Quarterly Economic Review

Fourth 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*
GCC	*Gulf Cooperation Council*
GDP	*Gross Domestic Product*
GREs	*Government Related Entities*
IMF	*International Monetary Fund*
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*
NEER	*Nominal Effective Exchange Rate*
OPEC	*Organization of Petroleum Exporting Countries*
PMI	*Purchasing Managers' Index*
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*

Executive Summary

In its January update of the *World Economic Outlook, the* IMF revised downward the *g*lobal growth forecasts to 2.9% for 2019 and to 3.3% for 2020 owing to a lower economic performance in emerging economies. Social unrests and geopolitical tensions, including those related to trade tariffs and the decline in international trade, have continued to weigh on the private sector confidence. Growth is estimated to have declined in 2019 to 2.3% in the U.S., to 1.2% in the Eurozone, and to 3.7% in emerging and developing economies. In accordance with the slowing global economy, expectations are that inflation would remain muted across advanced countries.

Real growth in the UAE exhibited Y-o-Y growth of 1.3% in 2019 Q4, moderating compared to the previous quarter, on the back of a moderating hydrocarbon growth. However, the non-hydrocarbon GDP growth accelerated in 2019 Q4. The pickup in non-oil activities is also reflected in improved labor market indicators. Employment in the private sector picked up further momentum with Y-o-Y growth of 2.0% in the fourth quarter, the highest growth in the last seven quarters, while 38,765 net new jobs were created in 2019 Q4.

Meanwhile, Y-o-Y CPI inflation remained negative for the third quarter recording –1.6% due to negative inflation for both tradable (–1.7%) and non-tradable (–1.5%) goods and services reflecting movements of rent prices and fuel prices in the domestic market, the continued fading effect of VAT, as well as some nominal exchange rate appreciation.

In the last quarter of 2019, deposits in the banking system increased by 6.5% Y-o-Y, mainly driven by the increase in GREs and private sector deposits. Credit growth accelerated, registering 6.2% annual growth, higher than in 2019 Q2 and Q3. Healthy Financial Soundness Indicators (FSIs) continue to reflect the overall sound and stable banking system.

The Central Bank balance sheet exhibited an increase in 2019 Q4, thanks to an increase in foreign assets. Meanwhile, interest rates in the UAE interbank market edged lower, in line with the October Fed's policy rate cut, while the spread EIBOR versus USD LIBOR decreased. The spread of the 10-year swap rate of the AED relative to the USD decreased also.

Chapter 1. International Economic Developments

The January update of the IMF World Economic Outlook reported a further downward revision of growth for 2019, notwithstanding the receding of trade tensions. Meanwhile, oil and other commodity prices remained firm despite slower growth in global demand. Yields on 10-year government bonds slightly increased following the signing of the Phase I US-China trade deal.

1.1 Economic Growth

Global growth was revised downward for 2019, the slowest growth since the global financial crisis (see Table 1.1.a), according to the International Monetary Fund's January update of the *World Economic Outlook (WEO)*. Growth rates are revised downward by 0.1 percentage points in 2019 and 2020 and by 0.2 percentage points in 2021 compared to October's expectations. The downward revision is despite the declining likelihood of no-deal Brexit and the announcement of a US-China Phase I trade deal. Further, the global growth revision is due to the large downward adjustment of growth estimate for India—from 6.0% to 4.8% in 2019—owing to sharp downward revisions of domestic demand amid a decline in credit growth.

Global growth is projected to pickup in 2020 to a downgraded 3.3% (compared to a projection of 3.4% in October). The lower growth is mostly due to the downward revisions for the United States, the Euro Area and the United Kingdom as well as downgrades for other advanced countries in Asia. Further, the synchronized global monetary easing, as evident by the number of central banks that have eased monetary conditions in Q4—three in G10 group countries and 29 in emerging markets and developing economies—is expected to boost economic activities starting from 2020. However, uncertainties remain tilted to the downside as growth would depend on the performance of stressed economies such as Argentina and other emerging economies—e.g. Brazil, India and Mexico.

In the US, growth is expected to moderate from 2.3% in 2019 to 2.0% in 2020 and decline to 1.7% in 2021, as a consequence of the fading fiscal stimulus attributed to earlier tax cuts and increased fiscal deficits more recently. On a quarterly basis, Y-o-Y estimated growth slightly improved in Q4 to 2.2% from 2.1% in Q3 (Table 1.1.b) amid a moderation of real personal consumption expenditures compared to the first half of the year. On the supply side, the manufacturing sector sentiment showed positive signals with a moderate improvement in the ISM Manufacturing PMI, which increased to 52.1 at the end of fourth quarter (Figure 1.1.a).

In the Eurozone, growth is projected to pick up from 1.2% in 2019 to 1.3% in 2020, according to the IMF *WEO* update. Export oriented countries, such as Germany, are expected to benefit from the global demand recovery and the fading trade tensions. Private sector consumption showed some resilience in the second half of 2019. The Y-o-Y quarterly growth of the Eurozone is estimated at 1.1%, very close to the previous quarter. Meanwhile, the IHS Market Eurozone Manufacturing PMI pointed to 46.4 at the end of the quarter, reflecting a continuous contractionary sentiment in the manufacturing activities.

In the UK, growth is expected to stabilize at 1.4% in 2020 and rise to 1.5% in 2021. Meanwhile, the Market/CIPS Manufacturing PMI showed an improvement over the second half of the year, while remaining in the contraction area, registering 48.7 at the end of the fourth quarter, following half a year of slowdown in manufacturing.

In Japan, growth is projected to moderate from an estimated 1.0% in 2019 to 0.7% in 2020 as the effects of the end-of-year fiscal stimulus measures are expected to moderate.

Growth estimates for Emerging Markets and Developing Economies (EMDEs) are expected to increase from 3.7% in 2019 to 4.4% in 2020, and 4.6% in 2021, as reported in the January *WEO* update. Growth is mainly resulting from the EMDEs in Asia with real growth inching up from 5.6% in 2019 to 5.8% in 2020.

The slowdown in the two large emerging economies, China and India, significantly contributed to the global growth downgrade, even though these economies continue to register relatively high growth rates of 6.1% in China and

4.8% in India in 2019, and are projected to decline to 6.0% next year for China and to pick up at 5.8% for India. The outlook for China's economy could be further impacted by the uncertainty surrounding the recent break out of the coronavirus and its implications for economic activity.

Table. 1.1.a Real GDP Growth in Selected Country Groups (%)

	2018	2019	2020*	2021**
World Output	3.6	2.9	3.3	3.4
USA	2.9	2.3	2.0	1.7
Advanced Economies	2.2	1.7	1.6	1.6
Eurozone	1.9	1.2	1.3	1.4
France	1.7	1.3	1.3	1.3
Germany	1.5	0.8	1.1	1.4
United Kingdom	1.3	1.3	1.4	1.5
Japan	0.3	1.0	0.7	0.5
EMDEs[1]	4.5	3.7	4.4	4.6
China	6.6	6.1	6.0	5.8
India	6.8	4.8	5.8	6.5
MECA[2]	1.9	0.8	2.8	3.2

Source: IMF, *WEO*, January 2020
*Projected
[1] Emerging Market and Developing Economies
[2] Middle East and Central Asia

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

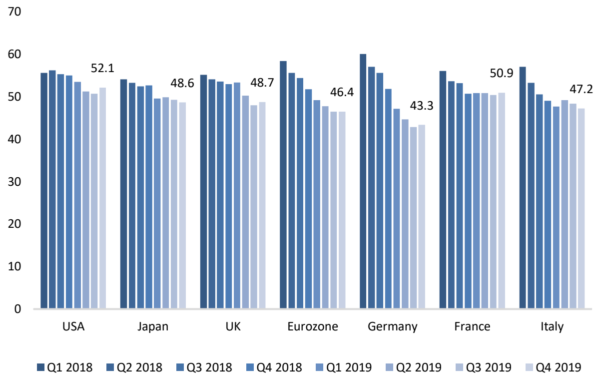
	2018	2019			
		Q1	Q2	Q3	Q4
USA	2.9	2.7	2.3	2.1	2.2
Eurozone	1.9	1.4	1.2	1.2	1.1
France	1.7	1.3	1.4	1.4	1.2
Germany	1.5	1.0	0.3	0.5	0.4
United Kingdom	1.3	2.0	1.2	1.1	0.9
China	6.6	6.4	6.2	6.1	6.0
Japan	0.3	0.8	0.8	1.9	0.5

Source: Bloomberg, Federal Reserve Bank of ST. LOUIS

In the Middle East and Central Asia (MECA), the economic growth forecast was revised downward from 1.9% in 2018 to 0.8% in 2019 and is projected at 2.8% in 2020. The 2019 lower growth is due to the OPEC+ decision in December to sustain oil production cuts as well as rising geopolitical tensions.

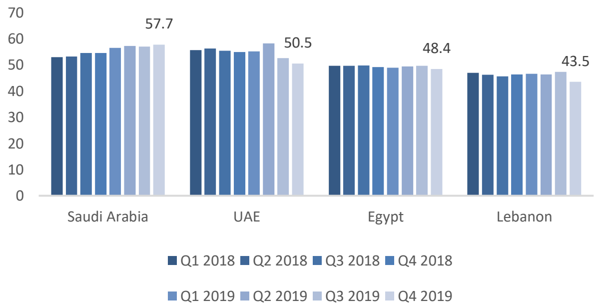
The global economic recovery in 2020 will contribute to boosting oil prices and expanding the fiscal space in oil-producing countries in addition to improving export prospects for export-oriented economies.

Figure 1.1.a PMI Levels for Selected Countries



Source: Bloomberg

Figure 1.1.b PMI levels for Selected MENA Countries



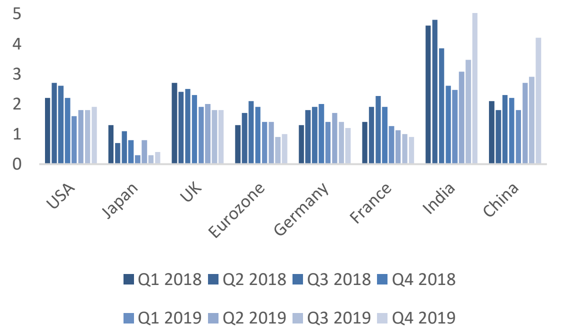
Source: Bloomberg

1.2 Inflation

Since mid-2018, inflation has slid further below target across advanced economies and below historical averages in many emerging and developing economies. Consumer price inflation is expected to average 1.4% this year in advanced countries compared to 2.0% in 2018.

Y-o-Y inflation in the US averaged 2.3% in the fourth quarter, the highest rate since October 2018, boosted by a sharp rebound in energy costs. In the Eurozone, Y-o-Y inflation averaged 1.3% in December 2019, the highest level since June and compared to November's 1.0% inflation rate. In addition, inflation in emerging markets and developing economies averaged 4.7% in 2019, lower than the average of 4.8% during 2018 (Table 1.2.a).

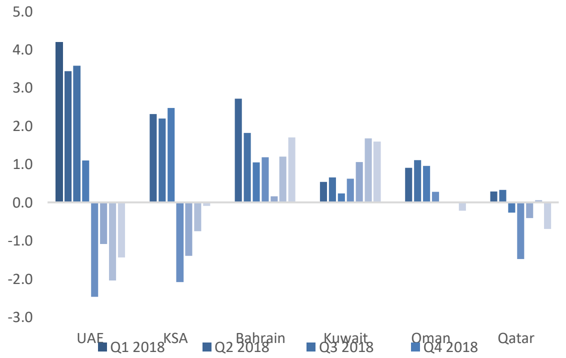
Figure 1.2.a Y-o-Y Consumer Price Inflation for Selected Advanced and Emerging Economies (%)



Source: Bloomberg

In the GCC, the average Y-o-Y CPI inflation in 2019 was around -0.1%, in Q4. Underlying the average GCC wide negative inflation rate are differences across countries. Prices declined due to deflationary pressures in Saudi Arabia, Qatar, Oman, and the UAE attributed to the fading effect of the VAT and/or the slowdown in economic activity. Whereas, prices in Bahrain, and Kuwait increased at moderate rates (see Figure 1.2.b).

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



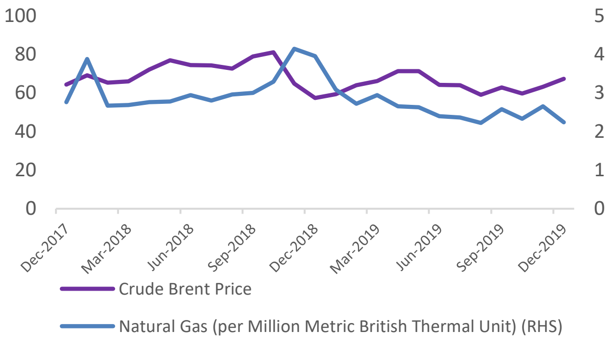
Source: Bloomberg

1.3 Commodities and Precious Metals

Commodities and precious metals witnessed mixed changes during the fourth quarter in line with international economic and geopolitical developments. Oil markets, in particular, showed an increase during Q4 2019 at an average of 63.4 dollars per barrel, compared to 61.9 dollars per barrel during Q3. This was mainly attributed to the rising geopolitical tensions in the Middle East region where more than two thirds of the global oil supply are extracted. According to the OPEC Reference Basket (ORB), the price per barrel rose by 0.75$/b in the fourth quarter, in contrast with the decline in the third quarter (-5.71$/b). In addition, the estimate for Non-OPEC supply growth for 2019 remains unchanged from the last month of Q3 at 1.82mb/d, and forecasted at 2.17mb/d for 2020. Regarding OPEC forecasted production, member countries announced additional cuts of 500,000 barrels a day for the first quarter of 2020. Moreover, global oil demand was estimated to be at 0.98mb/d in 2019, unchanged from the previous report.

Meanwhile, the natural gas future price slightly increased from 2.39$ in Q3 to $2.41 in Q4 per Metric Million British Thermal Unit (MMBtu).

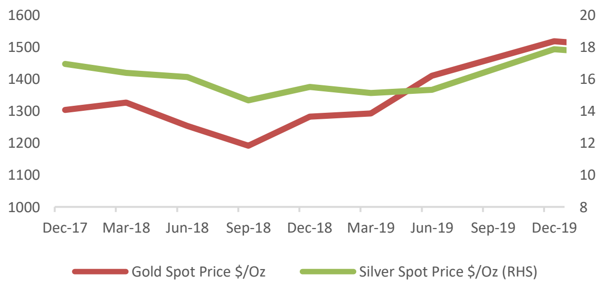
Figure 1.3.a Crude Brent and Natural Gas Prices (in USD)



Source: US Energy Information Administration (EIA)

Rising uncertainty and expectations of depreciation of the US dollar exchange rate resulted in an increase in investors' flight to safety. Gold witnessed an increase in price from an average of $1472.49 per ounce during the third quarter to $1517.27 in the fourth quarter (Figure 1.3.b), reflecting investors' flight to safety, at the backdrop of rising geopolitical tension, Brexit negotiations, and uncertainty surrounding the global economic and trade outlook.

Figure 1.3.b Selected Commodity Prices (in USD)

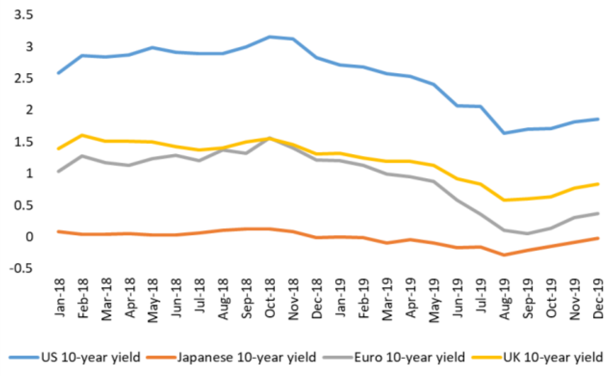


Source: Bloomberg

1.4 Government Bond yields

Government bond yields worldwide started to increase in Q4 2019 (Figure 1.4), as investors increased their appetite to invest in more risky assets, supported by the easing cycle by the Federal Reserve Board and the easing of trade tensions. The selloff in the bonds market culminated in higher US Treasury 10-year yields to 1.9% at the end of 2019 Q4 from 1.7% at the end of the previous quarter, as the sell-off accelerated ahead of a planned signing of the Phase I US-China trade deal. Meanwhile, the UK 10-year bond yield increased from 0.6% to 0.8% as investors' optimism increased in the wake of the UK election results in December. In the Eurozone, the yield on the 10-year index Euro Generic Government bond index (GECU10YR Index) was negative in Q3 at -0.5% and moderately increased to -0.25% in Q4. In Japan, the 10-year Japanese government bonds moved from -0.217% in Q3 to -0.007% in Q4, reflecting lower demand.

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



Source: Bloomberg

In the GCC, the average yield on Gulf government dollar debt amounted to 4.5% at end of December according to JPMorgan Chase & Co. index. Bond sales in the GCC increased by 28% during the fourth quarter of 2019, supported by the appetite of international investors for comparatively higher yields in the GCC.

Chapter 2: Domestic Economic Developments

According to the quarterly CBUAE GDP growth estimate of non-hydrocarbon activity for the UAE, the pace of economic growth picked up momentum in the fourth quarter of 2019. Meanwhile, the CPI index continued to decline, albeit at a lower rate compared to the previous quarter, reflecting the movements of rent as well as fuel prices in the domestic market. Employment growth picked up momentum in the fourth quarter of 2019. The AED appreciated in nominal terms, while depreciating in real terms.

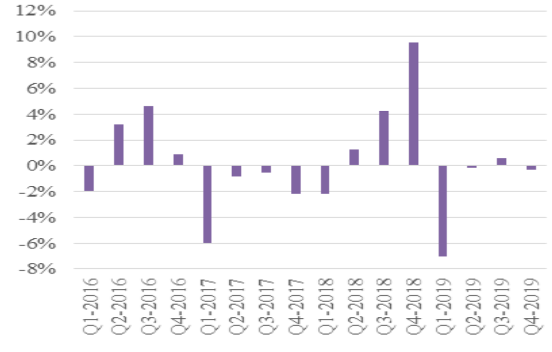
2.1 Economic Activity and Growth

During the fourth quarter of 2019, oil prices witnessed a noticeable fluctuation following rising tensions in the Middle East as well as downward revision of the global growth (0.1% for 2019) reflecting negative shocks on a few emerging market economies. The oil prices increased by 2.4% Q-o-Q (see Chapter 1).

OPEC+ Russia decided at the meeting in Vienna in December 2019 to accelerate plans for oil production cuts in 2020, agreeing for an additional 500 thousand barrels/day (tbd) cut, while the non-OPEC oil producers are projected to increase their output by 2,170 tbd, implying an overall rise in oil supply in 2020 (see Chapter 1).

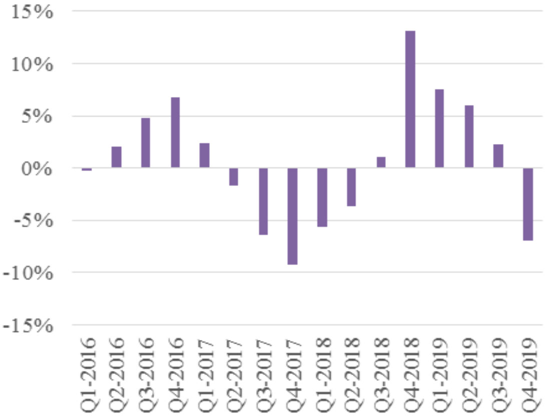
In the UAE, oil production exhibited a slight decrease during the fourth quarter compared to the previous quarter Q-o-Q by an average of 0.3% to 3,040 tbd (see Figure 2.1.a). Production decreased also on a yearly basis by an average of 6.9%, in line with the production cuts between OPEC members and its allies (see figure 2.1.b).

Figure 2.1.a UAE Oil Production Growth (%, Q-o-Q)



Source: OPEC

Figure 2.1.b UAE Oil Production Growth (%, Y-o-Y)



Source: OPEC

Estimated overall real growth in the UAE by CBUAE[1] exhibited a Y-o-Y growth of 1.3% in 2019 Q4 (see Table 2.1).

Moreover, the non-hydrocarbon real GDP is estimated to have picked up momentum at a Y-o-Y growth rate of 2.4% compared to an estimated growth of 1.2% in the third quarter (see Table 2.1).

Economic sentiment is estimated to have improved in the fourth quarter of the year benefiting from: (i) an increase Y-o-Y in government spending by 3.3% in the third quarter of 2019, compared to a decline by 1.4% in the previous quarter (see Section 2.5) and (ii) Q-o-Q increase by 2.4% in oil prices, boosting confidence (see Chapter 1). In parallel, robust performances are registered in the labor and credit markets. In particular, employment in the private sector increased by 2% Y-o-Y, compared to a 1.1% rise in the previous quarter (see Section 2.3). Moreover, 38,765 net new work permits

[1] CBUAE forecasts the non-hydrocarbon GDP using a model where the quarterly non- hydrocarbon GDP Y-o-Y growth is explained by the lagged Y-o-Y growth of fiscal spending, the quarterly credit, UAE real estate sales prices, PMI and employment. The hydrocarbon GDP growth is estimated based on hydrocarbon output and considering other value adding activities in the sector. The contribution of the non- hydrocarbon GDP is approximately 70% of the total GDP.

have been issued to expat workers in 2019 Q4, compared to 13,085 net new permits in the third quarter (see Box 3). In addition, total credit expanded by 6.2%, compared to a growth rate of 5% in 2019 Q3 (see Chapter 3). Further, higher investment ahead of the Expo 2020 and increased prospects of economic growth recovery are supported by the monetary policy easing stance in the US.

The overall real GDP is estimated to have grown by 2.9% in 2019 driven by the growth in the non-hydrocarbon sector—estimated at 1.1% and by the hydrocarbon sector for which growth is estimated at 7.6% in 2019. The hydrocarbon sector exhibited significant growth, mainly due to the two-digit growth[2] in condensates and natural gas production.

Table 2.1 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%	4.0%	2.9%	1.3%	2.9%
Non-hydrocarbon GDP	1.3%	0.3%	0.3%	1.2%	2.4%	1.1%
Hydrocarbon GDP	2.8%	12.4%	12.5%	6.8%	-1.4%	7.6%

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

Box 1 describes the recent developments in the real estate market in the UAE.

[2] With an estimated average contribution of more than 5 percentage points to the hydrocarbon sector growth.

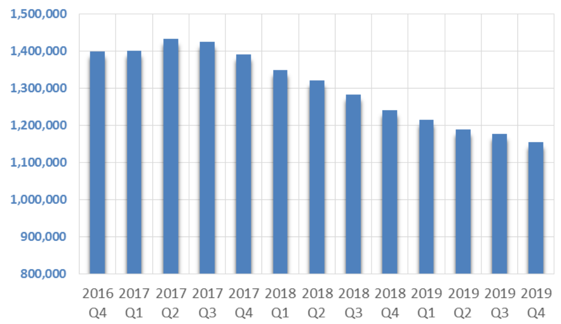
Box 1: Recent Developments in the UAE Residential Real Estate Market

According to recent data, the UAE average residential house prices continued to decline during the last quarter of 2019 in both Dubai and Abu Dhabi, in line with the long-term trend. The drop in average house prices on an annual basis has moderated since the previous quarter in Dubai. Similarly, Abu Dhabi experienced a moderation in the rate of price deceleration on an annual basis since the previous quarter. Average rents continued to decrease Y-o-Y, however, at a higher pace in both Emirates, compared to the previous quarter. The rental yield, which measures the rate of income return over the cost associated with an investment in property dropped in Dubai, while stabilizing in Abu Dhabi.

Dubai Residential Market

According to recent data from Dubai Land Department (DLD), in the last quarter of 2019, the real estate property prices decreased by 7.0% Y-o-Y compared to 8.2% drop in the previous quarter (Figure 1). Q-o-Q, the residential sales prices declined by 1.9% in 2019 Q4, compared to a drop by 1.0% in the third quarter.

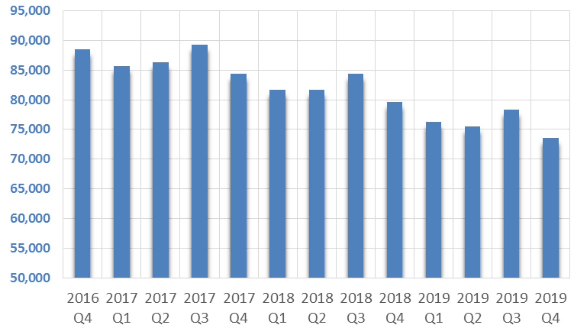
Figure 1. Average Dubai Residential Unit Sale Prices (AED)



Source: DLD

The Dubai market continues to exhibit decline in rent (Figure 2), due mainly to excess supply. The average rent price declined by an annual rate of 7.6% in the fourth quarter of 2019, compared to 7.1% the previous quarter. On a quarterly basis, the average rent value also declined by 6.2% in 2019 Q4, compared to a 3.8% increase in the previous quarter.

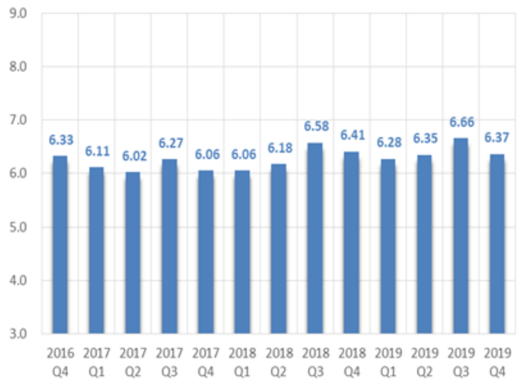
Figure 2. Average Dubai Residential Rent (AED)



Source: DLD

The implied rental yield fell in Dubai from 6.7% in 2019 Q3 to 6.4% in 2019 Q4 (Figure 3). This trend was the result of relatively lower drop in sale prices compared to rent.

Figure 3. Implied Dubai Rental Yield (%)



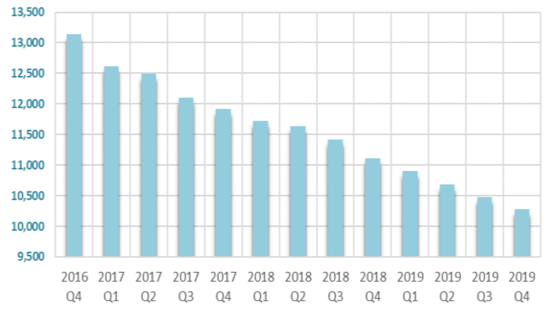
Source: DLD and CBUAE

Abu Dhabi Residential Market

For Abu Dhabi, the REIDIN[3] Price Index exhibited a continued fall in residential property price at a rate of 7.5% Y-o-Y in the 2019 Q4, moderating compared to the drop of 8.2% in the previous quarter (Figure 4). On a quarterly basis prices declined by 2%.

[3] REIDIN Residential Price Index in Abu Dhabi covers 7 areas and 5 districts.

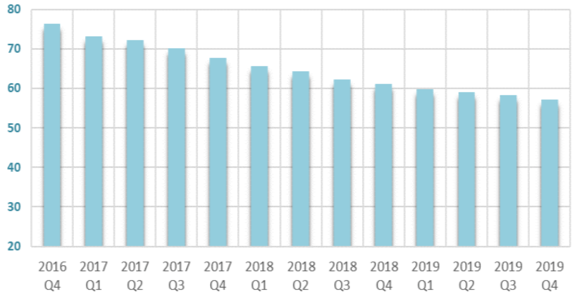
Figure 4. Abu Dhabi Residential Prices (AED/SQM)



Source: REIDIN

As for the rental market, the rent values per square meter in Abu Dhabi continued to decline at an annual rate of 6.3% on average in the last quarter of 2019, compared to a reduction of 6.2% in the previous quarter. This trend is reflecting the impact of softer job market, which continues to weigh on demand in the housing market (Figure 5).

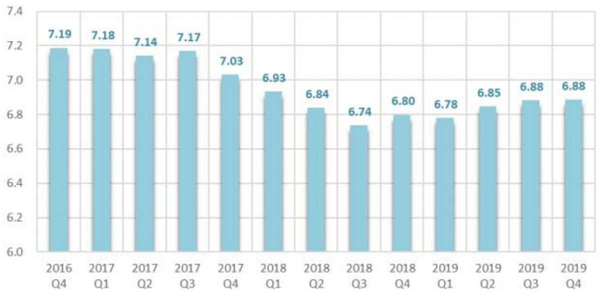
Figure 5. Abu Dhabi Residential Rent Prices (AED/SQM)



Source: REIDIN

Concerning the rental yield, Abu Dhabi property market registered a yield of 6.9% for 2019 Q4, stabilizing at its value in the previous quarter (Figure 6).

Figure 6. Abu Dhabi Rental Yield (%)



Source: REIDIN

2.2 Consumer Price Index and Inflation

The decline in oil prices Y-o-Y by 6.5% during the fourth quarter of 2019 as well as the continued fall in rent prices have continued to weigh negatively on inflation in the UAE. However, the pickup in non-energy growth and employment have moderated the pace of deflation as CPI declined in 2019 Q4 Y-o-Y by 1.6% compared to a drop of 2.1% in the previous quarter (see Table 2.2.a and Figure 2.2).

Table 2.2.a UAE CPI Inflation by Spending Groups (%, Y-o-Y)

	Weight	Q3-19		Q4-19	
	%	Y-o-Y	Contribution	Y-o-Y	Contribution
Total Inflation	100	-2.1	-2.1	-1.6	-1.6
Food and soft drinks	14.3	-1.6	-0.2	-1.3	-0.2
Beverages and tobacco	0.3	0.6	0.0	2.5	0.0
Textiles, clothing and footwear	3.2	-6.0	-0.2	-6.8	-0.2
Housing	34.1	-4.7	-1.6	-4.4	-1.5
Furniture and household goods	5.6	0.1	0.0	1.0	0.1
Medical care	1.4	0.0	0.0	0.0	0.0
Transportation	14.6	-5.5	-0.4	-3.4	-0.5
Communications	5.4	0.3	0.0	-0.1	0.0
Recreation and culture	3.2	20.5	0.7	24.2	0.8
Education	7.7	0.8	0.1	0.7	0.1
Restaurants and hotels	4.0	-0.5	0.0	-1.1	0.0
Miscellaneous goods and services	6.3	0.2	0.0	0.9	0.1

Source: Federal Competitiveness and Statistics Authority (FCSA)

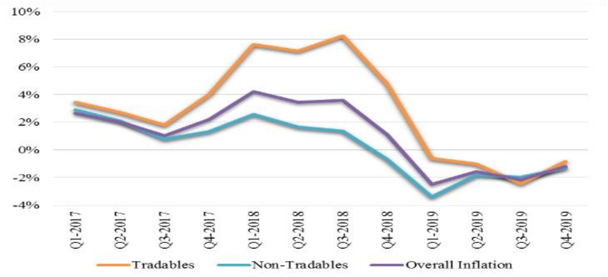
Table 2.2.b UAE CPI Inflation by Tradable and Non-Tradable (%, Y-o-Y)

	Weight	Q3-19		Q4-19	
	%	Y-o-Y	Contribution	Y-o-Y	Contribution
Total Inflation	100	-2.1	-2.1	-1.6	-1.6
Tradables[4]	**34**	**-2.5**	**-0.8**	**-1.7**	**-0.6**
Non-Tradables[5]	**66**	**-2.0**	**-1.3**	**-1.5**	**-1.0**

Source: FCSA and CBUAE calculations

The decline in tradable prices (Table 2.2.b)—accounting for 34% of the CPI consumption basket—reached 1.7% on a Y-o-Y basis and was mainly attributed to the decline in prices of food and soft drinks; transportation; and textile, clothing and footwear. The prices of textiles, clothing and footwear as well as in the group of transportation decreased Y-o-Y by 6.8% and 3.4%, respectively. However, beverages and tobacco, furniture and household goods and miscellaneous experienced an increase Y-o-Y, although was not significant enough to overturn the deflationary effect.

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



Source: Federal Competitiveness and Statistics Authority (FCSA)

Non-tradable prices—accounting for 66% of the CPI consumption basket—recorded a persistent decline since end-2018, as a result of the fall in the housing group prices, which declined in 2019 Q4, Y-o-Y by 4.4% compared to a sharper decline of 4.7% in the previous quarter.

The main contributor of the housing price decline was the rent of residential and retail units, which decreased Y-o-Y by 6.3% and 7.6% in Abu Dhabi and Dubai during 2019 Q4 compared to a decline of 6.2% and 7.1% in the previous quarter, respectively.

Moreover, prices of the groups of transportation and restaurants and hotels declined by 3.4% and 1.1%, respectively, in 2019 Q4, compared to a decline of 5.5% for transportation and of 0.5% for restaurants and hotels in the previous quarter.

Inflation, excluding housing and transportation, increased in the fourth quarter of 2019 Y-o-Y by 0.8% compared to 0.5% in the previous quarter, reflecting improvement in domestic demand.

Box 2 below discusses and compares inflation developments by Emirate.

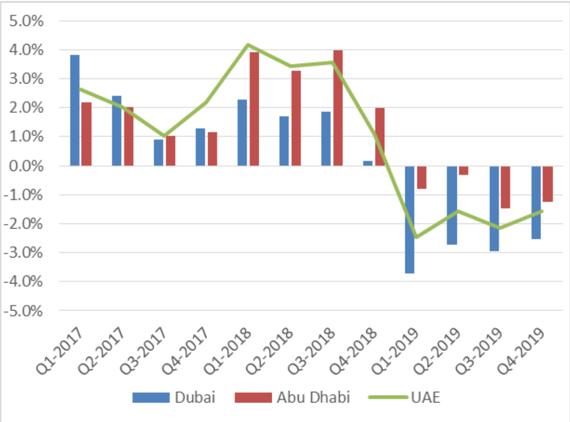
[4] As per CBUAE calculations includes the following categories of goods and services: food and soft drinks; beverages and tobacco; textiles, clothing and footwear; furniture and household goods; transportation; and miscellaneous goods and services.

[5] As per CBUAE calculations includes the following categories of goods and services: housing; medical care; transportation; communications; recreation and culture; education; restaurants and hotels; and miscellaneous goods and services.

Box 2: Inflation in the UAE: Comparison by Emirate

During the fourth quarter of 2019, deflation in the UAE reached -1.6%, on a Y-o-Y basis, compared to a decline in prices of 2.1% in the previous quarter. The continued decline in the rent prices as well, as the decline in domestic fuel prices, contributed to deflationary pressures, compared to the previous year.

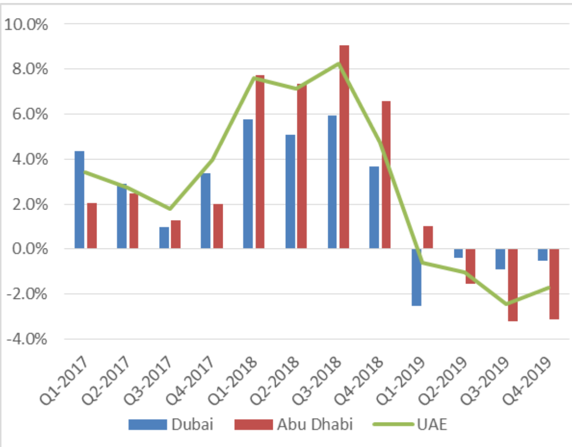
Figure 1. Quarterly Y-o-Y Headline Inflation in the UAE and the Emirates of Abu Dhabi and Dubai



Source: FCSA. SCAD and DSC

At the Emirate level, the CPI index registered Y-o-Y 1.2% and 2.5% decline in Abu Dhabi and Dubai, respectively, compared to a decline in prices of 1.5% and 3.0% 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

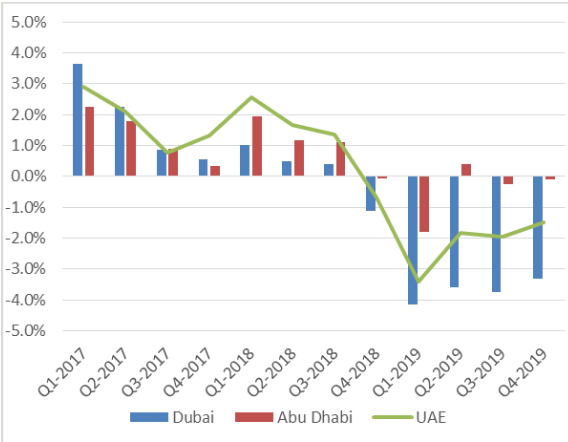


Source: FCSA. SCAD, DSC and CBUAE

The negative CPI inflation in 2019 Q4 resulted from the decline in the tradable and non-tradable prices Y-o-Y by 0.5% and 3.3%, respectively, in Dubai. On the other hand, the drop of tradable prices was by 3.1%, in the Emirate of Abu Dhabi, while non-tradables' prices fell by 0.1%.

The decline in the tradable prices in the UAE is the result of the negative tradable inflation in Abu Dhabi and Dubai (see Figure 2). The Emirate of Abu Dhabi witnessed larger price declines in the groups of food & beverages and clothing & footwear, as well as transportation, which declined by 2.7%, 12.4% and 2.7%, respectively, compared to an increase in food prices by 0.4% and clothing and footwear by 1.3% in the Emirate of Dubai.

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 levels in both emirates as it dropped by only 0.1% in Abu Dhabi, while falling in Dubai by 3.3%. Rents continued their downward trend in both emirates, declining by 6.3% and 7.6% 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, increasing Y-o-Y by 38.3%, while the same component in Dubai increased by 1.6% (see Figure 3).

One of the reasons for differences in inflation rates across Abu Dhabi and Dubai Emirates is 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. Moreover, employment growth varies across the two emirates, which weighed in on the demand for goods and services and hence inflation differential for tradables and non-tradables.

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

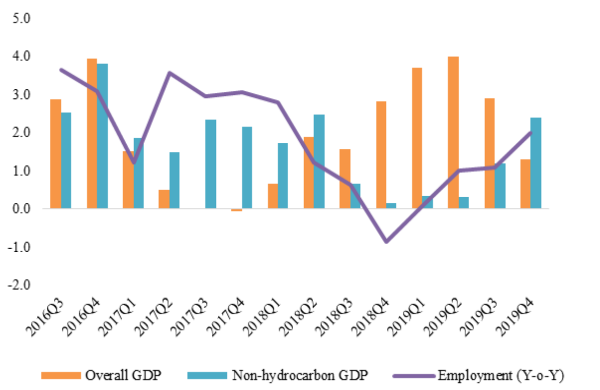
CPI Main Groups	UAE	Abu Dhabi	Dubai
Food and Beverages	14.3%	12.3%	13.1%
Tobacco	0.3%	0.2%	0.4%
Textiles, Clothing and Footwear	3.2%	5.4%	2.0%
Housing, Water, Electricity, Gas	34.1%	31.2%	43.6%
Furniture and Household Goods	5.6%	7.2%	3.8%
Medical Care	1.4%	1.6%	0.8%
Transportation	14.6%	14.7%	10.6%
Communications	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).[6] 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 2019 Q4 were reflected on the labor market as employment in the private sector increased by 2.0% Y-o-Y in 2019 Q4 compared to an increase of 1.1% in the previous quarter (Figure 2.3.a). All sectors marked an increase on an annual basis, except for construction.

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



Source: MOHRE, FCSA for GDP growth for 2016 Q3–2019 Q1 and CBUAE estimate for GDP growth for 2019 Q2-Q4

The real estate and business services sector and other sectors increased Y-o-Y in 2019 Q4 by 6.3% and 10.5% compared to a similar rise of 6% and 9.3% in the previous quarter, respectively (Tables 2.3.a and 2.3.b). In addition, employment in the services sector—21.7% of total private sector employment—has shown recovery, growing by 0.8% Y-o-Y in 2019 Q4 compared to a decline by 1% and 1.1% during the third and the second quarters, respectively. Furthermore, employment in the manufacturing sector, which constitutes 9.2% of total employment in the private sector, increased by 1.3% Y-o-Y in 2019 Q4 compared to a zero growth in the previous quarter. In addition, the transport, storage and communication sector, which has the lowest share of private sector employment of 6.9%, grew by 0.9% Y-o-Y compared to a decline of 1.5% in 2019 Q3.

However, the construction sector—32.2% of total private sector employment—declined Y-o-Y by 2.4% in 2019 Q4 compared to the drop of 1.1% and 2.3% during the second and the third quarters, respectively.

Table2.3.a Employment Growth by Sector (%, Y-o-Y)

	2019 Q3			2019 Q4		
Sector	Share in Employment	Y-o-Y Growth	Contribution to Growth Y-o-Y	Share in Employment	Y-o-Y Growth	Contribution to Growth Y-o-Y
Construction	32.7%	-2.3%	-0.8%	32.2%	-2.4%	-0.8%
Services	21.6%	-1.0%	-0.2%	21.7%	0.8%	0.2%
Manufacturing	9.2%	0.0%	0.0%	9.2%	1.3%	0.1%
Real estate and Business services	12.7%	6.0%	0.8%	12.7%	6.3%	0.8%
Transport, Storage and Communication	6.9%	-1.5%	-0.1%	6.9%	0.9%	0.1%
Other sectors	16.9%	9.3%	1.6%	17.2%	10.5%	1.2%
Total Employment	**100.0%**	**1.1%**	**1.1%**	**100.0%**	**2.0%**	**2.0%**

Source: MOHRE and CBUAE

Table2.3.b Employment Growth by Sector (%, Q-o-Q)

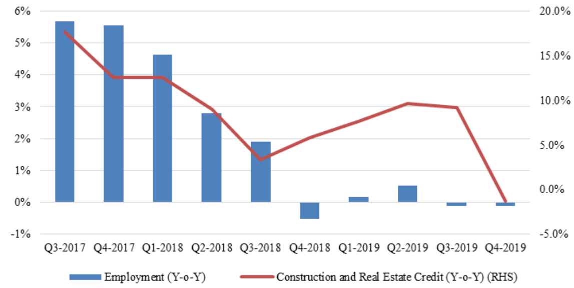
	Q-o-Q Growth			
Sector	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Construction	0.9%	-0.7%	-1.3%	-1.3%
Services	0.4%	0.2%	-0.4%	0.7%
Manufacturing	1.0%	0.4%	-0.2%	0.2%
Real estate and Business services	2.5%	1.3%	1.6%	0.7%
Transport, Storage and Communication	0.1%	-1.1%	1.0%	0.9%
Other sectors	2.7%	3.3%	1.8%	2.4%
Total Employment	**1.2%**	**0.5%**	**0.0%**	**0.3%**

Source: MOHRE and CBUAE

The construction and real estate and business services sectors together absorb 45.1% of the labor force in the UAE. Employment in both sectors, combined, declined by 0.1% Y-o-Y in the fourth quarter of 2019, same decline as in the previous quarter. Credit extended to these sectors also dropped Y-o-Y by 1.3% at the end of the fourth quarter of 2019 compared to an increase of 9.2% in the previous quarter (Figure 2.3.b).

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

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



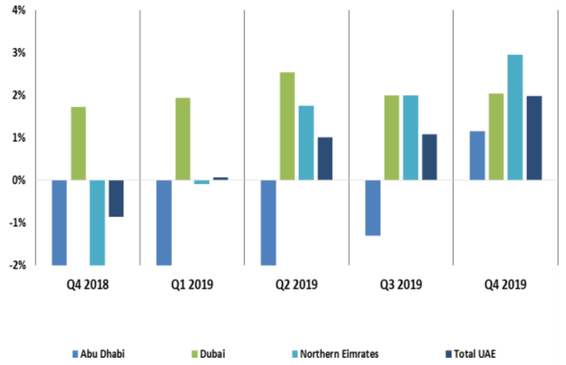
Source: MOHRE and CBUAE

Box 3 illustrates the developments in the labor market by Emirate and by categories of workers.

Box 3: 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 (MOHRE) show that the total private sector employment in the UAE at the end of 2019 Q4 was 5.095 million, of which 27.1% are based in Abu Dhabi, 51.5% are in Dubai and 21.4% are in the Northern Emirates.

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



Source: MOHRE

Overall, at the aggregate level, employment in the UAE rose by 2% Y-o-Y in 2019 Q4 (Figures 1), with growth in employment in all three locations, compared to an increase of 1.1% in the previous quarter. On a Q-o-Q basis Abu Dhabi was the driver of quarterly growth at the aggregate level, growing by 0.3% Q-o-Q, as employment in Dubai and the Northern Emirates declined Q-o-Q.

In Abu Dhabi (Figure 1), employment increased by 1.1% Y-o-Y in 2019 Q4, compared to a drop of 1.3% in the previous quarter. On a Q-o-Q basis, private sector employment also increased by 1.3%, compared to zero growth in 2019 Q3.

In Dubai, private sector employment also increased Y-o-Y by 2% in 2019 Q4 (Figure 1), the same growth rate that was observed in the previous quarter. However, on a Q-o-Q basis, employment in Dubai declined by 0.1%, compared to an increase by 0.1% in 2019 Q3.

Similarly, in the Northern Emirates (Figure 1), employment rose Y-o-Y by 2.9% in the last quarter of 2019, compared to an increase by 2% in 2019 Q3. On the other hand, the private sector jobs declined by 0.1% Q-o-Q in 2019 Q4, compared to a drop of 0.2% in the previous quarter.

Developments in the Labor Market (Work Permits and Wages):

According to data from MOHRE, total net newly issued work permits in the UAE increased by 64,641 in the last three months of 2019 compared to the same period of the previous year. In fact, the Emirate of Abu Dhabi registered the highest increase (53.6% of the net new permits for the last three months of 2019 in the UAE) with 20,787 net new work permits in the period October–December 2019, compared to 17,508 more permits cancelled than issued for the same period in the previous year (Table 1).

In Dubai, total net work permits issued during the last quarter of 2019 has significantly improved compared to the same period of last year, reaching 16,959 net new work permits (43.7% of the total net new permits for the 2019 Q4 in the UAE). The new permits experienced growth of close to seven folds or 14,782. Similarly, newly issued work permits in the Northern Emirates increased by 11,564 in the last three months of 2019 compared to a year ago. The net work permits for 2019 Q4 for the five emirates were at 1,019 (see Table 1).

Table 1. Work Permits by Emirate

Period		Oct-18 to Dec-2018	Oct-19 to Dec-2019	Change (%)
Abu Dhabi	New	87,202	111,537	27.9%
	Cancelled	104,710	90,750	-13.3%
	Net	-17,508	20,787	-----
Dubai	New	186,958	194,200	3.9%
	Cancelled	184,781	177,241	-4.1%
	Net	2,177	16,959	679.0%
Northern Emirates	New	68,643	73,720	7.4%
	Cancelled	79,188	72,701	-8.2%
	Net	-10,545	1,019	-----
Total UAE	New	342,803	379,457	10.7%
	Cancelled	368,679	340,692	-7.6%
	Net	-25,876	38,765	-----

Source: MOHRE

The labor market in the UAE is classified into seven main types of positions: managers, professionals, technicians, clerks, services and sales professions, skilled laborers and unskilled laborers. Data from the MOHRE show that all work categories registered an increase in net work permits in the last three months of 2019 compared to a year ago (Table 2). The net issuance of work permits increased by many folds (for managers and professionals) and turned positive compared to the same period in the previous year, except for the blue collar unskilled labor, where the cancelled permits continued to exceed the newly issued permits, but to a lesser extent than in 2018 Q4 (see Table 2).

Table 2. Work Permits by Type of Position

Period		Oct-18 to Dec-2018	Oct-19 to Dec-2019	Change (%)
Managers	New	12,102	15,950	31.8%
	Cancelled	11,505	10,311	-10.4%
	Net	597	5,639	844.6%
Professionals	New	33,454	35,878	7.2%
	Cancelled	29,732	27,637	-7.0%
	Net	3,722	8,241	121.4%
Technicians	New	17,810	20,353	14.3%
	Cancelled	20,178	18,465	-8.5%
	Net	-2,368	1,888	-----
Clerks	New	27,281	38,978	42.9%
	Cancelled	28,259	26,118	-7.6%
	Net	-978	12,860	-----
Services and Sales Professions	New	56,585	61,214	8.2%
	Cancelled	58,744	52,596	-10.5%
	Net	-2,159	8,618	-----
Blue Collar Skilled Labor	New	104,531	120,022	14.8%
	Cancelled	124,644	114,249	-8.3%
	Net	-20,113	5,773	-----
Blue Collar Unskilled Labor	New	91,040	87,062	-4.4%
	Cancelled	95,617	91,316	-4.5%
	Net	-4,577	-4,254	7.1%
Total	New	342,803	379,457	10.7%
	Cancelled	368,679	340,692	-7.6%
	Net	-25,876	38,765	-----

Source: MOHRE

During the last quarter of 2019, and in line with the deflationary pressures, the most skilled categories of workers experienced a decline in average salaries, compared to the previous year (see Table 3). At the end of 2019 Q4, the highest decline was observed for technicians, professionals and managers. For the latter, the average salary declined Y-o-Y and M-o-M by 6.4% and 0.8%, respectively. For the technicians and professionals, the decline in average salary was lower. They declined Y-o-Y by 3.5% and 1.9%, respectively. However, the less skilled categories of workers experienced mostly increase in average wages Y-o-Y, except for the services and sales professionals, as of December 2019. On a M-o-M basis, as of December 2019, all salaries for the less skilled categories increased or did not change.

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

Period	Sep-19	Oct-19	Nov-19	Dec-19
Managers	**21,868**	**21,687**	**21,492**	**21,315**
M-o-M (%)	0.0%	-0.8%	-0.9%	-0.8%
Y-o-Y (%)	-3.3%	-4.9%	-5.8%	-6.4%
Professionals	**11,519**	**11,498**	**11,471**	**11,446**
M-o-M (%)	0.0%	-0.2%	-0.2%	-0.2%
Y-o-Y (%)	0.0%	-1.5%	-1.8%	-1.9%
Technicians	**6,877**	**6,848**	**6,804**	**6,787**
M-o-M (%)	0.0%	-0.4%	-0.7%	-0.2%
Y-o-Y (%)	-1.0%	-2.5%	-3.4%	-3.5%
Clerks	**4,697**	**4,713**	**4,733**	**4,754**
M-o-M (%)	0.0%	0.4%	0.4%	0.4%
Y-o-Y (%)	1.2%	0.2%	0.1%	0.6%
Services and Sales Professions	**3,044**	**3,042**	**3,039**	**3,039**
M-o-M (%)	0.0%	-0.1%	-0.1%	0.0%
Y-o-Y (%)	2.1%	0.0%	-0.5%	-0.5%
Blue Collar Skilled Laborers	**1,847**	**1,847**	**1,850**	**1,856**
M-o-M (%)	0.0%	0.0%	0.1%	0.4%
Y-o-Y (%)	1.9%	0.0%	-0.1%	0.3%
Blue Collar Unskilled Labor	**1,496**	**1,501**	**1,506**	**1,516**
M-o-M (%)	0.0%	0.3%	0.3%	0.7%
Y-o-Y (%)	2.9%	0.6%	0.6%	1.2%

Source: MOHRE

2.4 Exchange Rate Fluctuations

In 2019 Q4, the dirham appreciated against the currencies of the top-10 non-dollarized[7] import partners by 0.1% Q-o-Q and by 0.34% Y-o-Y (Table 2.4.a). Against the currencies of the top-10 non-dollarized non-oil export partners, the appreciation was of 0.18% Q-o-Q and of 0.08% Y-o-Y (Table 2.4.b).

Table 2.4.a Dirham Appreciation against Currencies of Top Non-Dollarized Import Partners (%)

Imports	Share of total imports	Q-o-Q		Y-o-Y	
		Q3 2019	Q4 2019	Q3 2019	Q4 2019
China	15.5	2.88	0.33	3.12	1.85
India	9.4	1.31	1.12	0.43	-1.15
Japan	5.6	-2.35	1.31	-3.76	-3.58
Germany	4.5	1.10	0.38	4.64	3.02
UK	3.1	4.25	-4.30	5.79	-0.16
Vietnam	3.1	-0.38	-0.09	-0.06	-0.50
Italy	2.7	1.10	0.38	4.64	3.02
France	2.7	1.10	0.38	4.64	3.02
Switzerland	2.4	-1.65	0.37	0.22	-0.61
South Korea	2.3	2.44	-1.63	6.56	4.23
Weighted Average	51.4	0.68	0.10	1.10	0.34

Source: Data on Import shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2018. 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 against the currencies of all of the top 10 non-dollarized import partners, except for the Pound Sterling, the Vietnamese Dong and the Korean Won. On a Y-o-Y basis, the dirham significantly appreciated against the Chinese Yuan, the Euro and the Korean Won, while depreciating against the remaining five countries' currencies.

Table 2.4.b Dirham Appreciation against Currencies of Top Non-Dollarized Partners for Non-Oil Exports (%)

Exports	Share of total exports	Q-o-Q		Y-o-Y	
		Q3 2019	Q4 2019	Q3 2019	Q4 2019
India	8.7	1.31	1.12	0.43	-1.15
Turkey	5.2	-3.34	2.14	-0.03	5.51
Kuwait	5.1	0.00	-0.12	0.40	-0.04
Iraq	4.4	-1.33	0.10	-0.67	-0.54
Switzerland	3.9	-1.65	0.37	0.22	-0.61
China	2.5	2.88	0.33	3.12	1.85
Egypt	1.9	-2.87	-2.23	-7.64	-9.83
Netherlands	1.9	1.10	0.38	4.64	3.02
Singapore	1.8	0.91	-0.91	0.55	-0.90
Germany	1.6	1.10	0.38	4.64	3.02
Weighted Average	36.9	-0.11	0.18	0.13	0.08

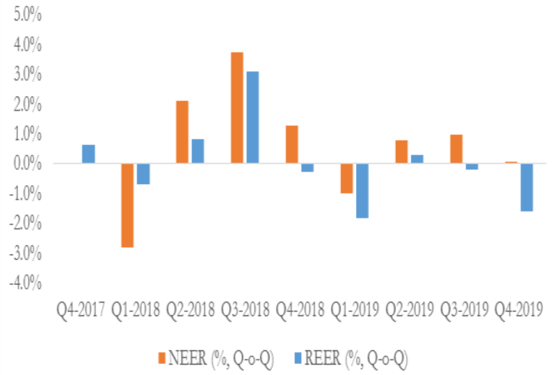
Source: Data on Import shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2018. Data for the bilateral exchange rates are the quarterly average observations of monthly data, recorded and reported by Bloomberg.

Using non-oil export weights, the dirham exhibited in 2019 Q4 a Q-o-Q appreciation of 0.18% against the currencies of the top 10 non-dollarized non-oil export partners (see Table 2.4.b) compared to a Q-o-Q depreciation of 0.11% during the previous quarter. The dirham appreciated against the Indian Rupee, the Chinese Yuan, the Turkish Lira, the Iraqi Dinar, the Swiss Franc and the Euro, while depreciating against the currencies of another set of countries. On a Y-o-Y basis, the dirham appreciated against the top 10 non-dollarized non-oil export partners by 0.08% in the last quarter of 2019, mainly due to the significant depreciation Y-o-Y of the Turkish Lira, Chinese Yuan and the Euro.

Accounting for all of the UAE's 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 partners. In particular, the average NEER increased by 0.1% in the fourth quarter of 2019, compared to an appreciation of 1% in the previous quarter (see Figure 2.4).

[7] Countries that do not use the US dollar or are not pegged to the dollar.

Figure 2.4 Nominal and Real Effective Exchange Rates Developments (%, Q-o-Q)



Source: Bank for International Settlements (BIS)

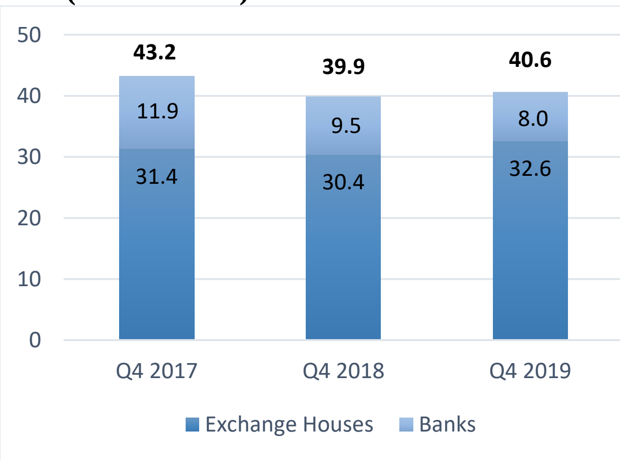
In real terms, the Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, depreciated by 1.4% in the fourth quarter of 2019 compared to a depreciation of 0.2% in the previous quarter. The depreciation in the REER was due to the continued deflationary cycle in the UAE, offsetting the marginal nominal Dirham appreciation.

Box 4 presents the developments in the outward remittances, while Box 5 assesses the indicators of the tourism sector.

Box 4: Outward Personal Remittances from the UAE

The outward personal remittances, based on data reported by banks and exchange houses, capture expatriates as well as personal transfers by UAE nationals. During October-December 2019, remittances increased by 1.8% or AED 0.7 billion compared to the same period of 2018 (Figure 1). During the fourth quarter of 2019, the outward personal remittances that were settled through the banks declined by 15.6% or AED 1.5 billion. Meanwhile, the outward personal remittances that were settled through the exchange houses registered an increase of 7.2% or AED 2.2 billion, compared to the same period of 2018.

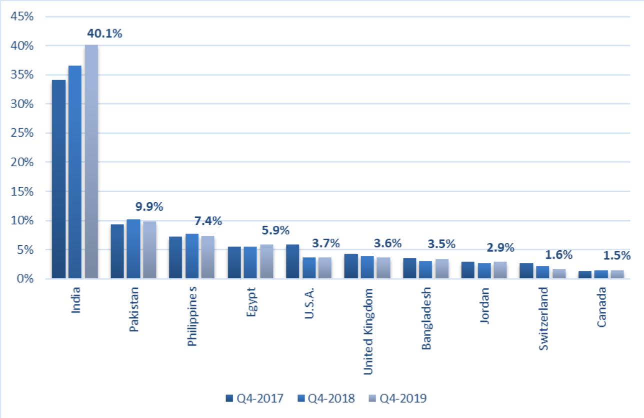
Figure 1. Evolution of Outward Personal Remittances Settled Through Banks and Exchange Houses, October – December 2017-2019 (AED Billions)



Source: CBUAE

The top destination country for outward personal remittances during October-December 2019 was India (40.1%) (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 (9.9%), Philippines (7.4%), Egypt (5.9%), the U.S (3.7%) and the U.K. (3.6%).

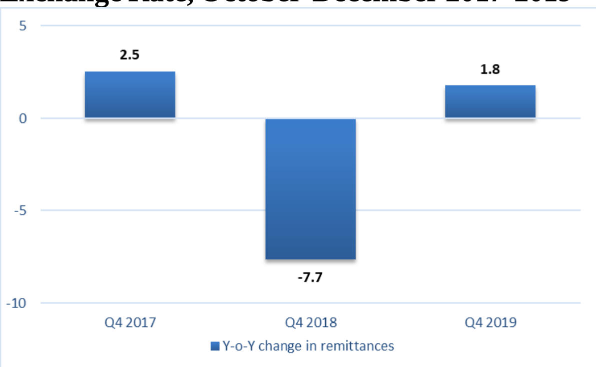
Figure 2. Share of the Major Countries for Outward Personal Remittances during October-December 2017-2019 (Percentage of Total, Exchange Houses and Banks)



Source: CBUAE

The annual growth rate of outward personal remittances during October-December 2019 was recorded at 1.8% (Figure 3), a significant improvement compared to the negative growth registered during the same period in 2018 (-7.7%). This increase is in line with the increase in employment in the UAE during 2019 compared to 2018 where the YoY growth rate in 2019 Q4 was at 2.0%.

Figure 3. Annual Percentage Change of Total Outward Personal Remittances versus the Percentage Change of Nominal Effective Exchange Rate, October-December 2017-2019



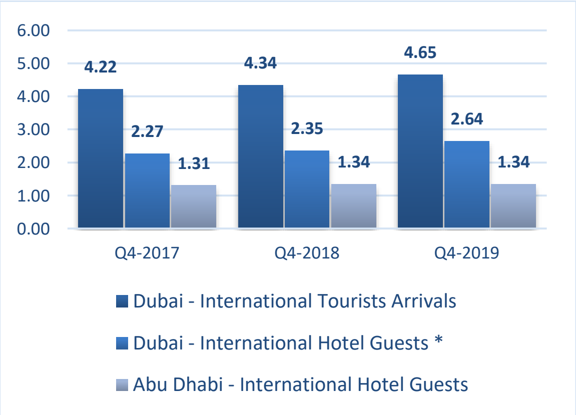
Source: CBUAE

Box 5: 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 October-December 2019. For the Dubai Emirate, the Dubai Corporation of Tourism and Commerce Marketing (DTCM) publishes data on international guests covering international tourist 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 October-December 2019 registered increase of 7.1% (increased by around 310,000 tourists) compared to the same period in 2018 (Figure 1). Based on the data published by DTCM, it is estimated that approximately 56.9% (2.6 million) of tourists that arrived in Dubai during the period of October-December 2019 stayed at hotels in Dubai. The calculated figures for international hotel guests in the Emirate of Dubai registered an increase of 12.3% (increased by around 290,000 guests) compared to the same period in 2018, which indicates more tourists preferred to stay at hotels benefiting from discounts offered by hotels in Dubai.

Figure 1: International Tourist Arrivals to Dubai and International Hotel Guests in Dubai and Abu Dhabi October-December 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 length of stay).

The international hotel guests in the Emirate of Abu Dhabi stayed virtually unchanged (at 1.3 million hotel guests) compared to the same period in 2018.

The data for the Dubai Emirate continue to indicate a growing trend in the number of international hotel guests during 2019 as compared to 2018. However, competitiveness required offering discounts to improve occupancy of existing hotel capacity. In this connection, the revenue per available room significantly decreased in Q4 2019, compared to the same period in 2018, reflecting continued discounts offered by hotels in Dubai. This strategy aimed at boosting demand and increased the occupancy rate at a faster rate during October-December 2019 (2.5%) compared to the rate of growth during the same period in 2018 (at -6%), which compensated for the continued decline in revenue per available room (see Figure 2.a.).

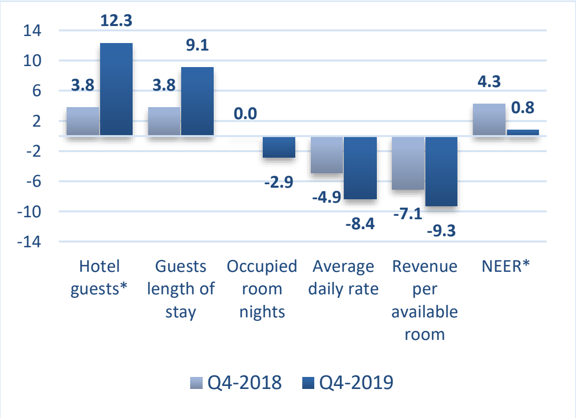
Although international hotel guests in Abu Dhabi stayed unchanged during October to December in 2019, as compared to 2.5% increase for the same period in 2018, all other indicators point to an ascendant trend during 2019. Along with higher average daily rate during the reference period, total revenues for hotels in Abu Dhabi, significantly increased compared to the similar period of the previous year (Figure 2.b.).

International events organized in Abu Dhabi during the fourth quarter of 2019, such as DU Eminem Concert (25 October 2019), ADIPEC (11-14 November), F1 Abu Dhabi (28 Nov- 1 Dec), Bruno Mars Concert (31 December 2019), helped to attract international guests.

Countries that are the major markets for inbound tourism to Dubai recorded increase in the arrival of international tourists during October-December 2019 compared to the same period in 2018, with the notable increase for guests from Russia (35.3%), China (20.4%), Oman (13%), followed by Philippines (10.6%), France (7.9%), USA (4.5%), India (2.5%), and UK (0.9%). Other countries registered a decrease during the same period, which include KSA (-9.6%), Pakistan (-8.2%), and Germany (-6.1%).

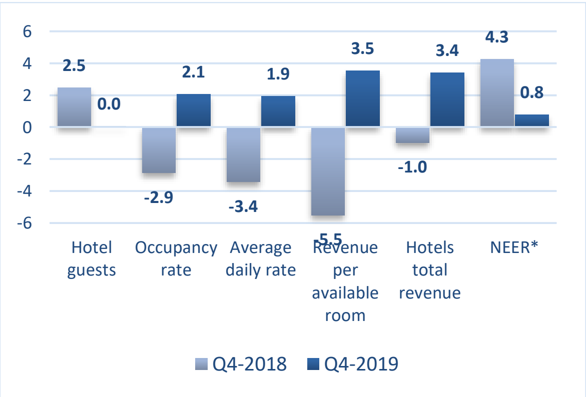
Figure 2: Annual Percentage Change in Major Indicators of Dubai & Abu Dhabi Inbound Tourism October-December 2018-2019 (%)

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 length of stay).

b. Abu Dhabi

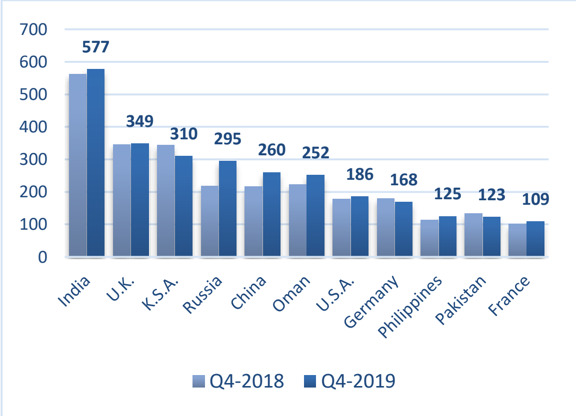


Source: Abu Dhabi Tourism & Culture Authority
** NEER Is the Nominal Effective Exchange Rate (Source: Bank of International Settlement)

The vast majority of tourists arriving in Dubai originate from the GCC countries and the MENA region (28% combined, 18% and 10% of the total, respectively). While the number of tourists from Western Europe accounted for 20% and from North America recorded 7% of the total visitors. Finally, inbound tourism originated from other sources accounted for important shares, from South Asia at 16%, from North & South East Asia at 12%, from Russia and Eastern Europe at 9%, whereas the shares from Africa amounted for 6% and from Australia at 2%, respectively.

Figure 3. Major Markets of Inbound Tourist Arrivals October-December 2018-2019 (in Millions)

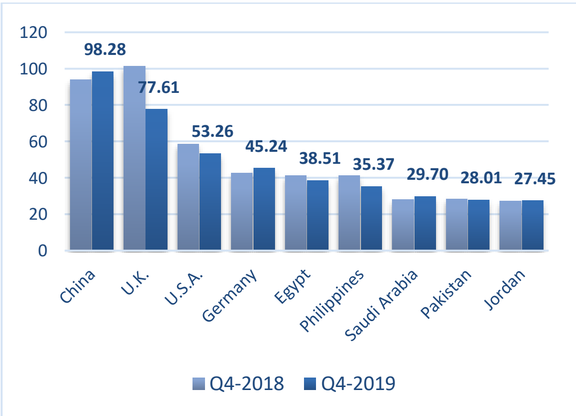
a. Dubai



Source: Dubai Corporation of Tourism and Commerce Marketing

The Abu Dhabi Emirate recorded an increase in inbound tourism from some of the top ten countries. India recorded the highest rate of increase (13.9%), followed by Egypt (6.3%), Saudi Arabia (6%), China (4.7%), and Jordan (1%) during October-December 2019 compared to the same period in 2018. Meanwhile, inbound tourism from the UK, USA, Germany, Philippines and Pakistan recorded a slight decrease during the same period (Figure 3.b.).

b. Abu Dhabi



Source: Abu Dhabi Tourism & Culture Authority

2.5 Consolidated Fiscal Stance

The latest available data are for the third quarter of 2019. The reduction in oil prices during the third quarter of 2019 by 10.2% Q-o-Q (17.7 Y-o-Y) contributed to a decline for total government revenues

On the Expenditure side, total expenses and capital spending increased Y-o-Y by 3.3%.

As a result, the Net Operating Balance registered a surplus of AED 16.9 billion in 2019 Q3 compared to an AED 50.6 billion surplus in the previous quarter (see Table 2.5 and Figure 2.5.c).

2.5.1 Revenues

Revenue registered a negative growth rate during 2019 Q3 (Figure 2.5.a), reaching -9.4% Y-o-Y compared to 18.2% in the previous quarter. This drop came was the result of decline in tax revenues by 14% Y-o-Y to reach AED 52.1 billion compared to AED 60.6 billion in the same quarter of 2018. Other revenues also dropped by AED 2.4 billion, or 4%, to reach AED 56.4 billion, compared to AED 59.9 billion in the same quarter of 2018. Similarly, social contributions declined to AED 1.1 billion in 2019 Q3 by 14.3% Y-o-Y.

2.5.2 Expenditures

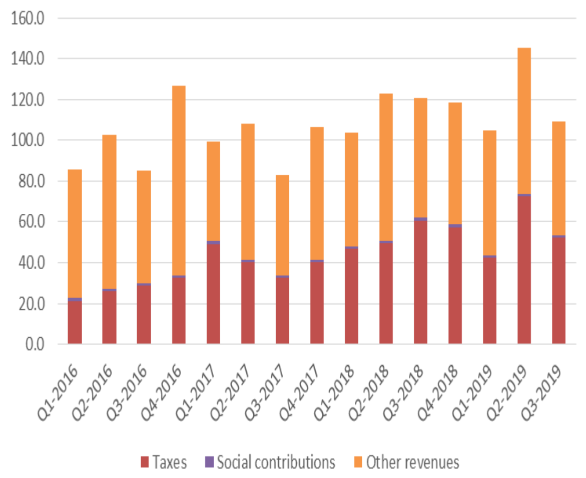
On the expenditure side, total expenses (current spending) increased Y-o-Y by 1.3% in 2019 Q3, compared to a drop of 4.4% in the previous quarter (Figure 2.5.b). The rise in expenses is mainly attributable to the hike in compensation of employees, use of goods and services, and social benefits by 26%, 42.1% and 31.3%, respectively. These categories represented 76.1% of total expenses during 2019 Q3. Other smaller categories also rose: consumption of fixed capital and subsidies increased by 5.4% and 31.3% Y-o-Y, respectively, in 2019 Q3 to AED 1.1 billion and AED 7.4 billion, while interest expenses moved up by 13.8% to AED 0.7 billion.

On the other hand, other expenses and grants declined by 67.2% and 38.4% Y-o-Y, respectively, to AED 8.7 billion and AED 4.3 billion.

Moreover, capital spending, measured by the net acquisition of non-financial assets, rose Y-o-Y by 23.8%, reaching AED 10.8 billion.

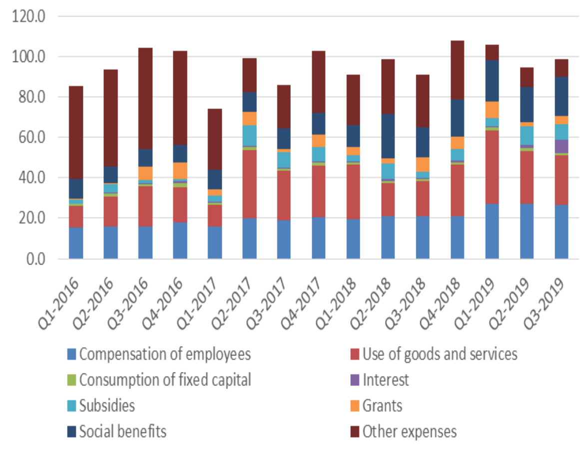
Government Finances

Figure 2.5.a. General Government Revenues (Billions of Dirhams)



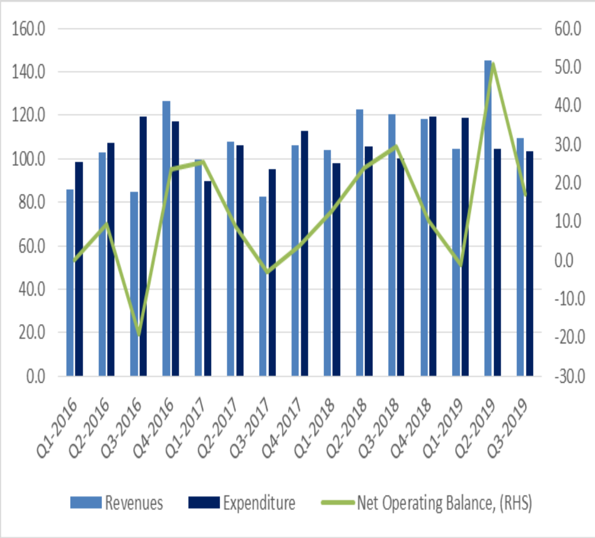
Source: Ministry of Finance

Figure 2.5.b General Government Expenditures (Billions of Dirhams)



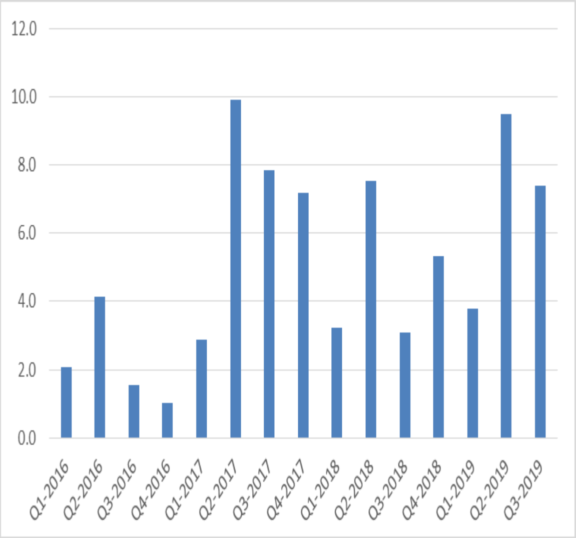
Source: Ministry of Finance

Figure 2.5.c Fiscal Stance (Billions of Dirhams)



Source: Ministry of Finance

Figure 2.5.d Developments in the Subsidies and Transfers to GREs (Billions of Dirhams)



Source: Ministry of Finance

Table 2.5 Consolidated Government Finances

Consolidated	2018				2019			2018 (% Y-o-Y)				2019 (% Y-o-Y)		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net Operating Balance	**12.7**	**23.9**	**29.5**	**10.4**	**-1.2**	**50.6**	**16.9**	-----	-----	-----	-----	-----	-----	-----
Revenues (a)	**103.8**	**122.7**	**120.6**	**118.5**	**104.8**	**145.1**	109.3	**4.2%**	**13.7%**	**45.7%**	**11.5%**	**0.9%**	**18.2%**	**-9.4%**
- Taxes	46.7	49.5	60.6	57.5	42.4	72.3	52.1	-5.1%	23.7%	86.9%	42.6%	-9.3%	46.1%	-14.0%
- Social contributions	1.3	1.3	1.3	1.2	1.3	1.3	1.1	3.9%	24.3%	0.8%	1.5%	-0.3%	-2.4%	-14.3%
- Other revenues	55.9	71.9	58.8	59.9	61.2	71.5	56.4	13.6%	7.5%	19.7%	-7.7%	9.5%	-0.5%	-4.0%
Expenditure	**97.9**	**105.9**	**99.9**	**119.4**	**119.0**	**104.4**	**103.2**	**9.4%**	**-0.5%**	**4.9%**	**6.2%**	**21.6%**	**-1.4%**	**3.3%**
-Expense (b)	**91.1**	**98.8**	**91.2**	**108.1**	**105.9**	**94.5**	**92.4**	**22.8%**	**-0.5%**	**6.3%**	**5.4%**	**16.3%**	**-4.4%**	**1.3%**
Compensation of employees	19.5	21.2	21.1	21.2	27.3	27.1	26.6	22.8%	5.1%	12.3%	4.1%	39.8%	28.1%	26.0%
Use of goods and services	27.0	16.0	17.1	25.2	36.4	25.9	24.3	157.0%	-52.4%	-31.4%	-2.0%	34.7%	61.8%	42.1%
Consumption of fixed capital	1.1	1.0	1.0	1.0	1.1	1.5	1.1	-13.1%	-27.3%	3.4%	-29.2%	-3.8%	43.3%	5.4%
Interest	0.5	1.1	0.6	1.4	0.8	1.6	0.7	-2.4%	85.1%	111.0%	168.4%	68.8%	39.5%	13.8%
Subsidies	3.2	7.5	3.1	5.3	3.8	9.5	7.4	12.7%	-23.9%	-60.5%	-26.1%	16.7%	26.0%	138.7%
Grants	4.1	2.6	7.0	6.1	8.6	1.9	4.3	22.6%	-60.5%	487.7%	0.7%	111.1%	-28.1%	-38.4%
Social benefits	10.5	22.2	14.8	18.3	20.2	17.5	19.4	7.8%	120.0%	43.6%	68.2%	92.1%	-21.1%	31.3%
Other expenses	25.2	27.1	26.5	29.6	7.8	9.4	8.7	-16.2%	61.7%	23.7%	-2.8%	-69.1%	-65.4%	-67.2%
-Net acquisition of non-financial assets	6.7	7.0	8.7	11.3	13.1	9.9	10.8	-56.0%	-0.5%	-7.8%	14.3%	94.1%	41.2%	23.8%
Net Operating Balance (a-b)	**12.7**	**23.9**	**29.5**	**10.4**	**-1.2**	**50.6**	**16.9**	-----	-----	-----	-----	-----	-----	-----

Source: Ministry of Finance

- 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[8]

In the fourth quarter of 2019, deposits increased, mainly driven by the increase in GREs and private sector deposits. Credit growth picked up momentum, with lending to the Government and GREs sectors at the fore. Healthy Financial Soundness Indicators (FSIs) signify overall sound and stable banking system.

3.1 Banking Structure[9]

In Q4 2019, the number of licensed commercial banks remained unchanged at 59 in total. Of which 21 are national banks and 38 are foreign banks, including 11 wholesale banks. The number of branches of national banks declined to 656 at the end of December 2019 compared to 664 at the end of September 2019. The number of retail foreign banks remained the same at 27 compared to the previous quarter, while their branches decreased by one to reach 79 branches compared to the previous quarter. Moreover, the number of employees in national and foreign banks increased from 35,518 employees in Q3 of 2019 to 35,637 employees by Q4 of 2019.

3.1.1. Banks' Deposits

Total customer deposits increased in the fourth quarter of 2019 by AED 68 billion, which correspond to 3.8% Q-o-Q and 6.5% Y-o-Y (Table 3.1.1.a).

Table 3.1.1.a Total Deposits at UAE Banks

Item	Jun-19	Sep-19	Dec-19
Bank Deposits	1774.3	1802	1870
(Q-o-Q change %)	1.5%	1.6%	3.8%
(Y-o-Y change %)	5.3%	4.3%	6.5%

Bank deposits rose mainly due to the increase in resident deposits by AED 36.6 billion as well as non-resident deposits, which increased by AED 31.6 billion (Table 3.1.1.b).

Table 3.1.1.b Resident and Non-resident Deposits at the UAE banks

Item	Jun-19	Sep-19	Dec-19
Resident Deposits	1577.6	1612.2	1648.8
(Q-o-Q change %)	2.4%	2.2%	2.3%
(Y-o-Y change %)	5.6%	5.9%	6.9%
Non-Resident Deposits	196.7	189.8	221.4
(Q-o-Q change %)	-5.5%	-3.5%	16.6%
(Y-o-Y change %)	3.5%	-7.6%	3.7%

Resident deposits constitute the bulk of the total customer deposits at around 88.2% of total deposits. The increase in resident deposits was essentially due to the change in private sector deposits, which increased by AED 23.6 billion in addition to the rise in GRE deposits by AED 25.7 billion (Table 3.1.1.c).

Table 3.1.1.c UAE Resident Deposits

Item	Jun-19	Sep-19	Dec-19
Government Sector	291.4	316.6	303
(Q-o-Q change %)	6.7%	8.6%	-4.3%
(Y-o-Y change %)	16.3%	10.7%	4.4%
GREs	217.4	218	243.7
(Q-o-Q change %)	11.7%	0.3%	11.8%
(Y-o-Y change %)	13.3%	13.1%	17.7%
Private Sector	1029.7	1034.2	1057.8
(Q-o-Q change %)	-0.1%	0.4%	2.3%
(Y-o-Y change %)	0.9%	2.4%	4.8%
NBFI	39.1	43.4	44.3
(Q-o-Q change %)	-5.1%	11.0%	2.1%
(Y-o-Y change %)	24.5%	27.3%	24.8%

Deposits by the type of banks—i.e., conventional vs. Islamic banks—represent 78.5% and 21.5% of total deposits, respectively. Deposits at conventional banks exhibited an increase by 4.4% Q-o-Q, equivalent to AED 61.7 billion, while deposits at Islamic banks increased by AED 6.5 billion to reach AED 402.1 billion. Table 3.1.1.d shows that in the fourth quarter of 2019, on a

[8] In this chapter: (1) all data indicate the end-of-period values, unless specified otherwise, (2) Values are expressed in billions of AED, unless specified otherwise, (3) The source of the data is the Central Bank of the UAE, unless specified otherwise.

[9] In this section, all December 2019 data are provisionary and subject to revision.

Y-o-Y basis, Islamic banks deposits increased by 0.1% while conventional banks deposits increased by 8.4% to reach AED 1,468.1 billion.

Table 3.1.1.d Total Deposits at the UAE Conventional/Islamic Banks

	Conventional		Islamic	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Bank Deposits	1406.4	1468.1	395.6	402.1
(Q-o-Q change %)	1.7%	4.4%	1.0%	1.6%
(Y-o-Y change %)	5.9%	8.4%	-1.2%	0.1%

Looking at the subcategories, the growth of deposits in conventional banks in the fourth quarter was stronger for the Residents (Table 3.1.1.e), while non-resident deposits in Islamic banks (Table 3.1.1.e) were a main contributor to the growth in deposits at these banks.

Table 3.1.1.e Resident and Non-resident Deposits at the UAE Conventional/Islamic Banks

	Conventional		Islamic	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Resident Deposits	1239.8	1274.4	372.4	374.4
(Q-o-Q change %)	2.8%	2.8%	0.1%	0.5%
(Y-o-Y change %)	8.6%	9.6%	-2.2%	-1.2%
Non-Resident Deposits	166.6	193.7	23.2	27.7
(Q-o-Q change %)	-6.0%	16.3%	19.0%	19.4%
(Y-o-Y change %)	-10.2%	1.5%	17.2%	22.6%

Table 3.1.1.f Conventional/Islamic Banks Resident Deposits

	Conventional		Islamic	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Government Sector	1239.8	237.7	66.3	65.3
(Q-o-Q change %)	2.8%	-5.0%	-0.5%	-1.5%
(Y-o-Y change %)	8.6%	4.9%	0.8%	2.5%
GREs	177.2	196.8	40.8	46.9
(Q-o-Q change %)	0.3%	11.1%	0.0%	15.0%
(Y-o-Y change %)	26.6%	28.2%	-22.6%	-12.5%
Private Sector	780	807.6	254.2	250.2
(Q-o-Q change %)	0.4%	3.5%	0.6%	-1.6%
(Y-o-Y change %)	2.8%	6.4%	1.1%	-0.1%
NBFI	32.3	32.3	11.1	12
(Q-o-Q change %)	18.8%	0.0%	-6.7%	8.1%
(Y-o-Y change %)	38.6%	33.5%	2.8%	6.2%

The breakdown of national and foreign banks in Table 3.1.1.g shows that national banks exhibited growth in customers deposits by 3.6% Q-o-Q while deposits at foreign banks increased by 5.4% Q-o-Q. On a Y-o-Y basis, national banks' deposits grew by 6.4% compared to an increase by 7.8% in foreign banks' deposits. Deposits at national banks represent 88.6% of total deposits in the banking system, while 11.4% of total deposits are in foreign banks.

Table 3.1.1.g Total Deposits at the UAE National/Foreign Banks

	National		Foreign	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Bank Deposits	1600.5	1657.9	201.5	212.3
(Q-o-Q change %)	2.0%	3.6%	-1.7%	5.4%
(Y-o-Y change %)	4.8%	6.4%	-0.1%	7.8%

The rise in deposits at national banks was essentially attributed to the increase in the non-resident deposits by AED 29.6 billion. In addition, there was an increase in Resident deposits by AED 27.9 billion. On the other hand, the increase in foreign banks' deposits, was due to the increase in resident, particularly government, private, and NBFI deposits by AED 8.8 billion. (Tables 3.1.1.h and 3.1.1.i). Non-resident deposits also grew at a high rate by AED 2 billion.

Table 3.1.1.h Resident and Non-resident Deposits at the UAE National/Foreign Banks

	National		Foreign	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Resident Deposits	1441.6	1469.4	170.6	179.4
(Q-o-Q change %)	2.3%	1.9%	1.0%	5.2%
(Y-o-Y change %)	6.4%	6.6%	2.0%	9.4%
Non-Resident Deposits	158.9	188.5	30.9	32.9
(Q-o-Q change %)	-1.1%	18.6%	-14.2%	6.5%
(Y-o-Y change %)	-7.1%	4.5%	-10.2%	-0.3%

Table 3.1.1.i National/Foreign Banks Resident Deposits

	National		Foreign	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Government Sector	315.8	301.8	0.8	1.2
(Q-o-Q change %)	8.6%	-4.4%	33.3%	50.0%
(Y-o-Y change %)	11.0%	4.5%	-38.5%	-20.0%
GREs	206.6	234.4	11.4	9.3
(Q-o-Q change %)	-1.6%	13.5%	52.0%	-18.4%
(Y-o-Y change %)	14.7%	17.6%	-8.8%	19.2%
Private Sector	881.6	896.3	152.6	161.5
(Q-o-Q change %)	0.8%	1.7%	-1.4%	5.8%
(Y-o-Y change %)	2.3%	4.3%	3.1%	8.0%
NBFI	37.6	36.9	5.8	7.4
(Q-o-Q change %)	13.9%	-1.9%	-4.9%	27.6%
(Y-o-Y change %)	31.5%	21.4%	5.5%	45.1%

3.1.2. Banks' Credit

Total Assets increased by 2.1% Q-o-Q and 7.6% Y-o-Y (Table 3.1.2.a). Loans in the banking system comprise 57.0% of total assets.

Gross Credit remained robust in the fourth quarter with an increase of 2.2% Q-o-Q and a rise by 6.2% Y-o-Y.

Table 3.1.2.a Assets and Credit at UAE Banks

Item	**Jun-19**	**Sep-19**	**Dec-19**
Total Assets	2958.6	3022.7	3085.8
(Q-o-Q change %)	2.2%	2.2%	2.1%
(Y-o-Y change %)	7.6%	6.5%	7.6%
Gross Credit	1692.7	1720.8	1759.2
(Q-o-Q change %)	1.1%	1.7%	2.2%
(Y-o-Y change %)	4.3%	5.0%	6.2%
Domestic Credit	1542.6	1565.6	1593.9
(Q-o-Q change %)	0.9%	1.5%	1.8%
(Y-o-Y change %)	3.8%	4.6%	5.6%
Foreign Credit	150.1	155.2	165.3
(Q-o-Q change %)	2.9%	3.4%	6.5%
(Y-o-Y change %)	10.6%	9.4%	12.6%

For the underlying domestic credit, the lending growth was mainly driven by lending to the Government—17.7% Q-o-Q increase (34.9% Y-o-Y) —as well as to GREs, which increased by 3.2% Q-o-Q (9.9% Y-o-Y). However, credit to the private sector declined by 1.3% Q-o-Q while still registering an increase by 0.4% on a Y-o-Y basis. (Table 3.1.2.b).

Table 3.1.2.b Domestic Credit

Item	**Jun-19**	**Sep-19**	**Dec-19**
Government	201.6	219.5	258.3
(Q-o-Q change %)	2.3%	8.9%	17.7%
(Y-o-Y change %)	11.5%	18.3%	34.9%
GREs	176.3	178.9	184.6
(Q-o-Q change %)	2.7%	1.5%	3.2%
(Y-o-Y change %)	4.7%	6.0%	9.9%
Private Sector	1147.8	1150.1	1134.9
(Q-o-Q change %)	0.6%	0.2%	-1.3%
(Y-o-Y change %)	2.7%	2.6%	0.4%
NBFI	16.9	17.1	16.1
(Q-o-Q change %)	-15.1%	1.2%	-5.8%
(Y-o-Y change %)	-15.5%	-19.7%	-19.5%

Lending to the private sector was driven by lending to private corporates, which rose by 1.2% Y-o-Y. The decline of lending to individuals (less than 30% of total domestic credit to the private sector) had partially offset the effect of the sustained growth of domestic credit to corporates (Table 3.1.2.c).

Table 3.1.2.c Credit to the Private Sector

Item	**Jun-19**	**Sep-19**	**Dec-19**
Business & Industrial Sector Credit	815.6	816.5	802.1
(Q-o-Q change %)	1.1%	0.1%	-1.8%
(Y-o-Y change %)	4.6%	4.4%	1.2%
Individual	332.2	333.6	332.8
(Q-o-Q change %)	-0.4%	0.4%	-0.2%
(Y-o-Y change %)	-1.5%	-1.4%	-1.4%

Table 3.1.2.d. illustrates sectors of lending by economic activity, which increased on a yearly basis. The sectors with highest Y-o-Y growth were Manufacturing; Electricity, Gas and Water; Transport, Storage and Communication, and Financial Institutions (Excluding Banks).

Table 3.1.2.d Lending by Economic Activity with Credit to the Sectors Growing Y-o-Y in 2019 Q4

Item	Sep-19	Dec-19
Manufacturing	75.2	80.3
(Q-o-Q change %)	-1.3%	6.8%
(Y-o-Y change %)	-1.2%	4.3%
Electricity, Gas and Water	18.8	22.7
(Q-o-Q change %)	-3.7%	21.2%
(Y-o-Y change %)	10.6%	33.7%
Transport, Storage and Communication	54.0	56.9
(Q-o-Q change %)	-2.3%	5.4%
(Y-o-Y change %)	9.2%	10.5%
Financial Institutions (Excluding Banks)	135.7	131.4
(Q-o-Q change %)	5.3%	-3.1%
(Y-o-Y change %)	1.1%	1.0%

The sectors experiencing a decline in credit on Y-o-Y basis are Agriculture, Mining and Quarrying, Construction and Real Estate, Trade, and All Others as shown in Table 3.1.2.e.

Table 3.1.2.e Lending by Economic Activity with Credit to the Sectors Decreasing Y-o-Y in 2019 Q4

Item	Sep-19	Dec-19
Agriculture	1.7	1.1
(Q-o-Q change %)	2.8%	-38.9%
(Y-o-Y change %)	-11.7%	-47.0%
Mining and Quarrying	14.9	10.7
(Q-o-Q change %)	-3.9%	-28.3%
(Y-o-Y change %)	11.1%	-27.6%
Construction and Real Estate	333.0	311.4
(Q-o-Q change %)	-1.0%	-6.5%
(Y-o-Y change %)	9.2%	-1.3%
Trade	157.0	152.6
(Q-o-Q change %)	2.0%	-2.8%
(Y-o-Y change %)	1.4%	-0.9%
All Others	142.1	143.2
(Q-o-Q change %)	-2.7%	0.8%
(Y-o-Y change %)	-3.0%	-3.8%

Islamic banks have a share of 18.5% in the assets and 20.8% in the gross financing of the total banking system. The breakdown of the assets and lending by conventional and Islamic banks, as reported in Table 3.1.2.f, indicate that Islamic banks financing decreased during the fourth quarter of 2019 despite some recovery in foreign credit. In addition, financing increased for conventional banks owing to an accelerating growth in domestic and foreign credit.

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

	Conventional		Islamic	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Total Assets	2457	2513.4	565.7	572.4
(Q-o-Q change %)	2.7%	2.3%	0.0%	1.2%
(Y-o-Y change %)	8.8%	10.0%	-2.3%	-1.8%
Gross Credit	1353.2	1392.8	367.6	366.4
(Q-o-Q change %)	1.9%	2.9%	0.8%	-0.3%
(Y-o-Y change %)	6.8%	8.6%	-0.9%	-1.8%
Domestic Credit	1226.2	1256.7	339.4	337.2
(Q-o-Q change %)	1.7%	2.5%	0.8%	-0.6%
(Y-o-Y change %)	6.3%	7.9%	-1.0%	-2.1%
Foreign Credit	127	136.1	28.2	29.2
(Q-o-Q change %)	4.2%	7.2%	0.0%	3.5%
(Y-o-Y change %)	11.7%	15.4%	0.0%	1.0%

During 2019 Q4, the main drivers of domestic lending were Government and GREs for both conventional and Islamic banks. On a Y-o-Y basis, the domestic financing of Islamic banks was driven by the growth in credit to the Government sector, which was moderated by a decline in credit to the private sector. On the other hand, the Y-o-Y growth of 7.9% of domestic credit for conventional banks was driven by the significant increase in lending to the Government and GREs as well as to the private sector (Table 3.1.2.g).

Table 3.1.2.g Domestic Credit at UAE Conventional/Islamic Banks

	Conventional		Islamic	
Item	**Sep-19**	**Dec-19**	**Sep-19**	**Dec-19**
Government	204	240.7	15.5	17.6
(Q-o-Q change %)	8.6%	18.0%	13.1%	13.5%
(Y-o-Y change %)	17.9%	35.8%	24.0%	23.1%
GREs	147.5	153.1	31.4	31.5
(Q-o-Q change %)	1.0%	3.8%	4.0%	0.3%
(Y-o-Y change %)	8.5%	12.1%	-4.0%	0.6%
Private Sector	859.9	849.1	290.2	285.8
(Q-o-Q change %)	0.3%	-1.3%	-0.1%	-1.5%
(Y-o-Y change %)	4.0%	1.7%	-1.3%	-3.3%
NBFI	14.8	13.8	2.3	2.3
(Q-o-Q change %)	0.7%	-6.8%	4.5%	0.0%
(Y-o-Y change %)	-16.9%	-16.9%	-34.3%	-32.4%

Credit to individuals decreased both on a Y-o-Y and Q-o-Q basis for conventional banks during 2019 Q4, while remaining virtually unchanged for Sharia compliant institutions. Credit extended by conventional banks rose for private corporates. Credit to private corporates increased significantly by 2.9% Y-o-Y for conventional banks. In contrast, credit to private corporates registered a decline for the Islamic banks by 5.3%. (Table 3.1.2.h).

Table 3.1.2.h Credit to the Private Sector at UAE Conventional/Islamic Banks

Item	Conventional		Islamic	
	Sep-19	Dec-19	Sep-19	Dec-19
Business & Industrial Sector Credit	656.4	646.4	160.1	155.7
(Q-o-Q change %)	0.2%	-1.5%	-0.4%	-2.7%
(Y-o-Y change %)	6.0%	2.9%	-1.8%	-5.3%
Individual	203.5	202.7	130.1	130.1
(Q-o-Q change %)	0.5%	-0.4%	0.3%	0.0%
(Y-o-Y change %)	-1.9%	-1.8%	-0.7%	-0.7%

Foreign banks have a share of 12.9% of the system in terms of assets and 11% in terms of gross financing in the fourth quarter of 2019. Table 3.1.2.i. shows the breakdown of the assets and credit by national and foreign banks. On a Y-o-Y basis, total assets and gross credit at national banks expanded by 6.9% while total assets at foreign banks significantly improved by 12.3%.

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

Item	National		Foreign	
	Sep-19	Dec-19	Sep-19	Dec-19
Total Assets	2643	2688.3	379.7	397.5
(Q-o-Q change %)	2.2%	1.7%	1.7%	4.7%
(Y-o-Y change %)	6.8%	6.9%	4.2%	12.3%
Gross Credit	1530.3	1566.2	190.5	193
(Q-o-Q change %)	1.7%	2.3%	1.5%	1.3%
(Y-o-Y change %)	5.9%	6.9%	-1.1%	1.3%
Domestic Credit	1408.4	1437.6	157.2	156.3
(Q-o-Q change %)	1.7%	2.1%	-0.8%	-0.6%
(Y-o-Y change %)	5.6%	6.4%	-3.2%	-1.4%
Foreign Credit	121.9	128.6	33.3	36.7
(Q-o-Q change %)	0.9%	5.5%	13.7%	10.2%
(Y-o-Y change %)	9.1%	12.0%	10.3%	14.7%

In 2019 Q4, on Y-o-Y basis, the increase in domestic credit for national banks was due to significant increase in lending to the Government and GREs as well as to the private sector. For the foreign banks, all categories in the private sector experienced a decline over the same time span. An exception is the credit growth to the Government, which exhibited an increase (Table 3.1.2.j and Table 3.1.2.k).

Table 3.1.2.j Domestic Credit at UAE National/Foreign Banks

Item	National		Foreign	
	Sep-19	Dec-19	Sep-19	Dec-19
Government	212.7	251.3	6.8	7
(Q-o-Q change %)	9.1%	18.1%	1.5%	2.9%
(Y-o-Y change %)	19.0%	36.0%	-1.4%	4.5%
GREs	164.1	169.4	14.8	15.2
(Q-o-Q change %)	2.0%	3.2%	-3.9%	2.7%
(Y-o-Y change %)	8.0%	11.2%	-11.4%	-1.9%
Private Sector	1015.8	1002.1	134.3	132.8
(Q-o-Q change %)	0.3%	-1.3%	-0.4%	-1.1%
(Y-o-Y change %)	3.4%	0.8%	-2.7%	-2.0%
NBFI	15.8	14.8	1.3	1.3
(Q-o-Q change %)	1.9%	-6.3%	-7.1%	0.0%
(Y-o-Y change %)	-22.9%	-23.3%	62.5%	85.7%

Table 3.1.2.k Credit to the Private Sector at UAE National/Foreign Banks

Item	National		Foreign	
	Sep-19	Dec-19	Sep-19	Dec-19
Business & Industrial Sector Credit	711.8	698.9	104.7	103.2
(Q-o-Q change %)	0.2%	-1.8%	-0.5%	-1.4%
(Y-o-Y change %)	5.3%	1.6%	-1.6%	-1.5%
Individual	304	303.2	29.6	29.6
(Q-o-Q change %)	0.5%	-0.3%	-0.3%	0.0%
(Y-o-Y change %)	-0.9%	-1.1%	-6.3%	-3.6%

To shed more light on the allocation of the national banks' assets abroad, Box 6 below provides details about the UAE National Banks' Cross Border Asset and Liabilities, and Non-resident Foreign Currency Exposure.

3.1.3. Financial Soundness Indicators

The overall soundness of the banking sector remained positive during the fourth quarter of 2019. Banks operating in the UAE remain well capitalized, with the Capital Adequacy Ratio (CAR) at 17.6%, Tier 1 Capital Ratio at 16.4%, and Common Equity Tier 1 Ratio (CET 1) at 14.6%, which are well above the regulatory requirements set by the CBUAE.[10]

The Loans to Deposits (L/D) ratio for the whole banking system decreased from 95.5% in September 2019 to 94.1% at the end of December 2019, mainly due to the higher growth rate of deposits (Q-o-Q 3.8%) compared to the registered growth in gross credit (Q-o-Q 2.3%). Looking at the breakdown between conventional and Islamic banks, the L/D ratio stands at 94.9% and 91.1%, respectively, decreasing by 1.3% from the previous quarter for the conventional banks, while moderating by 1.8% for the Islamic banks.

The L/D ratio for conventional banks in December 2019 increased compared to a year ago when it was 94.7%. However, for Islamic banks, L/D decreased from 93.0% in December 2018 to 91.1% at the end of 2019. On the other hand, national banks' L/D ratio decreased to 94.5% in December 2019, from 95.6% in September 2019, while the ratio for foreign banks decreased in the fourth quarter of 2019 to 90.9% from 94.5% in the previous quarter.

Meanwhile, the eligible liquid assets,[11] as a ratio of total liabilities,[12] increased to reach 18.2% at the end of 2019 Q4. This level of liquid assets constitutes an adequate liquidity buffer—above the 10% regulatory minimum required by the CBUAE.

The level of total liquid assets at banks, as of the end of 2019 Q4, stood at AED 455.9 billion, AED 25.3 billion, higher compared to the end of 2019 Q3. On a Y-o-Y basis, total liquid assets at banks rose by AED 48.3 billion—an increase by 11.8%. Looking at the breakdown between the banks, the end-of-year data show that the increase in ELAR was broad based increasing for Islamic and national banks as well as for conventional and foreign banks.

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

	Mar-19	Jun-19	Sep-19	Dec-19
Total Banking System				
Lending to Stable Resources Ratio	82.7%	82.1%	82.1%	81.0%
Eligible Liquid Assets Ratio (ELAR)	16.9%	17.6%	17.6%	18.2%
Capital Adequacy Ratio (CAR)	17.9%	17.9%	17.7%	17.6%
Tier 1 Capital Ratio	16.6%	16.7%	16.5%	16.4%
CET 1 Ratio	14.6%	14.9%	14.7%	14.6%
Conventional Banks				
Lending to Stable Resources Ratio	83.0%	82.0%	82.1%	81.1%
Eligible Liquid Assets Ratio (ELAR)	16.2%	17.1%	17.0%	17.6%
Capital Adequacy Ratio (CAR)	17.9%	18.0%	17.6%	17.6%
Tier 1 Capital Ratio	16.6%	16.7%	16.4%	16.3%
CET 1 Ratio	14.9%	15.2%	14.9%	14.9%
Islamic Banks				
Lending to Stable Resources Ratio	81.6%	82.2%	82.1%	80.5%
Eligible Liquid Assets Ratio (ELAR)	18.9%	18.6%	19.0%	19.8%
Capital Adequacy Ratio (CAR)	17.7%	17.7%	18.4%	17.7%
Tier 1 Capital Ratio	16.6%	16.6%	17.3%	16.5%
CET 1 Ratio	13.2%	13.6%	13.9%	13.2%
National Banks				
Lending to Stable Resources Ratio	84.0%	83.6%	83.6%	82.6%
Eligible Liquid Assets Ratio (ELAR)	16.0%	16.2%	16.4%	16.6%
Capital Adequacy Ratio (CAR)	17.5%	17.6%	17.3%	17.2%
Tier 1 Capital Ratio	16.3%	16.4%	16.1%	16.0%
CET 1Ratio	14.0%	14.3%	14.1%	14.0%
Foreign Banks				
Lending to Stable Resources Ratio	73.4%	70.4%	71.7%	69.5%
Eligible Liquid Assets Ratio (ELAR)	24.4%	26.9%	25.9%	29.3%
Capital Adequacy Ratio (CAR)	20.7%	20.8%	21.4%	20.8%
Tier 1 Capital Ratio	18.9%	19.4%	20.1%	19.5%
CET 1 Ratio	18.9%	19.4%	20.1%	19.5%

[10] The minimum regulatory requirements for CAR, Tier 1 Capital and CET 1 are 13%, 8.5% and 7%, respectively.

[11] In the ELAR, the eligible 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.

[12] Balance sheet total assets less (capital and reserves + all provisions except staff benefit provisions + refinancing + subordinated borrowing/deposits).

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 on a Y-o-Y basis. The ADX market capitalization grew by 0.6% Q-o-Q, while increasing on a yearly basis by 5.1%. Similarly, the Dubai Financial Market (DFM) exhibited an increase in its market capitalization by 2.4% Q-o-Q and by 9.0% Y-o-Y in the fourth quarter of 2019. However, global and regional uncertainties continue to weigh in on the UAE market sentiment.

On the ADX, the average Share Price Index increased by 0.4% Q-o-Q and 3.3% Y-o-Y in the fourth quarter of 2019. The average Share Price Index in Dubai declined by 0.6% Q-o-Q in the fourth quarter of 2019, but on a Y-o-Y basis it surged by 9.3%.

Table 3.2.1 UAE – Securities Markets

			2019			
			Q1	**Q2**	**Q3**	**Q4**
Abu Dhabi	**Share Price Index**	**Q-o-Q**	3.2%	-1.9%	1.6%	0.4%
		Y-o-Y	10.7%	9.2%	2.5%	3.3%
		YTD	3.2%	1.3%	2.9%	3.3%
	Market Capitalization	**Q-o-Q**	2.4%	0.5%	1.5%	0.6%
		Y-o-Y	10.1%	12.8%	5.3%	5.1%
		YTD	2.4%	2.9%	4.4%	5.1%
	Turnover (Traded Value)	**Q-o-Q**	-34.3%	-2.5%	8.6%	-2.9%
		Y-o-Y	15.2%	32.7%	7.4%	-32.5%
		YTD	-34.3%	-36.0%	-30.5%	-32.5%
Dubai	**Share Price Index**	**Q-o-Q**	4.2%	0.9%	4.6%	-0.6%
		Y-o-Y	-15.2%	-5.8%	-1.9%	9.3%
		YTD	4.2%	5.1%	9.9%	9.3%
	Market Capitalization	**Q-o-Q**	2.0%	0.9%	3.4%	2.4%
		Y-o-Y	-9.6%	-4.7%	-1.2%	9.0%
		YTD	2.0%	3.0%	6.5%	9.0%
	Turnover (Traded Value)	**Q-o-Q**	9.2%	-29.4%	85.6%	-20.8%
		Y-o-Y	-27.7%	-42.3%	20.4%	13.3%
		YTD	9.2%	-22.9%	43.1%	13.3%

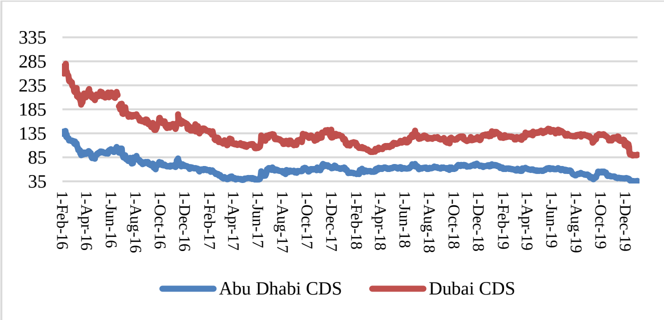
Source: Securities and Commodities Authority (SCA)
Note: Changes computation (Q-o-Q) are based on quarterly average of end-of-month values for the share price index and market capitalization.

3.2.2. Credit Default Swaps Premiums

Sovereign risk premiums, as measured by the Sovereign Credit Default Swaps, remained low in 2019 Q4 compared to their historical level in particular for Abu Dhabi. For the Emirate of Abu Dhabi, the index slightly increased in 2019 Q4 by 3.1 basis points (bps) from an all-time low of 50.5 bps registered in the previous quarter. For the Emirate of Dubai, the default risk premium also moderately increased by 2.9 bps compared to the previous quarter (see Figure 3.2.1).

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

	2019			
	Q1	**Q2**	**Q3**	**Q4**
Emirate of Abu Dhabi	62.6	59.8	50.5	53.6
Emirate of Dubai	129.3	138.1	129.6	132.5



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

Box 6: UAE Banks' Foreign Assets & Liabilities[13]

Total assets in the UAE banking system stood at AED 3,085.8 billion as of December 2019.[14] Excluding branches and affiliates abroad, UAE banks, have a total of AED 770.0 billion in foreign assets, split into AED 642.2 billion for national banks and AED 127.8 billion for foreign banks. In terms of liabilities, UAE banks, excluding branches and affiliates abroad, stood at a total of AED 680.1 billion in foreign liabilities, split into AED 575.4 billion for national banks and AED 104.7 billion for foreign banks. The analysis in this section focuses on the exposure of UAE national banks, for both the asset and liabilities sides of their balance sheets abroad. 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 claims/liabilities.

Foreign Assets and Liabilities for UAE National Banks

The total foreign assets exposure of national banks increased Q-o-Q and Y-o-Y by 1.7% and 12.6%, respectively, as of the end of 2019 Q4. Table 1 provides a detailed split of national banks' holdings of foreign assets. The three major categories as of December 2019 are securities with an outstanding amount of AED 202.9 billion, due from HO & branches with an outstanding amount of AED 141.2 billion and loans at AED 128.6 billion. Due from HO & branches experienced the most Q-o-Q increase by 11.1% followed by loans at 5.5%. Whereas in terms of Y-o-Y growth, securities and other assets had the highest rise of 35.8% and 15.1%, respectively.

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

Asset class	Jun-19	Sep-19	Dec-19
Due from HO & branches	126.7	127.0	141.2
Due from other banks	134.0	126.9	118.7
Securities	185.2	203.9	202.9
Loans	120.8	121.9	128.6
Other assets	47.3	51.6	50.7
Foreign currency Cash in Hand	0.1	0.1	0.1
Total	**614.1**	**631.5**	**642.2**

Source: CBUAE

The total foreign liabilities of national banks also increased Q-o-Q and Y-o-Y at the end of 2019 Q4 by 1.9% and 9.2%, respectively. The liability classes of exposure are split according to the categories in Table 2. The three major categories as of December 2019 are other deposits [15]with an outstanding amount of AED 188.5 billion, capital market funding at AED 149.2 billion and due to other banks abroad with an outstanding amount of AED 94.5 billion. The outstanding balance for the three liability classes changed by 18.6%, 3.6% and -18% Q-o-Q, and by 4.5%, 28.1% and -7.3% Y-o-Y, respectively.

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

Liability class	Jun-19	Sep-19	Dec-19
Due to H.O and/or Branches Abroad	35.5	34.8	34.5
Due to Other Banks Abroad	113.4	115.2	94.5
Capital Market Funding	140.0	144.0	149.2
Other Term Borrowings	50.4	46.9	46.9
Other Deposits	160.7	158.9	188.5
Other Foreign Liabilities	61.5	64.8	61.8
Total	**561.5**	**564.7**	**564.7**

Source: CBUAE

[13] In this box, all December 2019 data are provisionary and subject to revision.

[14] Excluding branches and affiliates abroad.

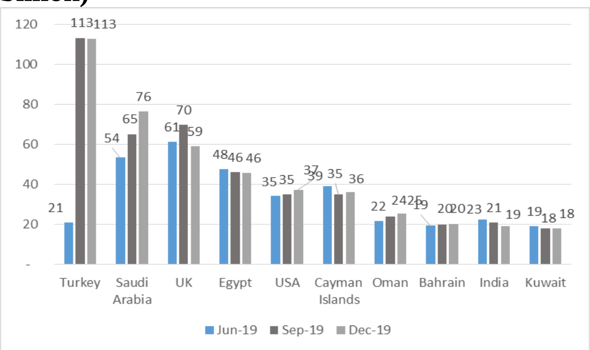
[15] These deposits include placements with other central banks.

UAE National Banks' Top 10 Countries for Cross Border Exposure

As of December 2019, the largest asset exposure of UAE national banks abroad, including branches and affiliates, was in Turkey at AED 112.9 billion, followed by AED 76.4 billion in Saudi Arabia and AED 59.1 billion in the UK. Of the top 10 exposures, the three countries that experienced the highest Q-o-Q increase were Saudi Arabia by AED 11.1 billion (17.1%), followed by the USA AED 2.5 billion (7.1%) and Oman by AED 1.4 billion (5.8%). On a Y-o-Y basis, the top three countries of exposure with highest growth rates were Turkey, Saudi Arabia and the UK by AED 88.7 billion (356.6%), due to the acquisition of a Turkish bank in Q3 2019 by a local bank, AED 38 billion (99.1%) (with three main banks driving as it relates to investments and interbank, in addition to a recently open branch in 2018 by a large national bank) and AED 13.1 billion (28.5%), respectively.

On the other hand, the top three drops in foreign asset exposure Q-o-Q were for the UK by AED 10.8 billion (15.4%), followed by India AED 1.8 billion (8.3%) and Turkey by AED 0.5 billion (0.5%). However, the largest Y-o-Y drop materialized in Egypt as it fell by AED 6.1 billion (11.8%), India by AED 2.2 billion (10.2%) and the USA which fell by AED 1.5 billion (3.8%) (see Figure 1).

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

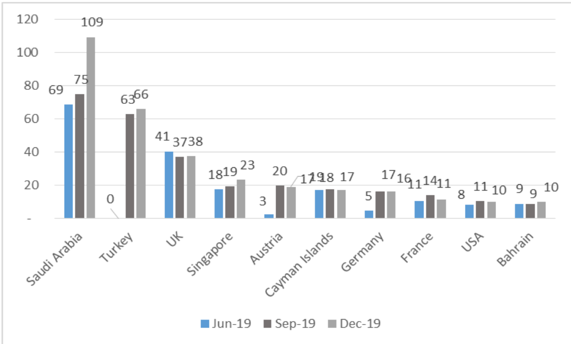


Source: CBUAE

On the other hand, the largest foreign liability exposure of UAE national banks abroad, including branches and affiliates, as of December 2019 was in Saudi Arabia at AED 109.4 billion, followed by AED 66.0 billion in Turkey and AED 37.5 billion in the UK. The top three countries that experienced the highest increase Q-o-Q were Saudi Arabia by AED 34.4 billion (45.9%), Singapore by AED 3.9 billion (20%) and Turkey by AED 3.1 billion (4.9%). The top three countries that experienced the largest increase Y-o-Y were Turkey, Saudi Arabia and Austria. The increase of exposure in Saudi Arabia is due to three banks, which increased borrowing from Saudi Arabia's financial market.

As of December 2019, the top three countries that experienced reduction in foreign liabilities exposure Q-o-Q were France by AED 2.8 billion (19.9%), Austria by AED 0.8 billion (4%) and the Cayman Island[16] by AED 0.7 billion (4.1%). A drop of exposure Y-o-Y as of September 2019 was observed only for France where liabilities dropped by AED 4.0 billion (26.1%) and for the USA where they declined by AED 3.2 billion (23.8%) (see Figure 2).

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



Source: CBUAE

Foreign Currency Denomination of UAE Banks' Assets and Liabilities

The major foreign currency claims for UAE banks remain in USD, which stood at 82.1% at the end of the fourth quarter of 2019 as a percentage of total foreign currency exposure. Other exposures are in the domination of Euro, Saudi Riyal, and Pound sterling, at 9.5%, 2.5% and 2% respectively (Table 3).

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

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

Currency	Jun-19	Sep-19	Dec-19
USD	81.1%	84.7%	82.1%
Euro	10.9%	7.4%	9.5%
Saudi Riyal	1.6%	2.0%	2.5%
Pound Sterling	2.0%	1.9%	2.0%
Japanese Yen	1.4%	1.3%	1.1%
Kuwaiti Dinar	0.2%	0.2%	0.3%
Chinese Yuan	0.3%	0.2%	0.2%
Qatari Riyal	0.2%	0.2%	0.2%
Bahraini Dinar	0.2%	0.2%	0.2%
Swiss Franc	0.1%	0.1%	0.1%
Other Foreign currencies	2.0%	1.7%	1.7%

Source: CBUAE

In terms of the liabilities, the major foreign currency exposure for UAE banks remains also in USD, which stood at 81.3% at the end 2019 Q4 as a percentage of total foreign currency exposure. Other foreign exposures are in the domination of Saudi Riyal, Euro and Pound Sterling, at 7.4%, 4.8% and 2.4%, respectively (Table 4).

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

Currency	Jun-19	Sep-19	Dec-19
USD	81.2%	81.9%	81.3%
Saudi Riyal	6.3%	5.5%	7.4%
Euro	5.5%	5.1%	4.8%
Pound Sterling	2.5%	2.2%	2.4%
Swiss Franc	0.7%	0.7%	0.7%
Japanese Yen	0.9%	0.8%	0.6%
Chinese Yuan	0.7%	0.6%	0.6%
Qatari Riyal	0.1%	0.2%	0.1%
Bahraini Dinar	0.0%	0.0%	0.0%
Kuwaiti Dinar	0.2%	0.2%	0.2%
Other Foreign currencies	1.9%	2.8%	1.7%

Source: CBUAE

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

The Central Bank balance sheet exhibited an increase in 2019 Q4, reflecting a rise in commercial banks' balances at the CBUAE. Meanwhile, interest rates in the UAE interbank market edged lower, in line with the October Fed's policy rate cut. The EIBOR versus USD LIBOR spread decreased in Q4 due to tightening money market conditions in the US. The spread of the 10-year swap rate of the AED relative to the USD decreased due to less risk associated with the UAE compared to perceived lingering uncertainty in the global markets.

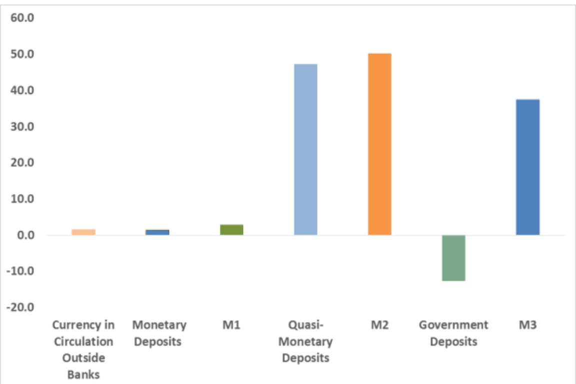
4.1 Monetary Aggregates

During 2019 Q4, Money Supply M1 (Currency in Circulation outside banks + Monetary Deposits) increased by 0.6% (AED 2.3 billion) to reach AED 514.8 billion, driven by a rise in Monetary Deposits (84.8% of M1) by 0.3% (AED 1.3 billion) which reached AED 436.6 billion. Y-o-Y, M1 increased by 6% due to an increase in Currency in Circulation by 10.9% and an increase in monetary deposits by 5.2%.

Money supply M2 (M1 + Quasi Monetary Deposits) increased by 3.7% (AED 50.2 billion) to reach AED 1,411.5 billion, due to an increase in Quasi-Monetary deposits (63.5% of M2) by 5.6% (AED 47.3 billion), reaching AED 896.7 billion. Y-o-Y, M2 increased by 7.9% due to an increase in Quasi Monetary Deposits by 9%.

Meanwhile, M3 (M2 + Government Deposits at banks and CBUAE) increased at a slower pace of 2.2% (AED 37.5 billion) to reach AED 1,717.4 billion, due to a decrease in Government Deposits (17.8% of M3) by 4% (AED 12.7 billion) to reach AED 305.6 billion. Y-o-Y, M3 increased by 7.2% due to an increase in Government Deposits by 4.1%.

Figure 4.1. 2019 Q4 Change in Monetary aggregates (AED Billion)



Source: CBUAE

4.2 Central Bank Balance Sheet

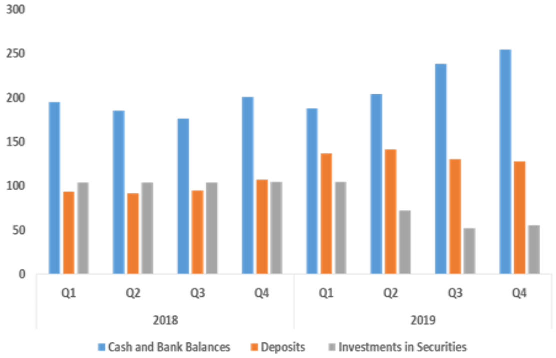
The balance sheet of the CBUAE increased by 4.5% in 2019 Q4 to reach AED 446.2 billion, at the end of December, due to an increase in foreign assets by AED 20.4 billion . On the liabilities side of the balance sheet of the Central Bank, there were increases in all the four major components: Required Reserves (AED 3.5 billion), Current Accounts and Deposits (AED 4.9 billion), Certificates of Deposits (CDs) issued by CBUAE and purchased by banks (AED 6.4 billion), and Currency Issued (AED 2.9 billion).

Table 4.1 Central Bank Balance Sheet (AED Billion)

	2018	2019			
	Q4	Q1	Q2	Q3	Q4
Total Assets,	**417.7**	**432.6**	**433.5**	**427.0**	**446.2**
Foreign Assets	362.6	377.1	377.2	374.3	394.7
Securities-Dubai Government/MoF	49.0	49.0	46.1	46.1	46.0
Other Assets	6.1	6.5	10.2	6.6	5.5
Total Liabilities,	**417.7**	**432.6**	**433.5**	**427.0**	**446.2**
Required Reserves	120.6	123.1	124.8	126.2	129.7
Current Accounts & Deposits	42.2	55.5	31.1	26.1	31.0
Certificates of Deposit	138.2	139.2	155.8	153.8	160.2
Currency Notes & Coins issued	85.8	88.3	91.3	90.8	93.7
Total Capital & Reserves	23.3	23.3	23.4	23.4	25
Other Liabilities	7.6	3.2	7.1	6.7	6.6

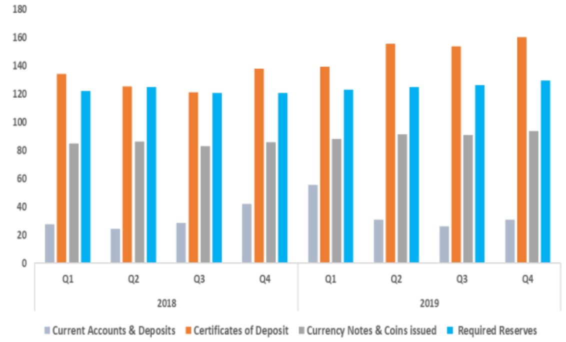
Source: CBUAE

Figure 4.2 Central Bank Assets (AED Billion)



Source: CBUAE

Figure 4.3 Central Bank Liabilities (AED Billion)



Source: CBUAE

4.3 Central Bank Foreign Assets

As shown in Table 4.2, total foreign assets increased by AED 20.4 billion in 2019 Q4 reflecting primarily an increase in Foreign Securities by AED 3.3 billion and increase in Current Account Balances & Deposit with Banks Abroad by AED 14.7 billion.

Table 4.2 Central Bank's Foreign Assets (AED Billion)

	2018	2019			
	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Total Foreign Assets*	**362.6**	**377.1**	**377.2**	**374.3**	**394.7**
Foreign Securities	**55.2**	**55.3**	**39.3**	**6.0**	**9.3**
-USD Treasury Notes	50.7	50.7	31.1	0.5	0.5
-IDB Sukuk	4.6	4.6	4.6	5.5	-
- Euro Commercial Papers	--	--	3.6	-	8.8
Current Account Balances & Deposit with Banks Abroad	**294.1**	**307.6**	**323.5**	**351.0**	**365.7**
-Current & Call Accounts	187.2	174.1	185.5	220.7	238.2
-Deposits	93.3	117.0	118.4	113.8	116.4
-Tri-Party Deposits	13.6	16.5	19.6	16.5	11.2
Other Foreign Assets	**13.3**	**14.2**	**14.4**	**17.4**	**19.7**

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

4.4. International Reserves Position

The credibility of the peg arrangement of the Dirham to the US dollar requires the Central Bank by Law to hold a minimum foreign assets cover ratio *of 70% of the monetary base*.

Table 4.3 reports the International Reserve Position of the Central Bank, including foreign assets at CBUAE, IMF Reserve Position and SDR holdings. The International Reserve Position increased from AED 377.5 billion at the end of 2019 Q3 to AED 397.9 billion at the end of 2019 Q4. As a ratio of the monetary base, the International Reserve Position increased during this period, from 96.1% to 97.2%, thereby remaining much higher than the minimum currency cover ratio of 70%, required by Decretal Federal Law No. 14 of 2018.

Table 4.3 International Reserves (AED Billion)

	2018	2019			
	Q4	Q1	Q2	Q3	Q4
1. **International Reserve Position**	**365.4**	**379.9**	**380.3**	**377.5**	**397.9**
– Foreign Assets	362.6	377.1	377.2	374.3	394.7
– IMF Reserves Position + SDR Holdings	2.9	2.9	3.1	3.2	3.2
2. Monetary Base	**379.7**	**372.9**	**397.1**	**392.8**	**409.5**
– Currency Issued	85.8	88.3	91.3	90.8	93.7
– Required Reserves	120.6	123.1	124.8	126.2	129.7
– Banks & OFCs Current Accounts at CBUAE	35.1	22.3	25.2	22.0	25.9
– Certificates of Deposit	138.2	139.2	155.8	153.8	160.2
Ratio (1/2)	**96.2%**	**101.9%**	**95.8%**	**96.1%**	**97.2%**

Source: CBUAE
End of period data, IMF Reserves Position in Q4 is preliminary subject to revision.

4.5 Developments in Banks' Liquidity at the CBUAE

Banks' liquid assets at the CBUAE determine the increase in the CBUAE's balance sheet. Liquidity held by banks at CBUAE are mainly composed of Required Reserves, Current Accounts and Deposits, and CDs. They increased from AED 306.1 billion at the end of 2019 Q3 to AED 320.9 billion at end of 2019 Q4 (see Table 4.1), owing to the above-indicated increase in the components that reflect banks' management of the increase in liquidity in the system (see Chapter 3).

4.6 Developments in Interest Rates

The fixed exchange rate of the AED to the USD requires that the CBUAE adjusts its policy rate according to changes in the federal funds rate. Therefore, the CBUAE announced the cut in interest rates applied to its Certificates of Deposits consistent with the FOMC decision taken in this regard on 30 October 2019, which brought down the Target Federal Funds Rate by 25 bps to the range 1.5-1.75%.

4.6.a Short-term Interest Rates

EIBOR (3-month) declined from a peak of 2.30% at mid-October, in line with the decrease in LIBOR on USD (3-month) as a result of the Fed's easing cycle which started in July and continued in September and October, thereby totaling three reductions in the Fed Fund's Rate.

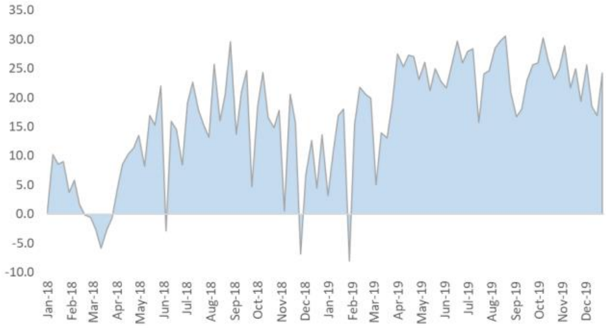
The 3-month LIBOR on the US dollar witnessed a sustained fall during this period on the back of the Fed's policy reversal. Following the last rate hike in December 2018 and a pause in the first half of 2019, the Fed started its easing cycle in July 2019 with a cut of its policy rate – The Federal Funds Rate – by 25 bps, followed by two other similar cuts in September and October (see chapter 1 for more details). Therefore, the 3-month USD LIBOR declined progressively from 2.36% at the end of September to 2.19% at the end of December, averaging 1.93% in 2019 Q4, compared to 2.19% in 2019 Q3.

The EIBOR vs. USD LIBOR spread fluctuated during November-December 2019, declining from a peak of 29 bps in mid-November to 24 bps at the end of the year. The larger decrease in EIBOR compared to LIBOR on USD was in the last three weeks of December when the spread averaged 96 bps compared to 113 bps for the previous part of the Q4.

The decline in the spread was mainly due to sufficient liquidity in the UAE while tightening money market conditions in the US forced the New York Fed to continue injecting liquidity in financial markets via overnight repurchase agreements, or repos. These injections started in mid-September when the short-term funding rate spiked suddenly from 2% to 10% and continued to 22 October. At that point, the New York Fed injected $99.9 billion in temporary liquidity (cash in exchange for high-quality assets like government bonds) and $7.5 billion in permanent reserves. This was followed by an increase in temporary overnight repo operations to $120 billion from $75 billion, in an attempt to keep the markets operating properly and to hold the overnight funds rate within its target range.

As shown in Figure 4.4.b, the EIBOR vis-à-vis the USD LIBOR (3–month) spread, fluctuated around a decreasing trend from an average of 24.1 bps in Q3 to an average of 23.9 bps in Q4.

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



Source: Bloomberg

The period average of weekly 3-month EIBOR declined from 2.43% in 2019 Q3 to 2.17% in 2019 Q4, benefiting individual borrowers and businesses. In particular, it is a relief for UAE citizens participating in the National Loan Scheme, as EIBOR 3-month serves as a basis for the interest rate cap.

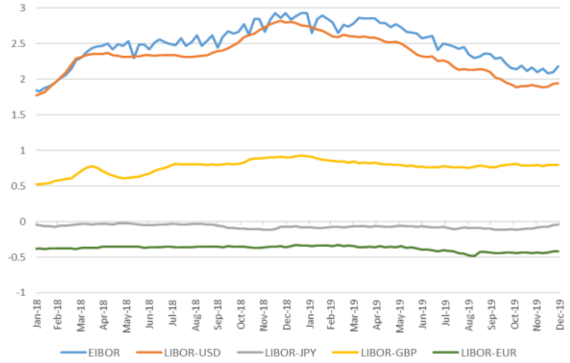
The Euro and Japanese Interbank rates remained in negative territory in 2019 Q4, consistent with the respective central banks' policy orientation. Following the cut in the interest rate on deposits by 10 basis points to minus 0.5% in September, the ECB kept its benchmark rates on hold in Q4 despite sluggish growth and below target inflation as concerns dominated regarding the impact of negative interest rates on banks. Against this backdrop, the new ECB Governor, Christine Lagarde, put more emphasis on the role of fiscal policy and structural reforms.

The Bank of Japan (BoJ) maintained also its short-term interest rate target at -0.1% and continued its pledge to guide the 10-year government bond yields around 0% at its 31 October meeting. The monetary policy stance in Japan remained unchanged until the end of the year despite below target inflation and the economic slowdown that lingered, in part due to the impact of the consumption tax rate hike introduced in October.

As a result, the BoJ has shifted to more reliance on a massive asset purchase program.

LIBOR on the British Pound fluctuated around a slightly rising trend, reaching an average of 0.79% in Q4 up from an average of 0.77% in Q3. This may be attributed to the fact that the Bank of England did not take any decision to cut its policy rate during this period. Moreover, the persistently low inflation below target levels (1.3%, Y-o-Y in December) and uncertainty surrounding Brexit, against the backdrop of lingering signs of economic weaknesses, may warrant a rate cut by the Bank of England in the near future.

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

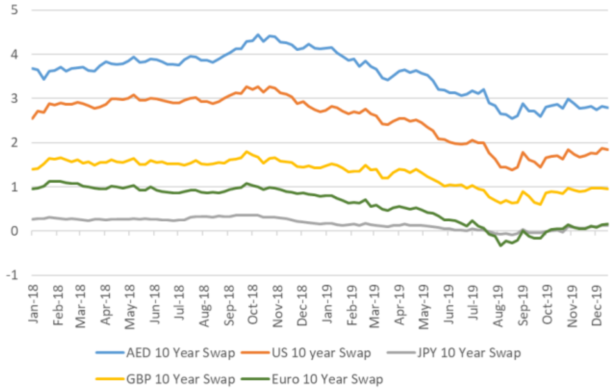


Source: Bloomberg

4.6.b Long-term Swap Rates

Interest rate swaps involve an exchange of a fixed rate for a floating payment that is linked to an interest rate, most often the LIBOR. As shown in Figure 4.5.a, the 10-year swap rates fluctuated during the fourth quarter around a rising trend as global liquidity tightened and risks remained high, increasing from 2.60% in early October to a peak of 2.87% at the end of the same month. The weekly data nonetheless show a comparable average of 2.81% in Q4 compared to 2.85% in Q3, notwithstanding continued decline towards the end of the year.

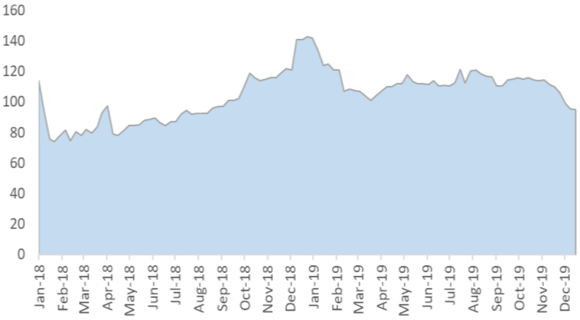
Figure 4.5.a 10-year Swap Rates (%)



Source: Bloomberg

In line with the short-term spread, the spread of the 10-year swap rate for the AED versus the swap rate for the USD witnessed a downward trend in the fourth quarter of 2019, decreasing from 115 bps in early October to 95 bps at the end of December, while the quarterly average declined from 115 bps in Q3 to 110 bps in Q4.

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



Source: Bloomberg

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