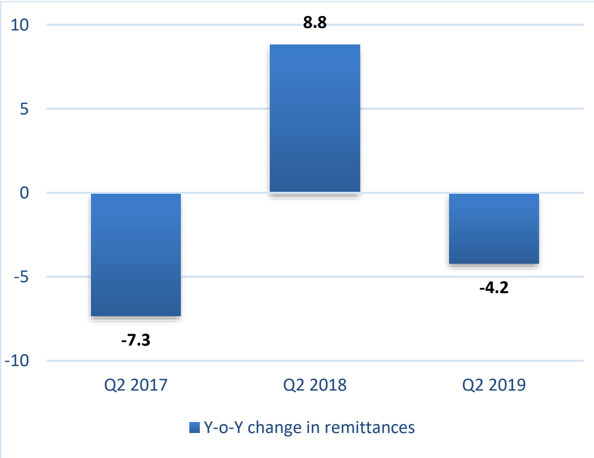
Figure 2. Share of the Major Countries for Outward Personal Remittances during April-June 2017-2019 (Percentage of Total, Exchange Houses and Banks)



Source: CBUAE

The annual growth rate of outward personal remittances during April-June 2019 was recorded at negative 4.2% (Figure 3), a significant reduction compared to the growth for the same period in 2018 (8.8%). The slowdown in outward personal remittances is in line with the slowdown in employment.

Figure 3. Annual Percentage Change of Total Outward Personal Remittances, April-June 2017-2019



Source: CBUAE

Box 6: Tourism Activity in the UAE

The analysis focuses on developments in tourism activity in the Emirates of Dubai and Abu Dhabi, the two major tourist destinations in the UAE during January-June 2019. For the Dubai Emirate, the Dubai Corporation of Tourism and Commerce Marketing (DTCM) publishes data on international guests covering international tourists arrivals to Dubai regardless of whether they stay at hotels in Dubai or not. On the other hand, Abu Dhabi Tourism and Culture Authority publishes data on international guests covering only tourists that stay at Abu Dhabi hotels (hotel guests).

The total number of international tourist arrivals to the Emirate of Dubai during the period of January-June 2019 registered increase of 3.2% (increased by around 260,000) compared to the same period in 2018 (Figure 1). Based on the data published by DTCM, it is estimated that approximately 53.7% (4.5 millions) of tourists that arrived in Dubai during the period of January-June 2019 stayed at hotels in Dubai. The calculated figures for international hotel guests in the Emirate of Dubai registered an increase of 7.9% (increased by around 330,000) compared to the same period in 2018.

Similarly, the international hotel guests in the Emirate of Abu Dhabi registered increase of 3.5% (around 84,000) compared to the same period in 2018.

Figure 1: International Tourist Arrivals to Dubai and International Hotel Guests in Dubai and Abu Dhabi January-June 2018-2019 (in Millions)

Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority

* Staff calculation, based on data published by Dubai DTCM (occupied room nights divided by guest's average length of stay).

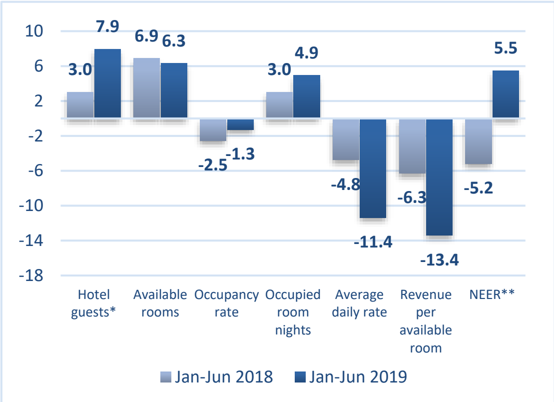
The data for the Dubai Emirate indicate that the number of international hotel guests increased at a faster rate during January-June 2019 compared to the same period of 2018. However, the revenue per available room significantly decreased compared to the same period in 2018 reflecting continued discounts offered by hotels in Dubai. This strategy increased the occupied room nights at a faster rate during January-June 2019 (4.9%) compared to the rate of growth during the same period in 2018 (3.0%), which compensated for the continuing decline in revenue per available room (Figure 2.a.).

International hotel guests in Abu Dhabi also increased, though at a slower pace, during January-June 2019 compared to the same period in 2018. The increase in occupied room nights was accompanied with higher average daily rate during January-June 2019 compared to the same period in 2018, which resulted in significantly higher revenues per available room and higher total revenue for hotels in Abu Dhabi (Figure 2.b.).

It is worth mentioning that some international events that took place in Abu Dhabi during the first half of 2019, such as AFC Asian Cup 2019 (Jan-Feb 2019), IDEX/NAVDEX 2019 (Feb 2019), Special Olympic Games (March 2019), FIA World Rally cross (5-6 April 2019), and Abu Dhabi International Book Fair (24-30 April 2019), attest to a vibrant strategy to attract international guests.

Figure 2: Annual Percentage Change in Major Indicators of Dubai & Abu Dhabi Inbound Tourism January-June 2018-2019 (%)

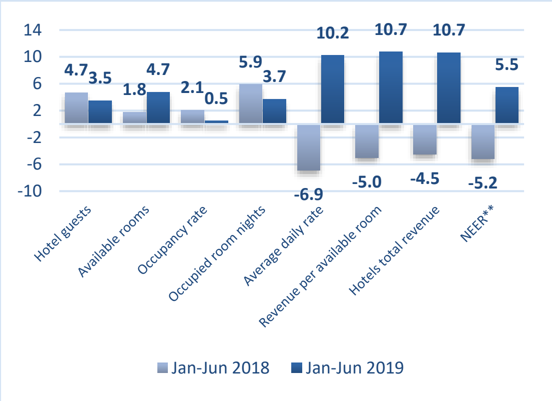
a. Dubai



Source: Dubai Corporation of Tourism and Commerce Marketing

* Staff calculation, based on data published by Dubai DTCM (occupied room nights divided by guest's average length of stay).

b. Abu Dhabi



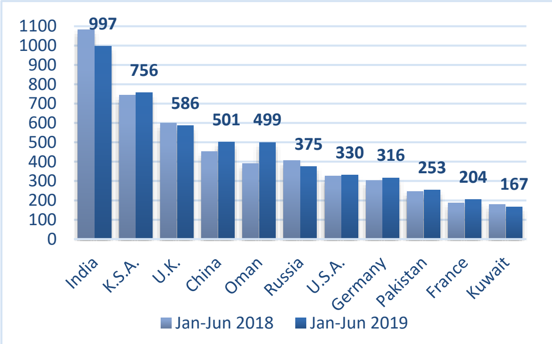
Source: Abu Dhabi Tourism & Culture Authority
** NEER Is the Nominal Effective Exchange Rate (Source: Bank of International Settlement)

Some countries that are the major markets for inbound tourism to Dubai recorded increase in the arrival of international tourists during January-June 2019 compared to the same period in 2018, with the highest increase recorded for Oman (27.9%), followed by China (10.6%), France (9.7%), Germany (4.6%), Pakistan (2.8%), Saudi Arabia (1.7%), and USA (0.9%). While inbound tourism from India, Russia, and Kuwait recorded decrease during the same period.

The vast majority of tourists to Dubai originate from GCC countries and the MENA region (28% combined, 18% and 10%, respectively), while Western Europe and North America cover 21% and 7% of inbound tourism. Finally, inbound tourism originated from South Asia, North & South East Asia, and Eastern Europe account for 16%, 12%, and 9% of the total, respectively.

Figure 3. Major Markets of Inbound Tourist Arrivals January-June[7] 2018-2019 (in millions)

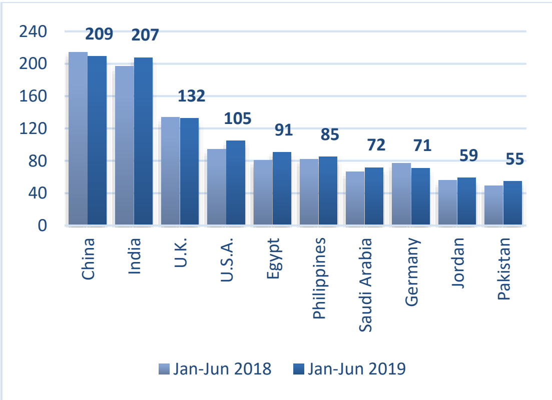
a. Dubai



Source: Dubai Corporation of Tourism and Commerce Marketing

The Abu Dhabi Emirate recorded increase in inbound tourism from some of the top ten countries. Egypt recorded the highest rate of increase (12.2%), followed by Pakistan (11.2%), USA (11.0%), Saudi Arabia (7.5%), India (5.5%), Jordan (5.5%), and Philippines (3.2%) during January-June 2019 compared to the same period in 2018. Meanwhile, inbound tourism from Germany, China, and the U.K. recorded moderate decrease during the same period (Figure 3.b.).

b. Abu Dhabi



Source: Abu Dhabi Tourism & Culture Authority

2.5 Consolidated Fiscal Stance

Recent decline in oil prices during the first quarter of 2019 Y-o-Y by 5.5% has resulted in a slower pace of growth for total government revenues Y-o-Y by 0.9% compared to a growth rate of 11.5% in the previous quarter and 4.2% during the same quarter in the previous year.

On the Expenditure side, total expenses went up Y-o-Y by 16.3% during 2019 Q1. Moreover, capital spending, measured by the net acquisition of non-financial assets, rose Y-o-Y by 94.1%, reaching AED 13.1 billion. As a result, the Net Operating Balance registered a deficit of AED 1.2 billion in 2019 Q1 compared to AED 10.4 billion surplus in the previous quarter (see table 2.5).

2.5.1 Revenues

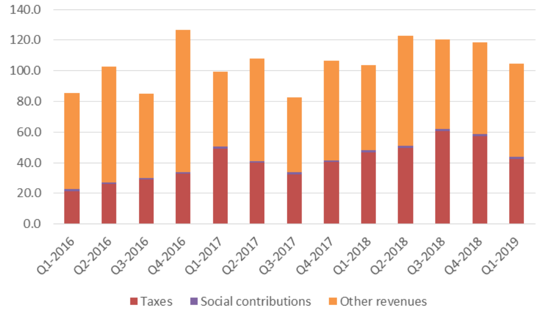
Revenue growth rates eased during 2019 Q1, reaching 0.9% Y-o-Y compared to 11.5% in the previous quarter. This slowdown came as a result of the decline in tax revenues by 9.3% to reach AED 42.4 billion compared to AED 46.7 billion in the same quarter of 2018. On the other hand, other revenues offset the decline in tax revenues as they rose by AED 5.3 billion, or 9.5%, to reach AED 61.2 billion compared to AED 55.9 billion in the same quarter of 2018. Social contributions remained relatively stable at AED 1.3 billion in 2019 Q1.

2.5.2 Expenditures

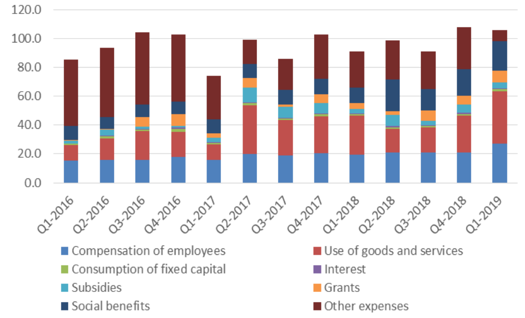
On the expenditure side, total expenses rose Y-o-Y by 16.3% in 2019 Q1 compared to an increase of 6.2% in the previous quarter. The increase in expenses is mainly attributable to the rise in compensation of employees, the use of goods & services, and social benefits Y-o-Y by 39.8%, 34.7%, and 92.1%, respectively. These categories represented 79.2% of total expenses during 2019 Q1. On the other hand, other expenses declined markedly Y-o-Y by 69.1% to reach AED 7.8 billion, compared to AED 25.2 billion in the same quarter of the previous year. Furthermore, grants increased significantly as it doubled to reach AED 8.6 billion compared with AED 4.1 billion in 2018 Q1. Moreover, capital spending increased Y-o-Y by 94.1% to reach AED 13.1 billion compared to AED 6.7 billion in the same quarter of the previous year, reversing its trend during the past year.

Government Finances

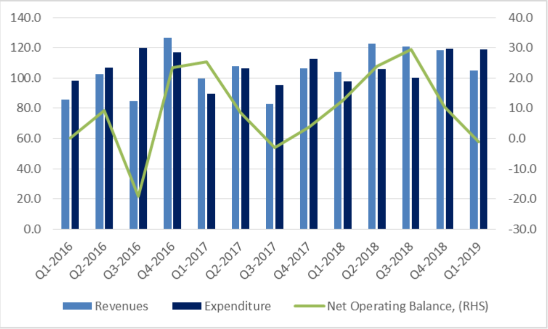
2.5.a. General government revenues (Billions of Dirhams)



2.5.b. General government expenditures (Billions of Dirhams)



2.5.c. Fiscal Stance (Billions of Dirhams)



2.5.d. Developments in the Subsidies & transfers to GREs (Billions of Dirhams)

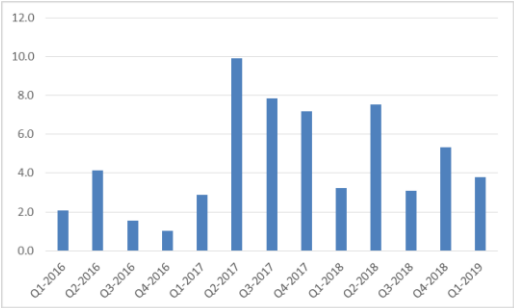


Table. 2.5. Consolidated Government Finances

	2017				2018				2019	2018 (% Y-o-Y)				2019 (% Y-o-Y)
Revenues (a)	**99.6**	**107.9**	**82.8**	**106.3**	**103.8**	**122.7**	**120.6**	**118.5**	**104.8**	**4.2%**	**13.7%**	**45.7%**	**11.5%**	**0.9%**
− Taxes	49.2	40.0	32.4	40.3	46.7	49.5	60.6	57.5	42.4	-5.1%	23.7%	86.9%	42.6%	-9.3%
− Social contributions	1.2	1.1	1.3	1.1	1.3	1.3	1.3	1.2	1.3	3.9%	24.3%	0.8%	1.5%	-0.3%
− Other revenues	49.2	66.8	49.1	64.9	55.9	71.9	58.8	59.9	61.2	13.6%	7.5%	19.7%	-7.7%	9.5%
Expenditure	**89.5**	**106.4**	**95.2**	**112.5**	**97.9**	**105.9**	**99.9**	**119.4**	**119.0**	**9.4%**	**-0.5%**	**4.9%**	**6.2%**	**21.6%**
-Expenses (b)	**74.2**	**99.3**	**85.8**	**102.6**	**91.1**	**98.8**	**91.2**	**108.1**	**105.9**	**22.8%**	**-0.5%**	**6.3%**	**5.4%**	**16.3%**
− Compensation of employees	15.9	20.1	18.8	20.4	19.5	21.2	21.1	21.2	27.3	22.8%	5.1%	12.3%	4.1%	39.8%
− Use of goods and services	10.5	33.7	24.9	25.7	27.0	16.0	17.1	25.2	36.4	157.0%	-52.4%	-31.4%	-2.0%	34.7%
− Consumption of fixed capital	1.3	1.4	1.0	1.4	1.1	1.0	1.0	1.0	1.1	-13.1%	-27.3%	3.4%	-29.2%	-3.8%
− Interest	0.5	0.6	0.3	0.5	0.5	1.1	0.6	1.4	0.8	-2.4%	85.1%	111.0%	168.4%	68.8%
− Subsidies	2.9	9.9	7.9	7.2	3.2	7.5	3.1	5.3	3.8	12.7%	-23.9%	-60.5%	-26.1%	16.7%
− Grants	3.3	6.7	1.2	6.1	4.1	2.6	7.0	6.1	8.6	22.6%	-60.5%	487.7%	0.7%	111.1%
− Social benefits	9.8	10.1	10.3	10.9	10.5	22.2	14.8	18.3	20.2	7.8%	120.0%	43.6%	68.2%	92.1%
− Other expenses	30.1	16.8	21.4	30.5	25.2	27.1	26.5	29.6	7.8	-16.2%	61.7%	23.7%	-2.8%	-69.1%
Net acquisition of non-financial assets	15.3	7.1	9.5	9.9	6.7	7.0	8.7	11.3	13.1	-56.0%	-0.5%	-7.8%	14.3%	94.1%
Net Operating Balance (a-b)	**25.4**	**8.6**	**-3.0**	**3.7**	**12.7**	**23.9**	**29.5**	**10.4**	**-1.2**	-----	-----	-----	-----	-----

Source: Federal Competitiveness and Statistics Authority (FCSA)

- UAE Ministry of Finance, revenues do not include ADNOC transfers and government investment income.
- Other Revenues covers: Property income (interest, dividends, rent), Sales of goods and services (including administrative fees), Fines and penalties and other revenues not elsewhere classified. Effective 2016Q1, the Emirate of Abu Dhabi has added some transfers of important investment authorities from financing accounts to revenues, included in the distributed profit computation.
- Other expenses include the payments of Abu Dhabi made on behalf of the Federal Government.
- Subsidies include social and price subsidies as well as transfers to GREs.
- Grants include current or capital transfers from the Government to other Government units, international organizations or foreign Governments, excluding transfers between Federal and Local Governments

Chapter 3. Banking and Financial Developments

In the second quarter of 2019, deposits increased on a yearly basis, in tandem with the rise in Government deposits. On the other hand, credit continued its solid growth pace, particularly to the private sector, underpinned by healthy Financial Soundness Indicators (FSIs) showing overall sound and stable banking.

3.1 Banking Structure

In Q2, licensed banks remained at 60, of which 22 are national banks and 38 are foreign banks, including 11 wholesale banks. The number of branches of national banks declined to 713 at the end of June 2019 compared to 733 at the end of March 2019. The number of retail foreign banks remained the same at 27 compared to the previous quarter, while their branches rose by one to 80 at the end of 2019 Q2. Moreover, the number of employees in national and foreign banks was stable at 36,448 employee at the end of the second quarter of 2019.

3.1.1. Banks' Deposits

Total customer deposits increased in the second quarter of 2019 by AED 26.2 billion, as resident deposits rose by AED 37.7 billion. On the other hand, non-resident deposits declined by AED 11.5 billion (Figure 3.1.1.a.). The increase in resident deposits was essentially due to the rise in government and GREs deposits by AED 18.4 billion and by AED 22.7 billion, while the private sector deposits decreased by AED 1.3 billion (-0.1%). Resident deposits constitute the bulk of the total customer deposits at around 88.9% of total deposits.

Deposits by the type of banks—i.e., Conventional vs. Islamic banks—represent 77.9% and 22.1% of total deposits, respectively. Deposits at conventional banks exhibited an increase by 2.7%, equivalent to AED 36.6 billion, while deposits at Islamic banks declined to reach AED 392 billion. Figure 3.1.1.a and Figure 3.1.1.b, as well as Table 3.1.1.b show that in the second quarter of 2019, on a Y-o-Y basis, the decline of Islamic banks' deposits reached 0.2%, while for the Conventional banks they increased by 7.0% to reach AED 1,383 billion. Looking at the subcategories, the growth of deposits in Conventional banks in the second quarter was stronger for the Government and the GREs, while non-resident deposits in Islamic banks was a main contributor to the growth in deposits at these banks.

Table 3.1.1.a. Deposits at UAE Banks

Item	Dec-18	Mar-19	Jun-19*
Bank Deposits	1,756	1,748	1,774
(Q-o-Q change %)	1.6%	-0.4%	1.5%
(Y-o-Y change %)	7.9%	5.2%	5.3%
- Resident Deposits	1,542	1,540	1,578
(Q-o-Q change %)	1.3%	-0.1%	2.4%
(Y-o-Y change %)	7.4%	4.5%	5.6%
Government Sector	290	273	291
(Q-o-Q change %)	1.5%	-6.0%	6.7%
(Y-o-Y change %)	36.9%	17.1%	16.3%
GREs	207	195	217
(Q-o-Q change %)	7.5%	-6.0%	11.7%
(Y-o-Y change %)	8.1%	-3.3%	13.3%
Private Sector	1,009	1,031	1,030
(Q-o-Q change %)	-0.1%	2.2%	-0.1%
(Y-o-Y change %)	0.8%	2.3%	0.9%
NBFI	36	41	39
(Q-o-Q change %)	4.1%	16.1%	-5.1%
(Y-o-Y change %)	14.1%	34.2%	24.5%
- Non-Resident Deposits	213	208	197
(Q-o-Q change %)	3.9%	-2.4%	-5.5%
(Y-o-Y change %)	11.3%	9.9%	3.5%

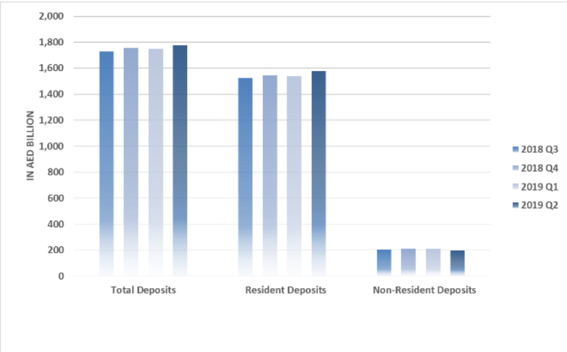
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.
***** Preliminary figures subject to revision.

Table 3.1.1.b. Deposits at Conventional/Islamic Banks

	Conventional		Islamic	
Item	**Mar-19**	**Jun-19***	**Mar-19**	**Jun-19***
Bank Deposits	1,346	1,383	402	392
(Q-o-Q change %)	-0.6%	2.7%	0.1%	-2.6%
(Y-o-Y change %)	6.3%	7.0%	1.4%	-0.2%
- Resident Deposits	1,160	1,206	380	372
(Q-o-Q change %)	-0.2%	3.9%	0.2%	-2.0%
(Y-o-Y change %)	6.1%	7.9%	0.1%	-1.2%
Government Sector	209	225	64	67
(Q-o-Q change %)	-7.7%	7.5%	0.2%	4.4%
(Y-o-Y change %)	18.3%	18.6%	13.1%	9.0%
GREs	144	177	51	41
(Q-o-Q change %)	-6.1%	22.6%	-5.6%	-19.4%
(Y-o-Y change %)	-0.5%	24.3%	-10.4%	-17.9%
Private Sector	778	777	254	253
(Q-o-Q change %)	2.5%	-0.1%	1.2%	-0.3%
(Y-o-Y change %)	3.7%	-1.2%	-1.7%	-1.2%
NBFI	30	12	12	12
(Q-o-Q change %)	21.9%	1.7%	3.5%	1.7%
(Y-o-Y change %)	32.9%	20.2%	37.6%	20.2%
- Non-Resident Deposits	186	177	22	20
(Q-o-Q change %)	-2.6%	-12.6%	-1.3%	-12.6%
(Y-o-Y change %)	7.9%	21.9%	29.7%	21.9%

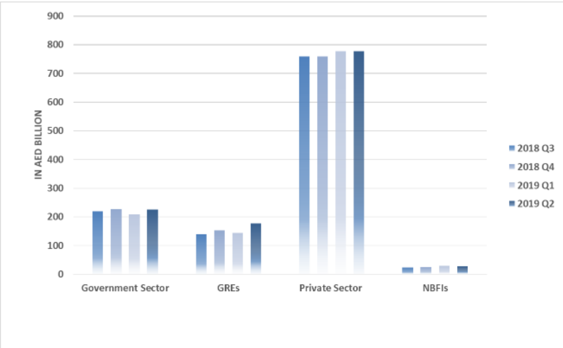
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.
***** Preliminary figures subject to revision.

Figure 3.1.1.a. Banking System Deposits, (AED billion)



Source: CBUAE

Figure 3.1.1.b. Banking System Deposits: Conventional Banks (AED billion)



Source: CBUAE

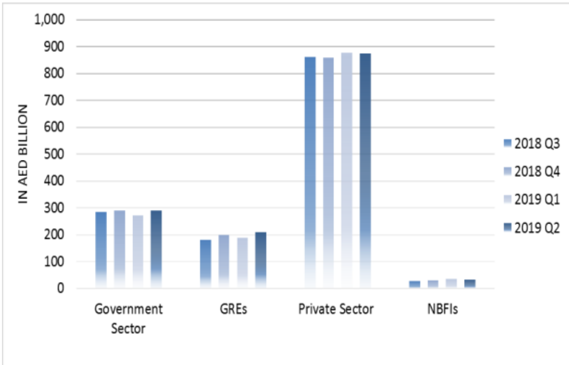
The breakdown of National and Foreign banks in Figures 3.1.1.c and 3.1.1.d shows that national and foreign banks exhibited growth in customer's deposits by 1.4% and 2.1%, respectively in 2019 Q2. The rise in deposits at national banks was essentially attributed to the increase in the government and GREs deposits by AED 18.3 billion and AED 22.6 billion, respectively. On the other hand, the rise in foreign banks' deposits by 2.1%, or AED 4.3 billion, was mainly due to the increase in non-resident deposits by AED 2.7 billion. On a Y-o-Y basis, national and foreign banks' deposits grew by 5.7% and 3.0%, respectively. Deposits at national banks constitute around 88.5% of total deposits in the banking system, while 11.5% of total deposits are in foreign banks.

Table 3.1.1.c. Deposits at National/Foreign Banks

	National		Foreign	
Item	**Mar-19**	**Jun-19***	**Mar-19**	**Jun-19***
Bank Deposits	1,548	1,569	201	205
(Q-o-Q change %)	-0.7%	1.4%	1.8%	2.1%
(Y-o-Y change %)	6.2%	5.7%	-2.0%	3.0%
Resident Deposits	1,373	1,409	167	169
(Q-o-Q change %)	-0.4%	2.6%	2.0%	1.0%
(Y-o-Y change %)	5.4%	6.0%	-2.0%	1.9%
Government Sector	273	291	1	1
(Q-o-Q change %)	-5.6%	6.7%	-66.7%	20.0%
(Y-o-Y change %)	18.3%	16.7%	-82.1%	-60.0%
GREs	187	210	7	8
(Q-o-Q change %)	-6.0%	12.1%	-5.1%	1.4%
(Y-o-Y change %)	-3.2%	13.6%	-6.3%	7.1%
Private Sector	877	875	154	155
(Q-o-Q change %)	2.0%	-0.3%	2.8%	0.6%
(Y-o-Y change %)	2.8%	0.8%	-0.5%	1.7%
NBFI	36	33	6	6
(Q-o-Q change %)	17.1%	-7.3%	9.8%	8.9%
(Y-o-Y change %)	41.8%	26.0%	0.0%	17.3%
Non-Resident Deposits	175	161	33	36
(Q-o-Q change %)	-3.0%	-8.1%	0.9%	8.1%
(Y-o-Y change %)	12.4%	2.4%	-1.8%	8.4%

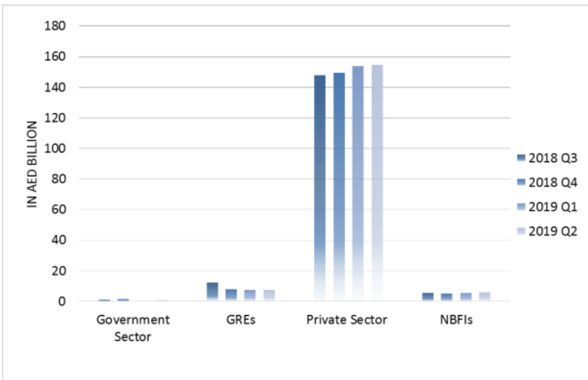
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.
***** Preliminary figures subject to revision.

Figure 3.1.1.c. Banking System Deposits: National Banks (AED billion)



Source: CBUAE

Figure 3.1.1.d. Banking System Deposits: Foreign Banks (AED billion)



Source: CBUAE

3.1.2. Banks' Credit

Gross Credit remained robust in the second quarter with an increase of 1.1% Q-o-Q and an increase of 4.3% Y-o-Y. For the underlying domestic credit, the lending growth to the Government increased by 2.3% (11.5% Y-o-Y), while lending to the private sector grew by 0.9% (3.6% Y-o-Y) including an increase in lending to Private Corporates which eased to 1.1% (4.6% Y-o-Y). Lending to the GREs sector increased by 2.7% (4.7% Y-o-Y), while lending decreased to individuals by 0.4% (-1.5% Y-o-Y). In addition, loans to Non-Banking Financial Institutions (NBFIs) decreased by 15.1% (-15.5% Y-o-Y).

Table 3.1.2.a. Assets and Credit at UAE Banks

Item	Sep-18	Dec-18	Mar-19	Jun-19*
Total Assets	**2,838**	**2,869**	**2,895**	**2,959**
(Q-o-Q change %)	3.2%	1.1%	0.9%	2.2%
(Y-o-Y change %)	7.4%	6.5%	6.5%	7.6%
Gross Credit	**1,638**	**1,656**	**1,675**	**1,693**
(Q-o-Q change %)	1.0%	1.1%	1.1%	1.1%
(Y-o-Y change %)	3.7%	4.8%	4.2%	4.3%
Domestic Credit	**1,496**	**1,509**	**1,529**	**1,543**
(Q-o-Q change %)	0.7%	0.9%	1.3%	0.9%
(Y-o-Y change %)	3.4%	3.9%	3.8%	3.8%
Government	**186**	**192**	**197**	**202**
(Q-o-Q change %)	2.7%	3.2%	2.9%	2.3%
(Y-o-Y change %)	2.3%	9.2%	8.8%	11.5%
GREs	**169**	**168**	**172**	**176**
(Q-o-Q change %)	0.2%	-0.5%	2.3%	2.7%
(Y-o-Y change %)	-3.8%	-2.6%	0.9%	4.7%
Private Sector	**1,121**	**1,130**	**1,141**	**1,148**
(Q-o-Q change %)	0.3%	0.8%	0.9%	0.6%
(Y-o-Y change %)	4.8%	4.0%	3.6%	2.7%
Corporate Sector	**782**	**793**	**807**	**816**
(Q-o-Q change %)	0.3%	1.3%	1.8%	1.1%
(Y-o-Y change %)	6.5%	5.8%	5.6%	4.6%
Personal Credit	**338**	**337**	**334**	**332**
(Q-o-Q change %)	0.3%	-0.3%	-1.2%	-0.4%
(Y-o-Y change %)	1.0%	0.0%	-0.9%	-1.5%
NBFIs	**21**	**20**	**20**	**17**
(Q-o-Q change %)	6.5%	-6.1%	-0.5%	-15.1%
(Y-o-Y change %)	3.9%	7.5%	-4.3%	-15.5%
Foreign Credit	**142**	**147**	**146**	**150**
(Q-o-Q change %)	4.6%	3.5%	-0.7%	2.9%
(Y-o-Y change %)	6.7%	15.0%	7.8%	10.6%

Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.
*Preliminary figures subject to revision

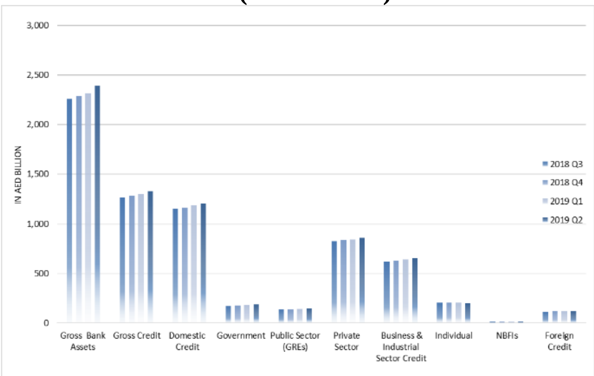
Table 3.1.2.b. illustrates sectors of lending by economic activity. The highest increase Q-o-Q is for Transport, Storage and Communications (7.2%) followed by Electricity, Gas and Water (5.7%), and Construction and Real Estate (4%).

Table 3.1.2.b. Banks' Credit to Residents by Economic Activity

Item	Sep-18	Dec-18	Mar-19	Jun-19*
Agriculture	1.9	2.0	1.8	1.7
(Q-o-Q change %)	1.8%	1.8%	-7.5%	-8.8%
(Y-o-Y change %)	59.3%	-6.7%	-10.0%	-12.5%
Mining and Quarrying	13.4	14.7	15.9	15.5
(Q-o-Q change %)	3.7%	10.1%	8.2%	-3.0%
(Y-o-Y change %)	9.9%	21.8%	32.2%	19.8%
Manufacturing	76.1	77.0	77.2	76.2
(Q-o-Q change %)	3.3%	1.1%	0.3%	-1.4%
(Y-o-Y change %)	5.7%	2.3%	2.3%	3.4%
Electricity, Gas and Water	17.0	17.0	18.4	19.5
(Q-o-Q change %)	-4.2%	0.3%	8.4%	5.7%
(Y-o-Y change %)	0.0%	1.6%	-2.5%	10.1%
Construction and Real Estate	305.0	315.5	323.4	336.2
(Q-o-Q change %)	-0.5%	3.4%	2.5%	4.0%
(Y-o-Y change %)	3.3%	5.8%	7.6%	9.7%
Trade	154.9	154.0	154.6	154.0
(Q-o-Q change %)	-2.7%	-0.5%	0.4%	-0.4%
(Y-o-Y change %)	4.8%	0.8%	-1.6%	-3.2%
Transport, Storage and Communication	49.5	51.5	51.6	55.3
(Q-o-Q change %)	-8.5%	4.1%	0.2%	7.2%
(Y-o-Y change %)	-22.4%	-6.3%	-2.2%	2.3%
Financial Institutions (Excluding Banks)	134.2	130.1	125.1	128.8
(Q-o-Q change %)	4.1%	-3.1%	-3.9%	3.0%
(Y-o-Y change %)	3.0%	2.0%	-6.4%	-0.1%
All Others	146.5	148.8	158.5	146.0
(Q-o-Q change %)	3.2%	1.5%	6.5%	-7.8%
(Y-o-Y change %)	10.2%	7.6%	13.8%	2.9%

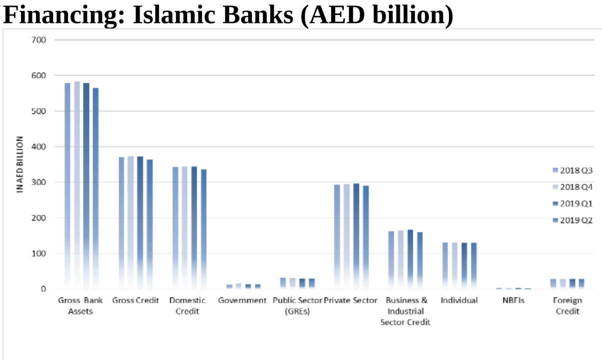
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.
***** Preliminary figures subject to revision

Figure 3.1.2.a. Banking System Assets and Credit: Conventional Banks (AED billion)



Source: CBUAE

Figure 3.1.2.b. Banking System Assets and Financing: Islamic Banks (AED billion)



Source: CBUAE

Islamic banks have a share of 19.1% in the assets and 21.6% in the gross financing of the total banking system. The breakdown of the assets and lending by Conventional and Islamic banks in Figures 3.1.2.a and 3.1.2.b indicates that Islamic banks' financing declined Q-o-Q by 2.0% during the second quarter of 2019 due to the decline in lending to the private sector. On the other hand, credit in conventional banks grew Q-o-Q by 3.3% during the second quarter of 2019, reflecting the increase in credit in all categories except for Individuals and NBFIs.

Table 3.1.2.c. Assets and Credit at UAE Conventional/Islamic Banks

	Conventional		Islamic	
Item	**Mar-19**	**Jun-19***	**Mar-19**	**Jun-19***
Total Assets	**2,316**	**2,393**	**579**	**566**
(Q-o-Q change %)	1.3%	3.3%	-0.7%	-2.2%
(Y-o-Y change %)	7.3%	9.6%	3.5%	0.1%
Gross Credit	**1,303**	**1,328**	**372**	**365**
(Q-o-Q change %)	1.6%	1.9%	-0.3%	-2.0%
(Y-o-Y change %)	4.2%	5.8%	4.0%	-0.8%
Domestic Credit	1,185	1,206	344	337
(Q-o-Q change %)	1.7%	1.8%	-0.1%	-2.2%
(Y-o-Y change %)	4.0%	5.2%	3.4%	-1.0%
Government	**183**	**188**	**14**	**14**
(Q-o-Q change %)	3.3%	2.7%	-1.4%	-2.8%
(Y-o-Y change %)	8.0%	11.1%	20.5%	17.1%
GREs	**142**	**146**	**30**	**30**
(Q-o-Q change %)	3.8%	3.0%	-4.5%	1.0%
(Y-o-Y change %)	3.3%	7.6%	-9.1%	-7.4%
Private Sector	**844**	**857**	**297**	**291**
(Q-o-Q change %)	1.1%	1.6%	0.4%	-2.1%
(Y-o-Y change %)	3.4%	3.9%	4.3%	-0.5%
Corporate Sector	640	655	167	161
(Q-o-Q change %)	1.9%	2.3%	1.7%	-3.9%
(Y-o-Y change %)	5.2%	5.9%	7.4%	-0.4%
Personal Credit	204	203	129	130
(Q-o-Q change %)	-1.1%	-0.8%	-1.2%	0.2%
(Y-o-Y change %)	-1.8%	-2.0%	0.6%	-0.7%
NBFIs	16	15	4	2
(Q-o-Q change %)	-1.2%	-10.4%	2.9%	-37.1%
(Y-o-Y change %)	-3.0%	-10.4%	-10.3%	-38.9%
Foreign Credit	118	122	28	28
(Q-o-Q change %)	-0.2%	3.6%	-2.8%	0.4%
(Y-o-Y change %)	6.8%	12.9%	12.0%	1.8%

Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.
* Preliminary figures subject to revision

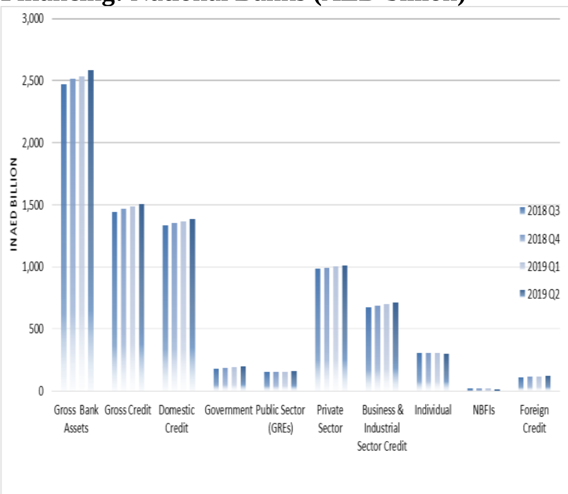
Foreign banks have a share of 12.6% of the system in terms of assets and 11.1% in terms of gross financing in the second quarter of 2019. The breakdown of the assets and credit by national and foreign banks in Figures 3.1.2.c and 3.1.2.d indicates that National banks' assets were growing by 2.0%, while gross credit increased by 1.3% compared to the previous quarter. For the same period, foreign banks' assets witnessed an increase by 3.5% along with a decline in gross credit by 0.7% (see Table 3.1.2.d). On a Y-o-Y basis, total assets at national banks grew by 8.1% as gross credit rose by 5.5%, while total assets at foreign banks increased by 4.6% and gross credit declined by 4.0% at the end of the second quarter of 2019.

Table 3.1.2.d. Assets and Credit at UAE National/ Foreign Banks

	National		Foreign	
Item	**Mar-19**	**Jun-19***	**Mar-19**	**Jun-19***
Total Assets	2,534	2,585	361	374
(Q-o-Q change %)	0.8%	2.0%	1.9%	3.5%
(Y-o-Y change %)	7.6%	8.1%	-0.5%	4.6%
Gross Credit	1,486	1,505	189	188
(Q-o-Q change %)	1.4%	1.3%	-0.7%	-0.7%
(Y-o-Y change %)	5.2%	5.5%	-3.4%	-4.0%
Domestic Credit	1,369	1,384	161	158
(Q-o-Q change %)	1.3%	1.1%	1.3%	-1.3%
(Y-o-Y change %)	4.8%	4.8%	-3.4%	-4.6%
Government	189	195	8	7
(Q-o-Q change %)	2.3%	3.1%	20.9%	-17.3%
(Y-o-Y change %)	8.1%	11.8%	28.6%	4.7%
GREs	156	161	16	15
(Q-o-Q change %)	2.4%	3.1%	0.6%	-1.3%
(Y-o-Y change %)	4.3%	7.5%	-23.9%	-17.6%
Private Sector	1,005	1,013	136	135
(Q-o-Q change %)	1.0%	0.8%	0.3%	-0.7%
(Y-o-Y change %)	4.4%	3.6%	-1.9%	-3.7%
Corporate Sector	701	710	106	105
(Q-o-Q change %)	1.9%	1.3%	1.1%	-0.8%
(Y-o-Y change %)	6.6%	5.7%	-0.6%	-2.8%
Personal Credit	304	303	30	30
(Q-o-Q change %)	-1.0%	-0.4%	-2.6%	-0.7%
(Y-o-Y change %)	-0.3%	-0.9%	-6.6%	-6.9%
NBFIs	19	16	1	1
(Q-o-Q change %)	-1.6%	-18.4%	28.6%	55.6%
(Y-o-Y change %)	-5.0%	-19.3%	12.5%	75.0%
Foreign Credit	117	121	29	29
(Q-o-Q change %)	2.1%	3.1%	-10.6%	2.4%
(Y-o-Y change %)	10.9%	13.7%	-3.4%	-0.7%

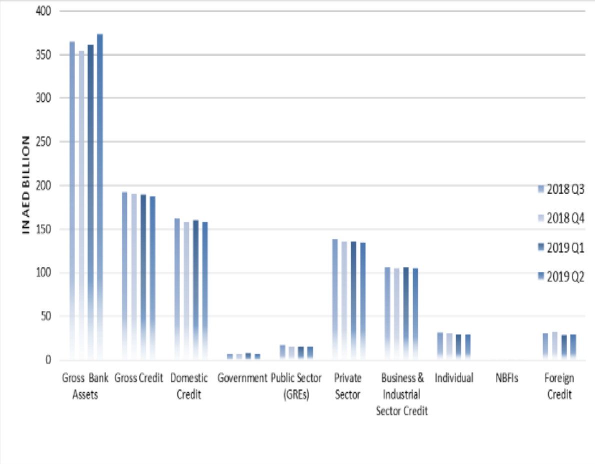
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.
* Preliminary figures subject to revision

Figure 3.1.2.c. Banking System Assets and Financing: National Banks (AED billion)



Source: CBUAE

Figure 3.1.2.d. Banking System Assets and Financing: Foreign Banks (AED billion)



Source: CBUAE

To shed more light on the allocation of the National banks' assets abroad, Box 8 below provides details about the UAE National Banks' Cross Border Asset and Liabilities, Non-resident Foreign Currency Exposure, while Box 9 shows the developments in SME lending.

3.1.3. Financial Soundness Indicators

The overall soundness of the banking sector remained positive during the second quarter of 2019. Banks operating in the UAE remain profitable and well capitalized, with the Capital Adequacy Ratio (CAR) at 17.9%, Tier 1 Capital Adequacy at 16.7%, and Common Equity Tier 1 (CET) at 14.9%, which are well above the regulatory requirements set by the CBUAE.

The Loans to Deposits (L/D) ratio for the whole banking system declined from 95.8% in March 2019 to 95.4% at the end of June 2019, mainly due to the faster growth pace of deposits (Q-o-Q 1.5%) compared to the registered growth in gross credit (Q-o-Q 1.1%). Looking at the breakdown between Conventional and Islamic banks, the L/D ratio stands at 96.0% and 93.2%, respectively, decreasing by 0.8 percentage points from the previous quarter for the conventional banks, while increasing by 0.5 percentage points for the Islamic banks.

Table 3.1.3.a. Financial Soundness Indicators in the UAE (in %, unless otherwise indicated)

	Sep-18	Dec-18	Mar-19	Jun-19
Total banking system				
Lending to Stable Resources Ratio	82.3%	82.3%	82.7%	82.1%
The Liquid Assets Ratio (LAR)	16.1%	17.5%	16.9%	17.6%
Capital Adequacy Ratio (CAR)	18.2%	17.5%	17.9%	17.9%
Tier 1 Capital	16.8%	16.2%	16.6%	16.7%
CET 1	14.9%	14.3%	14.6%	14.9%
Conventional banks				
Lending to Stable Resources Ratio	82.8%	82.5%	83.0%	82.0%
The Liquid Assets Ratio (LAR)	15.2%	16.6%	16.2%	17.1%
Capital Adequacy Ratio (CAR)	18.4%	17.6%	17.9%	18.0%
Tier 1 Capital	17.0%	16.2%	16.6%	16.7%
CET 1	15.4%	14.7%	14.9%	15.2%
Islamic banks				
Lending to Stable Resources Ratio	80.8%	81.6%	81.6%	82.2%
The Liquid Assets Ratio (LAR)	18.7%	19.6%	18.9%	18.6%
Capital Adequacy Ratio (CAR)	17.5%	17.3%	17.7%	17.7%
Tier 1 Capital	16.3%	16.2%	16.6%	16.6%
CET 1	12.8%	12.7%	13.2%	13.6%
National banks				
Lending to Stable Resources Ratio	83.3%	83.4%	84.0%	83.6%
The Liquid Assets Ratio (LAR)	15.3%	16.6%	16.0%	16.2%
Capital Adequacy Ratio (CAR)	17.9%	17.2%	17.5%	17.6%
Tier 1 Capital	16.6%	16.0%	16.3%	16.4%
CET 1	14.4%	13.7%	14.0%	14.3%
Foreign banks				
Lending to Stable Resources Ratio	75.4%	74.0%	73.4%	70.4%
The Liquid Assets Ratio (LAR)	21.7%	24.4%	24.4%	26.9%
Capital Adequacy Ratio (CAR)	20.4%	20.3%	20.7%	20.8%
Tier 1 Capital	18.4%	18.4%	18.9%	19.4%
CET 1	18.4%	18.4%	18.9%	19.4%

Source: CBUAE
Note: All data indicate the end-of-quarter values

The Loan to Deposit ratio for Conventional banks in June 2019 declined compared to a year ago when it was 97.1%. For Islamic banks, L/D also declined from 93.7% in June 2018 to 93.2% at the end of the second quarter of 2019. On the other hand, National banks have L/D ratio of 95.9%, relatively stable compared to March 2019, while the ratio for foreign banks declined to 91.6% from 94.3% at the end of 2019 Q2.

Meanwhile, liquid assets, as a ratio of total assets[8], moved from 16.9% at the end of Q1 2019 to 17.6% at the end of 2019 Q2. This level of liquid assets

[8] In the ELAR, Liquid assets include required reserves, mandated by the Central Bank, certificates of deposits held by banks at the Central Bank, in addition to zero-risk weighted government bonds and public sector debt and cash at banks

constitutes a significant buffer, as it is higher than the 10% minimum required by the CBUAE.

The level of total liquid assets at banks, as of the end of 2019 Q2, stood at AED 422.7 billion, AED 23.2 billion higher compared to the end of 2019 Q1, which explains the rise in the Liquid Assets Ratio (LAR). On a Y-o-Y basis, total liquid assets at banks rose by AED 46.2 billion, registering an increase by 12.3%. In addition, looking at the breakdown between Islamic, conventional, national and foreign banks, data show that for all segments the LARs increased during 2019 Q2 compared to 2019 Q1 except for Islamic banks as it declined mildly to 18.6% compared to 18.9% in 2019 Q2.

3.2 Financial developments

3.2.1. Share Price Movement

The Abu Dhabi Securities Exchange (ADX) market capitalization continued to increase at a steady pace since September 2018 boosted by the increase in oil production and strong economic fundamentals. The ADX market capitalization increased Q-o-Q by 0.5%. Similarly, the Dubai Financial Market (DFM) witnessed an increase in its market capitalization Q-o-Q by 2.0% and 0.9% in the first and the second quarters of 2019, for the first time since 2017. However, global and regional uncertainties continue to weigh in on the UAE markets.

On the ADX, the average Share Price Index decreased Q-o-Q by 1.9% in the second quarter of 2019, reflecting a Y-o-Y increase of 9.2%. The market capitalization slowed down moving from an increase of 2.4% Q-o-Q (10.1% Y-o-Y) in 2019 Q1 to a moderate rise of 0.5% Q-o-Q (12.8% Y-o-Y) during 2019 Q2 (see Table 3.2.1).

Table 3.2.1. UAE – Securities Markets

			2018		2019	
			Q3	**Q4**	**Q1**	**Q2**
Abu Dhabi	**Change of Share Price Index (%)**	**Q-o-Q**	8.2%	-0.4%	3.2%	-1.9%
		Y-o-Y	12.2%	11.7%	10.7%	9.2%
		YTD	12.2%	11.7%	3.2%	1.3%
	Market Capitalization)	**Billions**	515.0	512.4	520.0	527.9
		Q-o-Q	8.7%	0.9%	2.4%	0.5%
		Y-o-Y	18.3%	10.5%	10.1%	12.8%
		YTD	9.6%	10.5%	2.4%	2.9%
	Turnover (Traded Value)	**Billions**	8.2	13.7	10.9	12.7
		Q-o-Q	34.2%	54.5%	-34.3%	-2.5%
		Y-o-Y	-14.7%	105.6 %	15.2%	32.7%
		YTD	33.1%	105.6 %	-34.3%	-36.0%
Dubai	**Change of Share Price Index (%)**	**Q-o-Q**	0.5%	-10.8%	4.2%	0.9%
		Y-o-Y	-20.5%	-24.9%	-15.2%	-5.8%
		YTD	-15.9%	-24.9%	4.2%	5.1%
	Market Capitalization	**Billions**	375.0	354.6	347.4	355.2
		Q-o-Q	-0.3%	-7.2%	2.0%	0.9%
		Y-o-Y	-2.7%	-12.9%	-9.6%	-4.7%
		YTD	-6.1%	-12.9%	2.0%	3.0%
	Turnover (Traded Value)	**Billions**	11.0	11.8	11.3	12.8
		Q-o-Q	-11.0%	-15.9%	9.2%	-29.4%
		Y-o-Y	12.9%	-57.2%	-27.7%	-42.3%
		YTD	-49.1%	-57.2%	9.2%	-22.9%

Source: Abu Dhabi Securities Exchange and Dubai Financial Market

Note: Changes computation (Q-o-Q) is based on quarterly average of end-of-month values for the share price index and market capitalization.

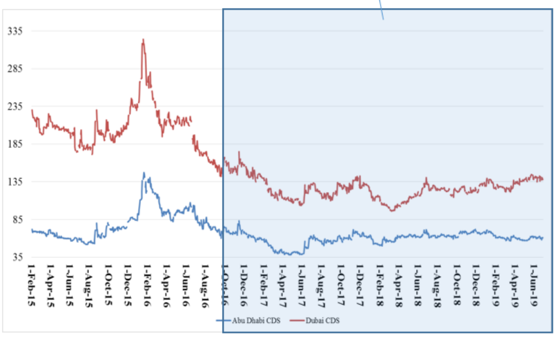
The average Share Price Index in Dubai rose by 0.9% Q-o-Q in the second quarter of 2019, compared to a higher increase in the previous quarter. The market capitalization increased by 0.9% during the same quarter Q-o-Q (-4.7% Y-o-Y) compared to an increase of 2.0% Q-o-Q (-9.6% Y-o-Y) in 2019 Q1.

.2.2. Credit Default Swaps Premiums

The risk premiums are approximated by the Credit Default Swaps. For the Emirate of Abu Dhabi, it marginally decreased in 2019 Q2. In the Emirate of Dubai, the default risk premium slightly increased compared to the previous quarter (see Figure 3.2.1).

Figure 3.2.1. UAE – Sovereign Credit Default Swaps (CDS)

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Emirate of Abu Dhabi	56.2	63.7	62.9	67.4	62.6	59.8
Emirate of Dubai	106.8	116.1	124.4	125.3	129.3	138.1



Source: Bloomberg.
Note: All quarterly data are the average of each quarter. Premiums are expressed in basis points.

Despite the recent increase for Dubai, CDS levels remained low in Q2 2019, compared to historical levels.

Box 7: UAE Banks' Foreign Assets & Liabilities

The UAE banking system is the largest in terms of assets in the MENA region. As of June 2019, the outstanding amount of assets is at AED 2,958.6 billion.[9] As of the end of the second quarter of 2019, UAE banks, excluding branches and affiliates abroad, have a total of AED 726.1 billion in foreign assets, AED 614.2 billion for national banks and AED 112 billion for foreign banks. In terms of liabilities, UAE banks, excluding branches and affiliates abroad, have a total of AED 660.2 billion in foreign liabilities, AED 561.5 billion for national banks and AED 98.7 billion for foreign banks. The analysis is focusing on the exposure of UAE national banks, for both the asset and liabilities sides of their balance sheets, to non-residents. First, is the allocation of the foreign assets and liabilities per category, followed by the top ten countries of exposure and the foreign currency denomination of the on-balance sheet claims/liabilities.

Foreign Assets and Liabilities for UAE National Banks

The foreign assets of national banks increased Q-o-Q and Y-o-Y as at the end of 2019 Q2. The asset classes of exposure are split according to the categories in Table 1. The three major categories as of June 2019 are securities with an outstanding amount of AED 185.2 billion, due from other banks at AED 134 billion and due from HO & branches with an outstanding amount of AED 126.7 billion. The three asset classes rose by 1.4%, 2.6% and 17.9% Q-o-Q, respectively, and by 27.4%, 9.6% and 21.2% Y-o-Y, respectively.

Table 1. UAE National Banks' Foreign Assets' Class (in AED billion)

Asset class	Dec-18	Mar-19	Jun-19
Due from HO & branches	141.1	107.5	126.7
Due from other banks	120.8	130.5	134.0
Securities	149.4	182.6	185.2
Loans	114.8	117.1	120.8
Other assets	44.1	44.2	47.3
Total	**575.2**	**570.1**	**582.0**

Source: CBUAE

The foreign liabilities of national banks also increased Q-o-Q and Y-o-Y as at the end of 2019 Q2. The liability classes of exposure are split according to the categories in Table 2. The three major categories as of June 2019 are other deposits with an outstanding amount of AED 160.7 billion, capital market funding at AED 140 billion and due to other banks abroad with an outstanding amount of AED 113.4 billion. The Outstanding balance for the three liability classes changed, by -8.1%, 9% and -1.3% Q-o-Q, and by 2.4%, 20.5% and 24.9% Y-o-Y, respectively.

Table 2. UAE National Banks' Foreign Liabilities' Class (in AED billion)

Liability class	Dec-18	Mar-19	Jun-19
Due to H.O and/or Branches Abroad	29.2	30.8	35.5
Due to Other Banks Abroad	101.9	114.9	113.4
Capital Market Funding	116.4	128.5	140.0
Other Term Borrowings	46.7	49.0	50.4
Other Deposits	180.4	174.9	160.7
Other Foreign Liabilities	52.4	54.1	61.5
Total	**527.1**	**552.2**	**561.5**

Source: CBUAE

UAE National Banks' Top 10 Countries for Cross Border Exposure

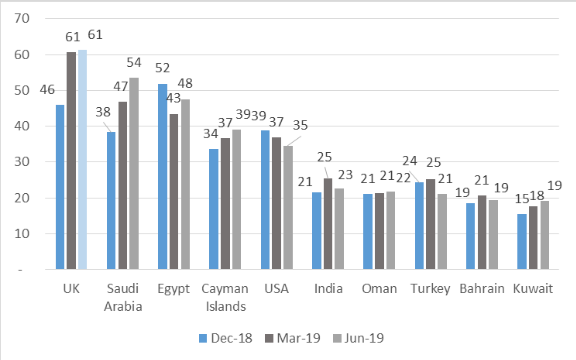
As of June 2019, the biggest exposure of UAE banks abroad, on the assets side of their balance sheets, including branches and affiliates, was in the UK at AED 61.3 billion, followed by AED 53.5 billion in Saudi Arabia and by AED 47.6 billion in Egypt. The three countries in the top 10 exposures that experienced the highest increase Q-o-Q were Saudi Arabia by AED 6.6 billion (14.2%), Egypt by AED 4.1 billion (9.5%) and Cayman Islands[10] by AED 2.3 billion (6.3%). The top three countries with the largest increase Y-o-Y were led by Saudi Arabia by AED 19 billion (54.9%), Egypt by AED 13 billion (37.7%) and the UK by AED 11.1 billion (22.1%).

As of June 2019 the top three drops in foreign asset exposure Q-o-Q was for Turkey by AED 4.1 billion (-16.2%), India by AED 2.8 billion (-11.2%) and the USA by AED 2.3 billion (-6.3%). The drop of exposure Y-o-Y as of June 2019 was observed only for Turkey as it dropped by AED 9.4 billion (-30.9%) and India by AED 2.7 billion (-10.6%) (see Figure 1).

[9] Excluding branches and affiliates abroad.

[10] The Cayman Islands is the booking jurisdiction for Sukuk issuance.

Figure 1: Top 10 Foreign Country Assets' Exposures for UAE National Banks (in AED billion)

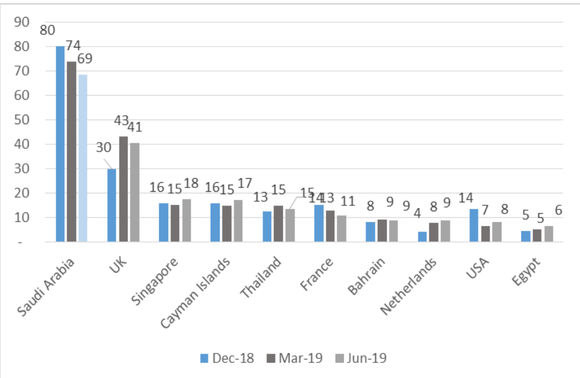


Source: CBUAE

On the liabilities side of the balance sheet, as of June 2019, the biggest exposure of UAE banks abroad, including branches and affiliates, was in Saudi Arabia at AED 68.7 billion, followed by AED 40.6 billion in the UK and by AED 17.6 billion in Singapore. The top three countries in terms of foreign liabilities exposures that experienced the highest increase Q-o-Q were Cayman Islands by AED 2.5 billion (17.1%), Singapore by AED 2.4 billion (15.8%) and the USA by AED 1.7 billion (24.8%). The top three countries with the largest increase Y-o-Y were led by Saudi Arabia by AED 14.2 billion (26%), the UK by AED 9.7 billion (31.4%) and the Cayman Islands by AED 9.2 billion (111.7%).

As of June 2019 the top three countries in terms of the reduction of foreign liabilities exposure Q-o-Q was for Saudi Arabia by AED 5.3 billion (-7.1%), the UK by AED 2.8 billion (-6.5%) and France by AED 2.1 billion (-16%). A drop of exposure Y-o-Y as of June 2019 was observed only for France where foreign liabilities exposure dropped by AED 7.7 billion (-41.6%) (see Figure 2).

Figure 2: Top 10 Foreign Country Liabilities' Exposures for UAE National Banks (in AED billion)



Source: CBUAE

Foreign Currency Denomination of UAE Banks' Assets and Liabilities

The main foreign currency claims for UAE banks remain in USD, which stood at 81.1% at the end of the second quarter of 2019. The second most important foreign currency exposure is in Euro as of June 2019 (10.9% of the total foreign currency exposure). The third, fourth and fifth currency exposures are in Pound Sterling, Japanese Yen and Saudi Riyal (Table 3).

Table 3. Share of Foreign Currencies of Total UAE Banks' Assets by Denomination

Currency	Dec-18	Mar-19	Jun-19
USD	84.9%	83.2%	81.1%
Euro	8.3%	9.5%	10.9%
Pound Sterling	1.6%	2.1%	2.0%
Japanese Yen	1.2%	1.3%	1.4%
Saudi Riyal	1.5%	1.2%	1.6%
Chinese Yuan	0.2%	0.2%	0.3%
Qatari Riyal	0.3%	0.2%	0.2%
Bahraini Dinar	0.2%	0.3%	0.2%
Kuwaiti Dinar	0.2%	0.2%	0.2%
Swiss Franc	0.1%	0.1%	0.1%
Other Foreign currencies	1.6%	1.7%	2.0%

Source: CBUAE

On the liabilities side, the main foreign currency exposure for UAE banks remains also in USD, which stood at 81.2% at the end of 2019 Q2. The second most important foreign currency exposure on the liabilities side of the balance sheets of UAE banks is in Euro as of June 2019 (5.5% of the total foreign currency exposure). The third, fourth and fifth currency exposures are in Pound Sterling, Japanese Yen and Saudi Riyal. The ranking of currency denomination is similar for both foreign assets and foreign liabilities in the balance sheet of UAE banks (Table 4).

Table 4. Share of Foreign Currencies of Total UAE Banks' Foreign Liabilities by Denomination

Currency	Dec-18	Mar-19	Jun-19
USD	81.9%	81.0%	81.2%
Euro	4.8%	5.4%	5.5%
Pound Sterling	2.4%	2.5%	2.5%
Japanese Yen	0.7%	0.8%	0.9%
Saudi Riyal	6.9%	6.8%	6.3%
Chinese Yuan	0.5%	0.6%	0.7%
Qatari Riyal	0.1%	0.1%	0.1%
Bahraini Dinar	0.0%	0.0%	0.0%
Kuwaiti Dinar	0.3%	0.2%	0.2%
Swiss Franc	0.5%	0.5%	0.7%
Other Foreign currencies	2.0%	2.0%	1.9%

Source: CBUAE

Box 8: Lending to SMEs

Micro, Small and Medium Enterprises (MSMEs) play a vital role in diversifying the economy and boosting job creation. Therefore, it is important to assess the current limits to MSMEs' access to finance in the UAE.

As shown in Table 1, bank credit to this sector amounted to AED 88.7 billion at the end of 2019 Q1, which represents 11% of total credit to the private corporate sector and 5.8% of total domestic credit extended by the banking sector in the UAE. The latter in particular is well below the benchmarks of 8% in MENA countries and 18% in Emerging Economies.

According to data available at CBUAE over the period December 2017–March 2019, credit for micro enterprises increased by 26.3%, remained roughly flat for medium enterprises, while decreasing by 20.1% for small enterprises. Moreover, at end of March 2019, medium enterprises got more than half of bank credit to the SME sector, while the share of small enterprises is limited to 30% and that of micro enterprises is about 16% (Table 1).

Table 1: Lending to MSMEs in the UAE

In billions of Dirhams

Period		2017	2018				2019*
		December	March	June	September	December	March
1	Microenterprises	11.5	11.1	10.5	11.5	12.3	14.3
	- Share of total SME lending	12.5%	12.5%	11.9%	13.1%	13.9%	16.1%
	- National Banks	9.6	9.2	8.5	9.4	10.0	11.9
	- Foreign Banks	1.9	1.9	2.0	2.1	2.3	2.4
2	Small Enterprises	33.4	31.3	30.9	30.0	29.8	26.5
	- Share of total SME lending	36.4%	35.1%	35.0%	34.2%	33.6%	29.9%
	- National Banks	24.4	22.4	21.9	20.9	21.0	17.8
	- Foreign Banks	9.0	8.9	9.0	9.1	8.8	8.7
3	Medium Enterprises	46.8	46.7	46.8	46.3	46.7	47.9
	- Share of total SME lending	51.0%	52.4%	53.1%	52.7%	52.6%	54.0%
	- National Banks	36.9	36.6	36.8	36.1	36.6	36.7
	- Foreign Banks	9.9	10.1	10.0	10.2	10.1	11.2
4	SME Total (1+2+3)	91.7	89.1	88.2	87.8	88.8	88.7
	- National Banks	70.9	68.2	67.2	66.4	67.6	66.4
	- Foreign Banks	20.8	20.9	21.0	21.4	21.2	22.3

Source: CBUAE, data reported by banks on official definition of MSMEs.
*Latest available data.

The distinction between Islamic banks and conventional banks in Table 2 shows that the decrease in lending to the MSME sector during this period was evident for both conventional and Islamic banks, albeit the decline was more pronounced for Islamic banks (-11.8%) compared with a decrease of 2% for conventional banks.

CBUAE is leading initiatives with the major stakeholders to ease constraints on lending to SMEs and facilitate the development of the sector.

Table 2: MSME Lending - Conventional & Islamic Banks

In billions of Dirhams

Period		2017	2018				2019*
		Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
1	**Microenterprises**	**11.5**	**11.0**	**10.5**	**11.5**	**12.3**	**14.4**
	- Conventional Banks	9.4	9.4	9.0	10.0	10.9	13.0
	- Islamic Banks	2.1	1.6	1.5	1.5	1.4	1.4
2	**Small Enterprises**	**32.5**	**31.3**	**30.9**	**29.9**	**29.9**	**26.5**
	- Conventional Banks	30.0	29.2	28.7	27.6	27.7	24.5
	- Islamic Banks	3.3	2.1	2.2	2.3	2.2	2.0
3	**Medium Enterprises**	**46.4**	**46.7**	**46.8**	**46.2**	**46.7**	**47.8**
	- Conventional Banks	41.3	40.8	40.9	40.3	39.7	41.6
	- Islamic Banks	5.6	5.9	5.9	5.9	7.1	6.2
4	**SME Total (1+2+3)**	**91.7**	**89.1**	**88.2**	**87.8**	**88.8**	**88.7**
	- Conventional Banks	**80.7**	**79.5**	**78.5**	**78.0**	**78.2**	**79.1**
	- Islamic Banks	**11.0**	**9.6**	**9.7**	**9.8**	**10.6**	**9.6**

Source: CBUAE

Chapter 4. Monetary Developments and The Central Bank's Financial Position

The CBUAE balance sheet exhibited a slight increase in 2019 Q2, reflecting steady flows of foreign exchange and growth in the banking sector balance sheets. The increase in total assets at CBUAE was mainly in Cash and Bank Balances abroad, while on the liabilities side the increase was mostly in Required Reserves, Certificates of Deposit and Currency Issued. Meanwhile, interest rates in the UAE witnessed a downward trend, in line with the movements in the US Dollar rates. The spread of the EIBOR vs. the USD LIBOR remained flat on average, reflecting confidence in the UAE economy, while the spread of the 10-year swap rate of the AED relative to the USD slightly increased but remained at a low level.

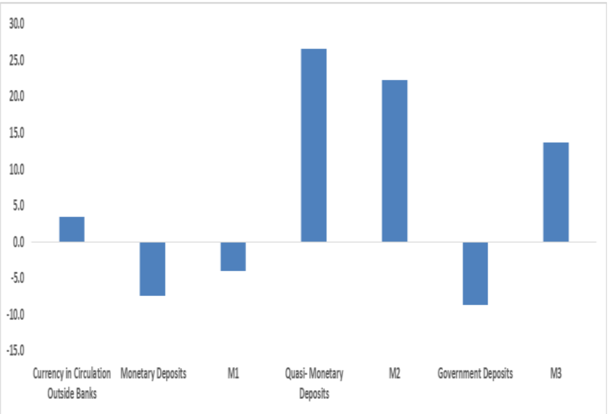
4.1 Monetary Aggregates

During 2019 Q2, Money Supply M1 decreased by 0.8% (AED 4.1 billion) to reach AED 507.9 billion, due to the fall in Monetary Deposits by 1.7% (AED 7.5 billion) to reach AED 430.6 billion.

Meanwhile, money supply M2 increased by 1.7% (AED 22.3 billion) to reach AED 1,351.0 billion, due to the increase in Quasi-Monetary deposits by AED 26.5 billion, reaching AED 843.1 billion. M3 increased by 0.8% (AED 13.7 billion) to reach AED 1,645.4 billion. The lower increase compared to M2 is due to the fall in Government Deposits at commercial banks and at CBUAE by AED 8.7 billion to reach AED 294.4 billion.

Figure 4.1. Change in Monetary Aggregates in 2019 Q2

In billions of AED



Source: CBUAE

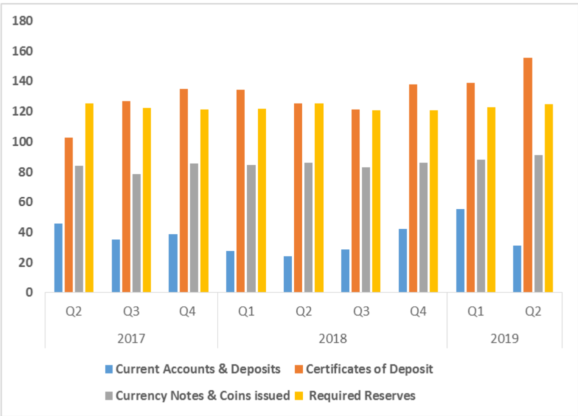
4.2 Central Bank Balance Sheet

The balance sheet of the CBUAE increased slightly by 0.2% in 2019 Q2 to reach AED 433.5 billion at the end of June. Assets were mainly allocated as follows: AED 204.3 billion in Cash and Bank Balances, AED 138 billion Deposits and other Advances Abroad, and AED 72 billion investments in government and foreign securities.

On the liabilities side of the balance sheet of the CBUAE, there was an increase in: (1) Required Reserves by AED 1.7 billion, (2) Certificates of Deposits (CDs) issued by CBUAE and purchased by banks by AED 16.6 billion, (3) Currency Issued by AED 3 billion, and (4) Other Liabilities by AED 4.1 billion.

Figure 4.2. Central Bank Liabilities

In billions of AED



Source: CBUAE

Table 4.1. Central Bank Balance Sheet

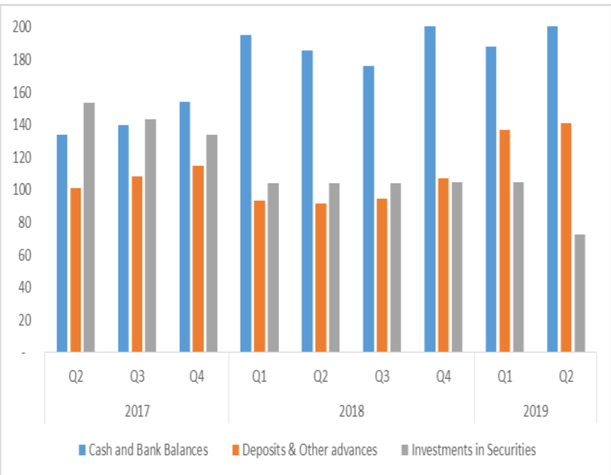
In billions of AED

	2018			2019	
	Q2	Q3	Q4	Q1	Q2
Total Assets,	**386.1**	**380.9**	**417.7**	**432.6**	**433.5**
Cash and Bank Balances	185.6	176.0	200.9	187.8	204.3
Deposits	88.5	91.4	106.8	133.5	138.0
Foreign Securities	55.2	55.2	55.2	55.3	25.9
Securities-Dubai Government/MoF	49.0	49.0	49.0	49.0	46.1
Other Assets	7.8	9.3	5.8	7.0	19.2
Total Liabilities,	**386.1**	**380.9**	**417.7**	**432.6**	**433.5**
Required Reserves	125.1	120.9	120.6	123.1	124.8
Current Accounts & Deposits	24.3	28.8	42.2	55.5	31.1
Of which: Government Deposits	4.8	4.7	5.5	31.7	4.7
Certificates of Deposit	125.2	121.4	138.2	139.2	155.8
Currency Notes & Coins issued	86.1	83.2	85.8	88.3	91.3
Total Capital & Reserves	22.0	21.9	23.3	23.3	23.4
Other Liabilities	3.4	4.7	7.6	3.2	7.1

Source: CBUAE

Figure 4.3. Central Bank Assets

In billions of AED



Source: CBUAE

4.3 Central Bank Foreign Assets

As shown in Table 4.2, the balance of foreign assets decreased from AED 377.1 billion at end of 2019 Q1 to AED 364.3 billion at the end of 2019 Q2. Foreign assets were allocated as follows: AED 25.9 billion foreign securities, and AED 323.5 billion are in Current Account Balances & Deposits at Banks Abroad.

Table 4.2. Central Bank's Foreign Assets

In billions of AED

	2018			2019	
	Q2	**Q3**	**Q4**	**Q1**	**Q2**
Total Foreign Assets*	**331.1**	**327.3**	**362.6**	**377.1**	**364.3**
Foreign Securities	**55.2**	**55.2**	**55.2**	**55.3**	**25.9**
-USD Treasury Notes	50.7	50.7	50.7	50.7	17.7
-IDB Sukuk	4.6	4.6	4.6	4.6	4.6
- Euro Commercial Papers	--	--	--	--	3.6
Current Account Balances & Deposit with Banks Abroad	**260.5**	**255.1**	**294.1**	**307.6**	**323.5**
-Current & Call Accounts	172.0	163.6	187.2	174.1	185.5
-Deposits	77.1	81.3	93.3	117.0	118.4
-Tri-Party Deposits	11.4	10.1	13.6	16.5	19.6
Other Foreign Assets	**15.4**	**17.0**	**13.3**	**14.2**	**14.9**

Source: CBUAE, end of quarter data
* Excluding IMF Reserve Position and SDR Holdings

4.4. International Reserves Position

The credibility of the fixed peg arrangement requires the Central Bank to hold sufficient foreign currency reserves. To this end, Article 63 of Decretal Federal Law No. 14 of 2018 regarding the Central Bank and Organization of Financial Institutions and Activities, states that the market value of the balance of Foreign Reserves "*shall not, at any time, be less than solvency seventy percent (70%) of the value of the monetary base*." Article 46 of the said Law defines Reserves of Foreign Assets as follows:

(1) Gold bullions, gold coins and other precious metals.

(2) Currency notes and coins, call money, and placements in foreign countries.

(3) *Securities issued or secured by governments of foreign countries and related entities, or by international monetary and financial institutions.*

(4) *Derivatives and other financial instruments required for the management*

of Central Bank's exposure to interest rates, currencies, credit, gold, and other precious metals.

(5) *Any other financial assets the Central Bank deems appropriate for investment as foreign assets, subject to approval of the Board of Directors.*

Table 4.3 reports the International Reserve Position of the Central Bank, which decreased from AED 379.9 billion at end of 2019 Q1 to AED 367.4 billion at 2019 Q2. As a ratio of the monetary base, the International Reserve Position decreased, during this period, from 101.9% to 92.5%, but the ratio remained higher than the above-indicated minimum cover ratio of 70%, required by Decretal Federal Law No. 14 of 2018.

Table 4.3. International Reserves

In billions of Dirhams

	2018			2019	
	Q2	Q3	Q4	Q1	Q2
1. **International Reserve Position**	**333.6**	**329.8**	**365.4**	**379.9**	**367.4**
− Foreign Assets	**331.1**	**327.3**	**362.6**	**377.1**	**364.3**
− IMF Reserves Position + SDR Holdings	2.6	2.5	2.9	2.9	3.1
2. Monetary Base	**353.9**	**347.7**	**379.7**	**372.9**	**397.1**
− Currency Issued	86.1	83.2	85.8	88.3	91.3
− Required Reserves	125.1	120.9	120.6	123.1	124.8
− Banks & OFCs Current Accounts at CBUAE	17.5	22.2	35.1	22.3	25.2
− Certificates of Deposit	125.2	121.4	138.2	139.2	155.8
Ratio (1/2)	**94.3%**	**94.9%**	**96.2%**	**101.9%**	**92.5%**

Source: CBUAE

4.5 Developments in Banks' Liquidity at the CBUAE

Banks' liquid assets at the CBUAE are composed mainly of Required Reserves, Current Accounts and Deposits, and CDs, which decreased from AED 317.8 billion at the end of 2019 Q1 to AED 311.7 billion at the end of 2019 Q2. Nonetheless, the decrease is mainly due to the deposit of the Federal Tax Authorities at banks which boosted the current account at the end of Q1 (see Table 4.1).

4.6 Interest Rates

The fixed peg of the exchange rate of the AED to the USD means that the CBUAE has to adjust its policy rate to changes in the policy rate in the U.S. Therefore, the CBUAE interest rate policy which is implemented currently through its Certificates of Deposits program, more specifically through the 1 Week CDs, did not change during Q2 of 2019.

4.6.a Short-term market interest rates

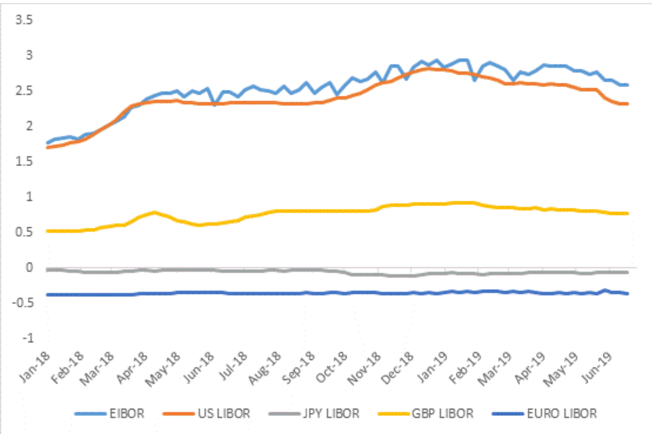
During 2019 Q2, EIBOR 3-month has been mostly declining from 2.87% in early April to 2.79% in early May and to 2.66% in early June, ending Q2 at 2.58%, averaging 2.75% in Q2 compared to 2.81% in Q1 (Figure 4.4.a.). Moreover, this period witnessed lower spread between EIBOR 6-month and EIBOR 3-month from 27.7 bps at end of March to 14.5 bps at end of June. Meanwhile, the spread between EIBOR 12-month and LIBOR 12-month narrowed from 46 bps to 35.4 bps. Rates in the longer EIBOR and LIBOR tenors have dipped reflecting wide expectations about further rate declines in the interest rates in line with the prospects of looser monetary policy in the US over the coming months.

The decrease in EIBOR is good news for individual borrowers and businesses in the UAE, as it decreases the borrowing costs, thereby supporting non-energy growth and competitiveness indicators in the UAE going forward. In particular, it is a relief for UAE citizens participating in the National Loan Scheme, the CBUAE initiative undertaken in collaboration with the UAE Banks Federation, aimed at reducing the debt burden of borrowers, as EIBOR 3-month serves as a basis for the interest rate cap applied to rescheduled payments in this regard.

USD 3-month LIBOR witnessed a sustained fall during this period on the back of the Fed's widely expected policy reversal of its previous tightening cycle, which started with the first interest rate increase, in December 2015. LIBOR on USD 3-month declined progressively from 2.60% at the end of March to 2.58% at the end of April to 2.52% at the end of May, and to 2.31% at the end of June, averaging 2.49% in Q2 compared to 2.68% in Q1 of 2019.

Meanwhile, the 3-month LIBOR on GBP decreased, albeit at a slower pace compared to USD, from 0.8% in early April to about 0.76% by end of June, and the 3-month LIBOR rates on the Euro and the Japanese Yen remained in negative territory, consistent with the direction of monetary policy adopted by the respective central banks.

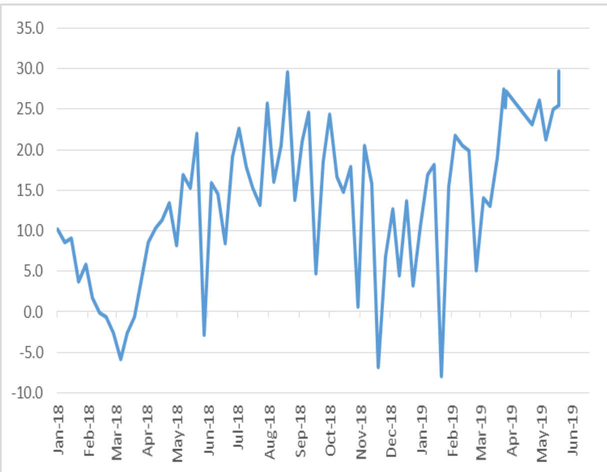
Figure 4.4.a. LIBOR Rates (3-Month) for the AED and Key Other Currencies (%)



Source: Bloomberg

As regards to the Spread EIBOR vis-à-vis the USD LIBOR (3-month), it remained on average flat reflecting confidence in the UAE economy, while increasing slightly towards the end of the quarter (Figure 4.4.b.).

Figure 4.4.b. AED Spread vs. USD LIBOR (3 month, bps)

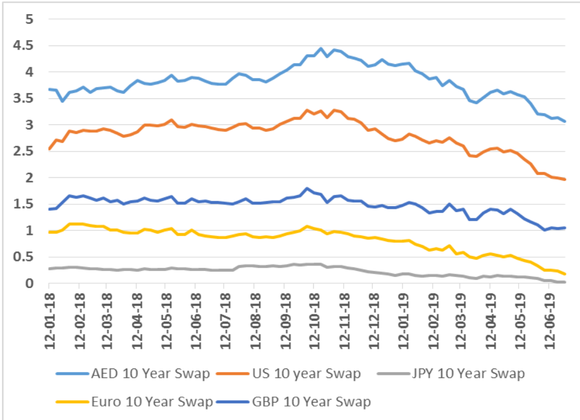


Source: Bloomberg

4.6.b. Long-term swap rates

By definition, interest rate swaps correspond to an exchange of a fixed rate for a floating payment that is linked to an interest rate, most often the relevant LIBOR. As shown in Figure 4.5.a, the 10-year swap rates mostly declined in 2019 Q2 in line with the decline in LIBOR markets.

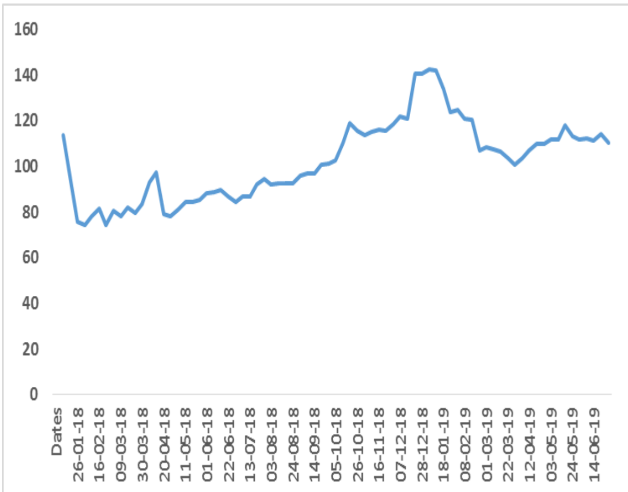
Figure 4.5.a. 10-Year Swap Rates (%)



Source: Bloomberg

The Spread of the 10-year swap rate for the AED vs. the swap rate for the USD reversed from a declining trend in the first quarter of 2019 to an upward trend in Q2, increasing from 104 bps in early April to 112 bps in early May, and fluctuating around this level during the month of June.

Figure 4.5.b. Spread 10-year AED Swap vs. USD Swap (bps)



Source: Bloomberg

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