Please Rate this Report

مصرف الإمارات العربية المتحدة المركزي

CENTRAL BANK OF THE U.A.E.

Quarterly Economic Review

Second quarter 2017

[Please Rate this Report]

Table of contents

Please Rate this Report

Figures

Please Rate this Report

Tables

Please Rate this Report

Boxes

Please Rate this Report

Executive Summary

The pickup in global economic growth remains on track, during the second quarter of the year as many economies reported better than expected GDP figures. The International Monetary Fund (IMF) projected that global output will be 3.5% in 2017 and 3.6% in 2018. However, contributions to global growth are different across countries. The US, Japan, China, and some Euro Zone economies reported better than expected second quarter growth figures. The US reported a 3% (annualized) GDP growth; Japan reported a better than expected growth of 1.0% (quarter-over-quarter); while China reported growth of 6.4% (year-over-year). Meanwhile, growth in other economies, including Saudi Arabia and the UK, is lagging with the IMF projecting zero percent growth for Saudi Arabia and 1.7% for the UK.

Oil prices decreased in the second quarter of 2017, mainly because of expanding supplies in the US, Nigeria, and Libya. The US daily oil production increased to 9.2 million barrels in the second half of the year. Despite the agreement by OPEC members in November 2016 and an announcement in May this year to extend cuts in oil output by nine more months to March 2018, production within members of OPEC increased as Nigeria and Libya ramped up production.

In the UAE, based on revised new figures of growth projections and global economic developments, the Central Bank of the UAE has revised its projections of the Real GDP growth and its components for 2017, and published its estimates for 2017 Q2. Non-oil GDP is estimated to grow by 3.1% in 2017, while oil GDP growth is projected to decline by 1.4%. The combined effect is estimated growth of Real GDP at 1.7% in 2017. The Economic Composite Index produced by CBUAE (ECI) estimates for 2017 Q2 are of 2.4% for the whole economy with non-oil GDP growing at 3.1% in the same quarter. Inflation declined in 2017 Q2 to 2% year-on-year (Y-o-Y) compared to the previous quarter, reflecting a fall in both tradables and non-tradables inflation. Housing CPI inflation also went down to 1.3% Y-o-Y, compared to 2.1% in 2017 Q1.

Regarding banking activity, Government deposits increased at a slower pace in the second quarter of 2017. As a result, M2 and M3 declined marginally. Banks' credit declined on a Quarter-to-Quarter (Q-o-Q) but continued to grow on a Y-o-Y basis, supporting growth in the non-oil activities. The Financial Soundness Indicators (FSIs) remained robust, showing that the UAE banking system is sound and stable.

In addition, the Central Bank's balance sheet exhibited an increase in 2017 Q2, triggered by increases in foreign assets. As a result, Total Assets increased owing mainly to rising Cash and Bank Balances and Central Bank's Deposits abroad. Meanwhile, interest rates in the UAE continued their upward trend in line with the Fed's decision announced on the 14th of June 2017.

Please Rate this Report

Chapter 1. International Economic Developments

The pickup in global growth remains on track, with global output projected to grow by 3.5% in 2017 and 3.6% in 2018. These global growth projections mask somewhat different contributions at the country level. US growth projections have been revised down, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. Growth has been revised up for Japan and the euro area, where positive surprises to activity in late 2016 and early 2017 point to solid momentum. China's growth projections have also been revised up, reflecting a strong first quarter of 2017 and expectations of continued fiscal support.

The pickup in global growth remains on track with somewhat different contributions at the country level. According to the International Monetary Fund's (IMF) July 2017 World Economic Outlook (WEO) update, the global economy is expected to grow by 3.5% in 2017 and 3.6% in 2018. While these projections remain unchanged from the April WEO, contributions to growth by country have been revised. US growth projections have been revised down, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. Growth has been revised up for Japan and the euro area, where positive surprises to activity in late 2016 and early 2017 point to solid momentum. China's growth projections have also been revised up, reflecting a strong first quarter of 2017 and expectations of continued fiscal support.

Among the UAE's major trading partners, Japan, India, China, and Saudi Arabia, the growth forecast is mixed.

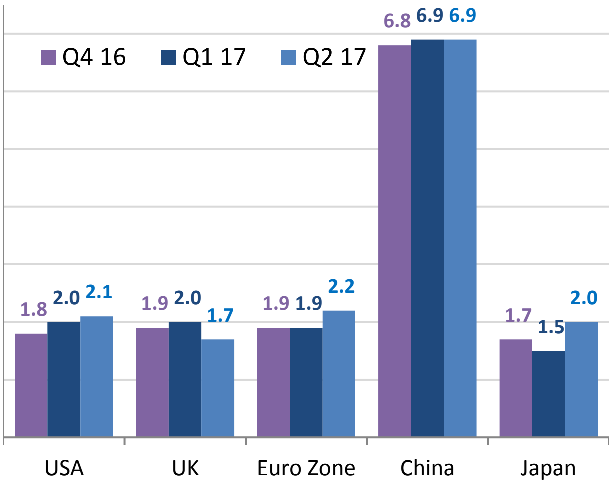
For Japan, the IMF upgraded its forecast for the world's third-largest economy to 1.3% in 2017 from an April projection of 1.2%. The forecast for 2018 remains at 0.8%. Strong net exports and increases in inflation and factory output will contribute to the growth prospects. Meanwhile, Japan's second quarter GDP exceeded expectations growing at the fastest pace in more than two years as consumer spending and capital expenditure both rose at the fastest rate in more than three years, highlighting stronger domestic demand. GDP expanded at an annualized 4.0% in the second quarter, the biggest increase since the first quarter of 2015. Quarter-on-quarter, the economy expanded by 1.0% from the first quarter. Year-on-year, the Japanese economy expanded by 2% in the second quarter (see Figure 1.1.).

For India, growth is forecast to pick up further in 2017 and 2018, in line with the April 2017 forecast. While activity slowed following the currency exchange initiative, growth for 2016, at 7.1%, was higher than anticipated due to strong government spending and data revisions that show stronger momentum in the first part of the year.

For China, the IMF expects growth to remain at 6.7% in 2017, the same level as in 2016, and to decline only modestly in 2018 to 6.4%. The forecast for 2017 was revised up by 0.1 percentage point from the April forecast, reflecting the stronger than expected outturn in the first quarter of the year underpinned by previous policy easing and supply-side reforms (including efforts to reduce excess capacity in the industrial sector). For 2018, the upward revision of 0.2 percentage points from the April forecast mainly reflects an expectation that the authorities will delay the needed fiscal adjustment (especially by maintaining high public investment) to meet their target of doubling 2010 real GDP by 2020. Official statistics from the Chinese government showed that second quarter 2017 growth beat expectations – coming in at 6.9% over the previous year (see Figure 1.1.). Quarter-on-quarter, the economy grew by 1.7%.

[Please Rate this Report]

Figure 1.1. GDP growth for selected countries (Y-o-Y, %)



Source: Bloomberg

For Saudi Arabia, growth is expected to slow to zero percent in 2017 because of lower oil production and ongoing fiscal consolidation. According to the IMF, non-oil growth is projected to pick up to 1.7% in 2017 while the oil growth is projected to be -1.9% as oil GDP declines in line with Saudi Arabia's commitments under the OPEC agreement[1]. Growth is expected to strengthen over the medium-term as structural reforms are implemented. Employment growth has also weakened, and the unemployment rate among Saudi nationals has increased to 12.3%.

The growth forecast for the United States has been revised down from 2.3% to 2.1% in 2017 and from 2.5% to 2.1% in 2018. The major factor behind the revision, especially for 2018, is the assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of U.S. fiscal policy changes. In addition, market expectations of fiscal stimulus have also receded. However, official statistics showed that GDP increased at an annualized rate of 3% in the second quarter of 2017 compared to 1.2% (revised) in the first quarter of 2017. The increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, and federal government spending that were partly offset by negative contributions from private residential fixed investment, private inventory investment, and state and local government spending. Imports also increased. Year-on-year, the US economy grew by 2.1 percent from the previous year (see Figure 1.1).

The growth forecast has also been revised down for the United Kingdom for 2017 on weaker-than-expected activity in the first quarter. In the second quarter, GDP increased by 0.3%, a slight improvement from the prior quarter. Growth accelerated in the second quarter thanks to a rebound from the services sector. Growth in movies and retail sales also boosted the figure. The second quarter figure marked a slight improvement on the 0.2% growth seen during the first quarter of the year, but failed to match a reading of 0.7% for the final three months of 2016. Year-over-year, the UK economy grew by 1.7% in the second quarter (see Figure 1.1.).

By contrast, growth projections for 2017 have been revised up for many euro area countries, including France, Germany, Italy, and Spain, where growth for the first quarter of 2017 was generally above expectations. Despite heightened uncertainty about Brexit, growth in the 19-nation Eurozone in 2017 is expected to be 1.9% – a slight improvement from the previous year. Meanwhile, official statistics from Eurostat showed that GDP in the Eurozone increased 0.6% in the second quarter compared to 0.5% in the previous quarter. Year-on-year, GDP increased by 2.2% in the second quarter of 2017 compared to the same period last year (see Figure 1.1.).

In the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)[2] region, the global factors shaping the world economic outlook for 2017 will be reflected in the outlook for the region through their impact on commodity prices, export demand, remittance flows, exchange rates, and financial conditions. The IMF suggests that global outlook is consistent with somewhat higher commodity prices and stronger global trade, which will support economic activity in the MENAP region. In addition, stronger growth in China will also support

[1] In November of 2016, OPEC reached an agreement to cut oil production to 32.5 million barrels a day.

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

anticipated investment in some countries. However, the outlook also implies higher interest rates, which will, to different degrees, increase fiscal vulnerabilities across the region. For MENAP oil exporters, growth is expected to slow in 2017 because of the oil production cuts agreed to under the terms of the recent OPEC deal. In contrast, although the outlook varies across individual countries, overall growth in the non-oil sector is expected to increase in 2017 as the pace of fiscal consolidation eases. For MENAP oil importers, growth is expected to increase from 3.7% in 2016 to 4% in 2017 and to 4.4% in 2018. In addition, growth will be supported by the broader global recovery, which is expected to boost demand from the region's main export markets (see Table 1.1.).

Table 1.1. Real GDP growth in the MENAP region

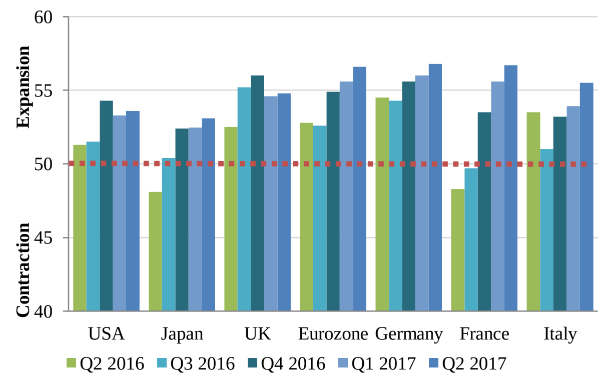
				Projections	
	2014	2015	2016	2017	2018
MENAP	2.8	2.7	3.9	2.6	3.4
MENAP oil exporters	2.6	2.1	4.0	1.9	2.9
MENAP oil importers	3.1	3.9	3.7	4.0	4.4

Source: IMF staff calculations

The growth figures described in previous paragraphs are reflected in the Purchasing Manager's Index (PMI) for the respective economies.[3] The Eurozone economies show continued improvements in both manufacturing and services PMIs. The Eurozone's overall PMI increased from 55.6 in the first quarter to 56.6 in the second quarter. For individual Eurozone countries, Germany's PMI increased from 56 to 56.8, France from 55.6 to 56.7, and Italy from 53.9 to 55.5. The PMI levels for the US and the UK increased to a lesser extent. Japan's PMI also showed improvements in the second quarter of 2017. Japan's manufacturing PMI continued to improve in June to 52.4, extending the current sequence of expansion to ten months. The services PMI edged up to 53.3 in June, from 53.0 in May. Overall, Japan's PMI increased from 52.4 in the first quarter to 53.1 in the second quarter (see Figure 1.2.).

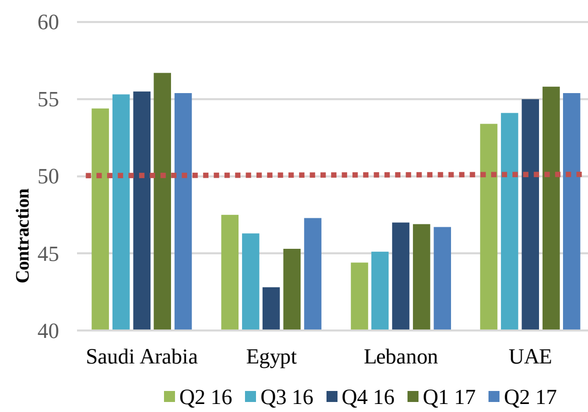
In the Middle East and North Africa (MENA) region, PMI levels decreased from first to second quarter for all countries where data are available except for Egypt, which registered a slight improvement, although remains in contractionary territory. In Saudi Arabia, PMI in the non-oil private sector economy fell from 55.3 in May to an eight-month low of 54.3 in June. Moreover, the average performance of the second quarter of 2017, 54.3 was weaker than the average performance of the first quarter, 56.7. PMI levels for both the UAE and Lebanon decreased slightly from first to second quarter (see Figure 1.3.).

Figure 1.2. PMI levels for selected developed countries



Source: Bloomberg

Figure 1.3. PMI levels for selected MENA countries

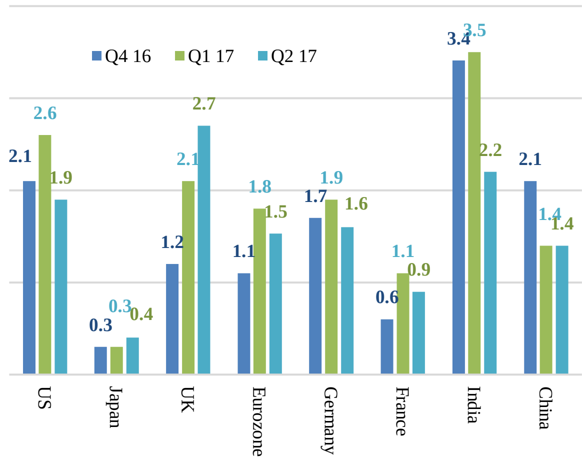


Source: Bloomberg

[3] A PMI reading above 50 indicates expansion and below 50 a contraction.

[Please Rate this Report]

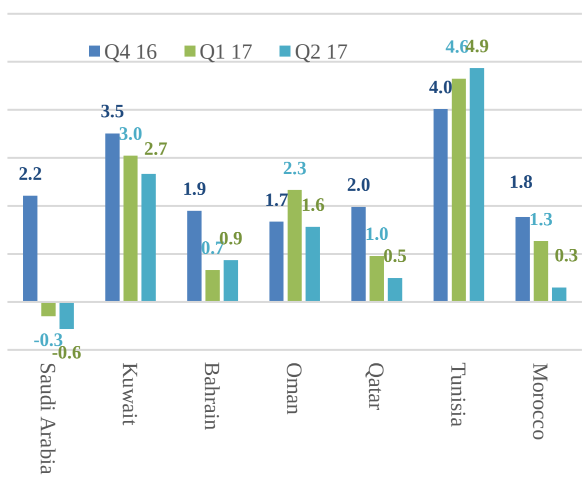
Figure 1.4. Year-on-year consumer price change for selected developed and emerging economies



Source: Bloomberg

Inflation as measured by consumer prices decreased, year-on-year, for all the selected economies in Figure 1.4 except for the UK, China, and Japan. Consumer price inflation edged up slightly for both Japan and the UK, while holding steady for China. These figures suggest that price developments have been relatively weak and many central banks are struggling to meet their inflation targets. The Bank of Japan, for example, pushed back by a year the timing for hitting its 2% inflation target, a blow to the bank's radical monetary experiment aimed at sustainably ending deflation (see Figure 1.4.).

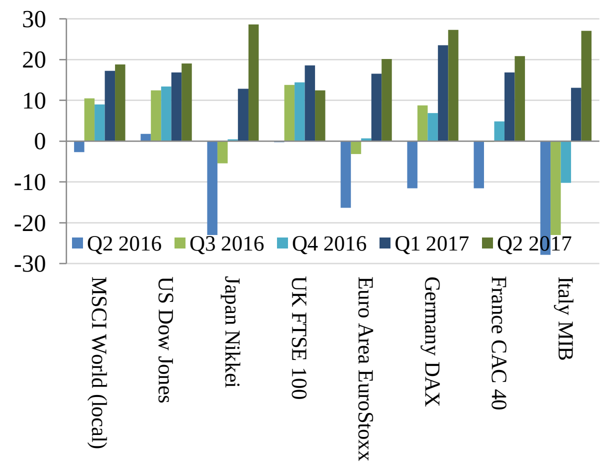
Figure 1.5. Year-on-year consumer price change for selected MENA countries



Source: Bloomberg

For the MENA region, inflation is moderating in most of the region, with the exception of Tunisia and Bahrain. In Tunisia, prices edged up slightly, as prices accelerated for transport, clothing and footwear, furnishings, health, and hotels and restaurants. Bahrain's inflation rate increased slightly as prices of food and non-alcoholic beverages, which account for 16% of consumer expenses, rose from a year earlier. In Saudi Arabia, deflation continues as prices fell for the second consecutive quarter – reaching 0.6%. Prices declined for food and beverages, transport, clothing and footwear, furnishings and recreation and culture. In contrast, cost of housing and utilities went up at a faster pace (see Figure 1.5.).

Figure 1.6. Annual percentage change of equity indices (local) in developed economies (%)



Source: Bloomberg

Regarding the financial sector, all developed economy equity markets registered positive annual returns during the second quarter of 2017. Japan's Nikkei registered the largest gain, increasing 28.6% from the same period last year. Other noticeable increases were registered by Germany's DAX (27.3%), Italy's MIB (27.1%), and France's CAC 40 (20.8%) (see Figure 1.6.).

In the second quarter of 2017, the price levels of Brent crude and natural gas increased while the price levels of gold and silver decreased from the same period last year. Brent crude prices increased 9.4% and natural gas increased 3.8%. Gold prices decreased 6.1%, and silver decreased 11.1%, as investors' concerns about US future Federal Reserve interest rate hikes, and political uncertainty outside the US factored into prices (see Figure 1.7.).

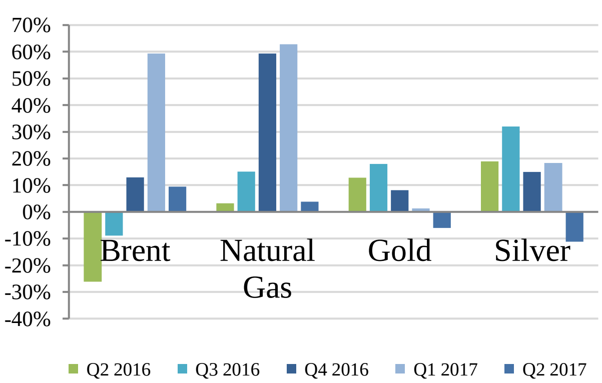
Quarter-on-quarter, oil prices decreased 7.1% ($54 to $50) in the second quarter mainly due to expanding

[Please Rate this Report]

supplies in the US, Nigeria, and Libya. The US daily oil production increased to 9.2 million barrels in the second half of the year. The U.S. Energy Information Administration (EIA) forecasted that total U.S. crude oil production will average 9.3 million barrels per day (b/d) in 2017, up 0.5 million b/d from 2016. In 2018, the EIA expects crude oil production to reach an average of 9.9 million b/d, which would surpass the previous record of 9.6 million b/d set in 1970.

Despite the landmark deal by OPEC in November 2016 and an announcement in May this year to extend cuts in oil output by nine more months to March 2018, production within members of OPEC increased as Nigeria and Libya ramped up production despite the OPEC agreement. Production in Libya is currently at a four-year high, ranging between 950,000 bpd and "close to" 1 million bpd. Nigeria's production reached 2.06 million bpd in the second quarter from 2.04 million bpd in the previous quarter. These factors are complicating OPEC's prospects of curbing global oil supply and thus putting downward pressure on oil prices.

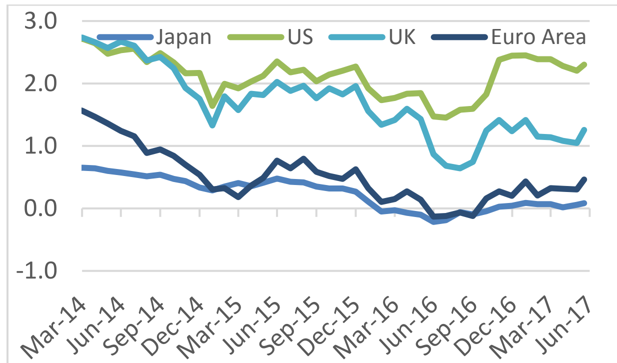
Figure 1.7. Selected commodity price levels (Y-o-Y, %)



Source: Bloomberg

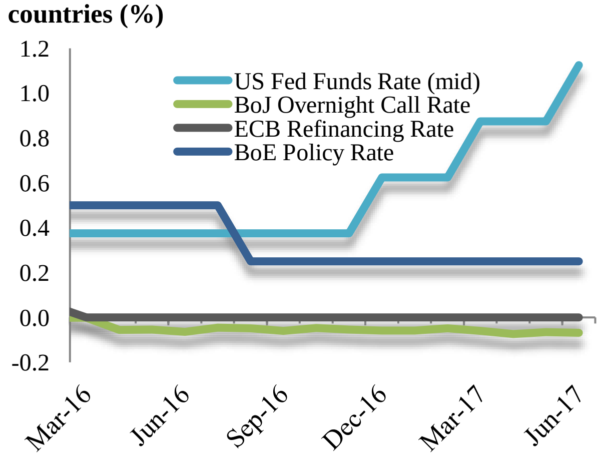
During the second quarter of 2017, government bond yields moved higher, in general, reflecting stronger outlook of rising inflation and rising expectation of tighter liquidity going forward (see Figure 1.8.). In the United States, government bond yields increased amid expectations of continued Federal Reserve (Fed) commitment to rising interest rates in 2017 and 2018. The strong jobs numbers are also likely to encourage the Fed to further tighten monetary policy. In the Eurozone, government bond yields made gains thanks to the European Central Bank's (ECB) commitment to extend its quantitative easing program through the end of 2017 and signs of economic recovery in many Eurozone economies. Similarly, the UK bond yields also moved slightly higher, while Japanese bond yields remained in negative territory mainly because of the negative interest rates kept by the Bank of Japan.

Figure 1.8. 10-year government bond yields for selected countries (%)



Source: Bloomberg

Figure 1.9. Policy rates for selected developed countries (%)



Source: Bloomberg

In terms of monetary policy, the Fed raised short-term interest rates by a quarter point in its June meeting. It was the Fed's third rate hike since December. And it is a sign that the central bank believes the U.S. economy is on solid ground. The Fed's key interest rate now ranges between 1% and 1.25%. The ECB left its benchmark interest rate unchanged at 0.00% in its June meeting –

Please Rate this Report

marking 16 consecutive months of 0.00% interest rates. The ECB also announced that it expected interest rates to remain at present levels for an extended period of time and that it would be ready to extend its quantitative easing (QE) program if needed. The Bank of England (BoE) has also left the UK interest rates at their current low record of 0.25%. According to the BoE, a combination of weak UK economic data and uncertainty surrounding Brexit talks contributed to their decision to keep rates unchanged (see Figure 1.9.).

[Please Rate this Report]

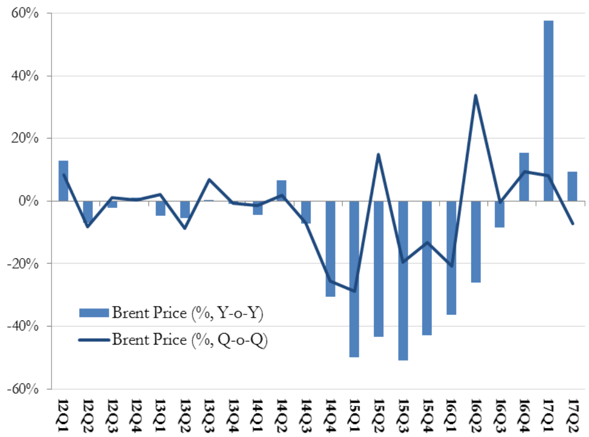
Chapter 2: Domestic Economic Developments

According to the Non-Oil Economic Composite Indicator (Non-Oil ECI), the non-hydrocarbon sector in the UAE grew by 3% in the second quarter of 2017, driven mainly by the slower pace of the fiscal consolidation, higher oil prices and improved growth in the main UAE trading partners. The overall Economic Composite Indicator grew at a slower pace by 2.4% on account of the oil production cut to which the UAE has committed. The inflation rate declined again to reach 2% after a rebound of 2.7% in the first quarter of the year, primarily driven by the slowdown of Housing and Utilities Prices (1.3% against 2.1%) and Transportation Costs (5% against 8.5%).

2.1. Economic Activity and Growth

The OPEC agreement effective January 2017 continued to help momentum in global oil prices in the second quarter of 2017 compared to the previous year. The Global Brent price increased by 9.4% on a year-on-year basis (see Figure 2.1.a.). Notwithstanding this improvement, the quarter-on-quarter average oil prices growth turned to be negative during the second quarter. Oil prices declined by 7.1%, on news of higher inventories in the US, casting doubt on the sustainability of the positive slope that prevailed since the last quarter of 2016.

Figure 2.1.a. Oil prices development, Brent price

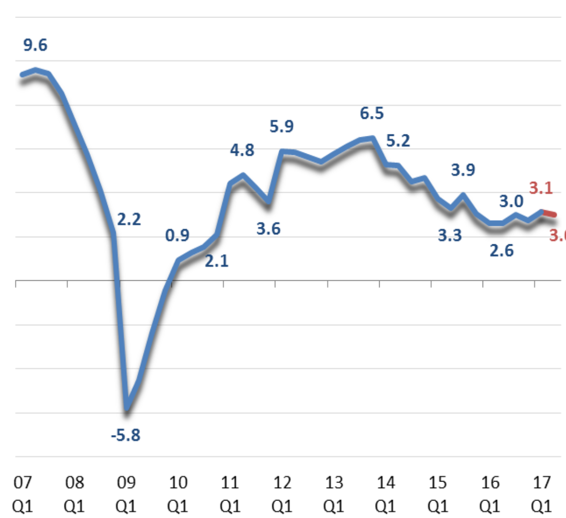


Source: IMF

Nonetheless, the non-oil economic activity in the UAE continues to demonstrate a strong resiliency to oil price volatility. In fact, the Economic Composite Indicator (ECI) index developed by the Central Bank estimates a 3% growth of the non-oil economic activity in the UAE during the second quarter on a year-on-year basis against 3.1% in the first quarter (see Figure 2.1.b.). In consistency of continued improvement in the quarterly growth of Non-Oil GDP in the UAE, the quarterly Non-Oil ECI was growing by a quarterly average of 2.8% in 2016 to reach a quarterly average growth of 3.1% in the first half of 2017 thanks to the improvement of the market sentiments boosted by the rally in the oil price.

The overall ECI index summarizes the global economic activity, including the oil sector. As the latter has been contracting in accordance with the UAE's commitment to the cut in oil production, overall growth in the economy is estimated at 2.4% in the second quarter of 2017 against 3.3% in the first quarter (see Figure 2.1.c.).

Figure 2.1.b. Non-Oil quarterly Economic Composite Indicator (Non-Oil ECI)



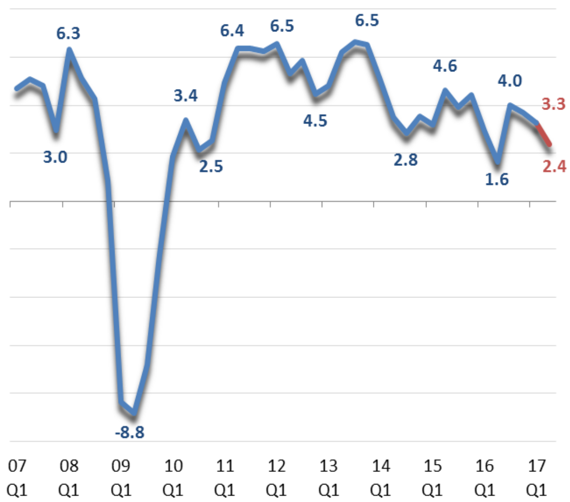
Source: CBUAE

The slowdown in the overall growth of economic activity was due to the decline of the oil production. In

[Please Rate this Report]

line with the UAE's commitment to the OPEC agreement, oil production has declined by more than 1% in the second quarter.

Figure 2.1.c. Overall quarterly Economic Composite Indicator (ECI)



Source: CBUAE

Following the new revisions of the GDP figures announced by the Federal Competitiveness and Statistics Authority, real GDP growth reached 3% in 2016, to which the non-oil sector contributed 2.7% and the oil sector contributed 3.8% (see Table 2.1.). In contrast, given estimates for the first half of 2017, the CBUAE projects growth in 2017 to reach 1.7%, of which growth in the oil sector is -1.4% and growth of non-energy is 3.1%.

Table 2.1. Economic Growth in the UAE (%)

	2014	2015	2016	2017(E)
Real GDP	3.3	3.8	3.0	1.7
Real Oil GDP	0.4	5.4	3.8	-1.4
Real Non-Oil GDP	4.6	3.2	2.7	3.1

Source: Federal Competitiveness and Statistics Authority (FCSA) for 2014, 2015, and 2016, and Central Bank estimations (E) 2017.
Note: For more details concerning the GDP figures revision and the Central Bank's estimates, see "Box: GDP forecasting model of the Central Bank of the UAE" in the Quarterly Economic Report for Q4 2015 in the CBUAE website.

Please Rate this Report

2.2 Consumer Price Index and Inflation

The headline inflation has declined during the second quarter of 2017 to reach 2% against 2.7% in the first quarter (see Table 2.2.). The Consumer Price index (CPI) increased by 2% at the end of the quarter coinciding with the lowest price volatility during the first half of the year. This disinflation was the result of a decline in both tradables and non-tradables inflation (see Figures 2.2.a. and 2.2.b.).

Tradables prices, which account for 34% of the consumption basket in the UAE, increased by 2.7% in the second quarter of 2017 against 3.4% in the previous quarter. The tradables' inflation slowdown was driven by the decline of the tradable part of transportation costs. In fact, the energy retail prices increased by 5% in the second quarter after an increase of 8.5% previously in line with the decline in international oil prices. The indexation of energy retail prices to international oil prices started in August 2015 when the government implemented the energy subsidy-cut. This reform has contributed to the increase of transportation cost volatility by around 30%.

The price inflation of textiles, clothing and sportswear declined in the second quarter of 2017 to reach 1% against 1.4% in the first quarter. Similarly, the furniture and households' goods inflation displayed a drop from 1.9% in the first quarter to stand at 1.2% in the second quarter of 2017. The declining trend for both items was triggered by the large sales promotions and discounts associated with the Holy Month of Ramadan. On the other hand, food and soft drinks prices increased by 0.8% in the second quarter of 2017 against a previous growth of 0.3% in the first quarter, reflecting the depreciation of the dirham.

Accounting for 66% of the consumption basket in the UAE, the price inflation of non-tradables increased by 2.1% in the second quarter of 2017 against 2.9% previously with an end-of-period inflation of 1.7%. The quarter was characterized by a decreasing trend of the non-tradables inflation starting from 2.6% in April to fall further in May reaching 1.9% (see Figure 2.2.a.).

Housing costs cover rental prices and utilities costs and account for 52% of the non-tradables in the UAE. Their price inflation followed a decreasing trend since the third quarter of 2015. Housing prices increased by 1.3% in the second quarter of 2017 against 2.1% in the first quarter. The average housing price inflation for the first half of the year increased by 1.7% against 4.2% during the same period in 2016 and 8.8% during the same period in 2015. (For more details on Real Estate market developments see Box1)

Table 2.2. UAE CPI inflation (%)

	Weight %	2016				2017	
		Q1	Q2	Q3	Q4	Q1	Q2
CPI Inflation (period average)	100	2.1	1.7	1.5	1.9	2.7	2.0
CPI Inflation (end-of-period)	100	1.4	1.8	1.4	1.2	3.0	2.0
Tradable Inflation	34	-0.4	0.3	-0.7	0.6	3.4	2.7
Non-tradable Inflation	66	2.6	1.9	2.1	2.7	2.9	2.1
Housing Inflation	34	5.1	3.3	4.1	3.7	2.1	1.3
Transportation Inflation	15	-6.7	-2.7	-5.9	-1.1	8.5	5.0
Other[4] Inflation	51	1.4	1.2	1.3	1.7	2.4	2.3

Source: Federal Competitiveness and Statistics Authority (FCSA).
Note: All the changes are computed on a Y-o-Y basis and based on the quarterly average CPI, unless otherwise indicated. The Tradables and non-tradables inflation rates were computed using the Y-o-Y growth of weighted-average CPI of different sub-components.

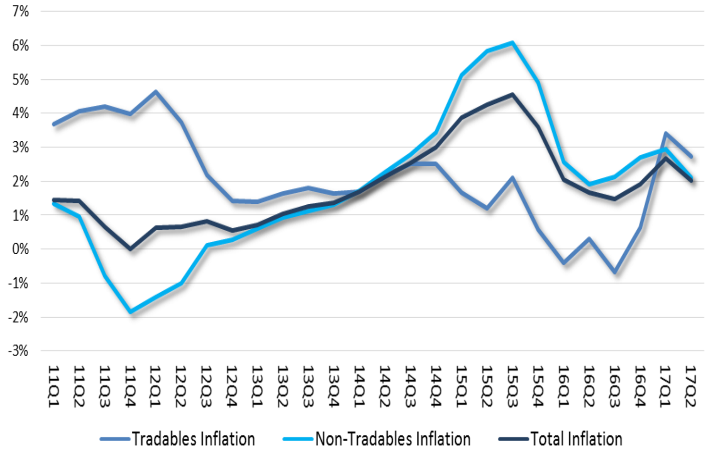
The deflation of communication prices continues for the ninth consecutive quarter reaching maximum price decline in the second quarter of 2017 by 2.5% (see figure 2.2.b.). The average drop of communication costs was 2% in the first half of 2017 against an average drop of 0.1% during the same period of 2016.

Similarly, recreation and culture costs realized a decline of 4.5% for the second consecutive quarter leading to an average deflation of 4% during the first half of the year. On the other hand, education costs kept increasing from the end of 2015 and jumped by 4.7% in the second quarter of 2017.

[4] Excluding housing and transportation

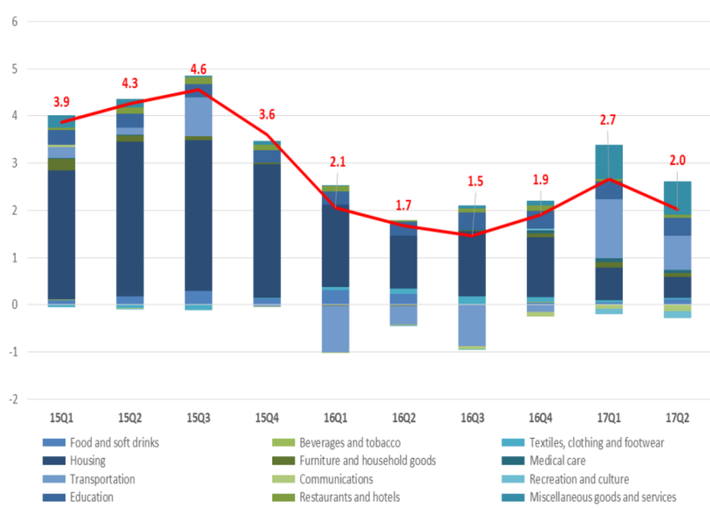
[Please Rate this Report]

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



Source: Federal Competitiveness and Statistics Authority (FCSA).

Figure 2.2.b. Contribution of different sub-components to the total CPI inflation (%)



Source: Federal Competitiveness and Statistics Authority (FCSA).

[Please Rate this Report](#)

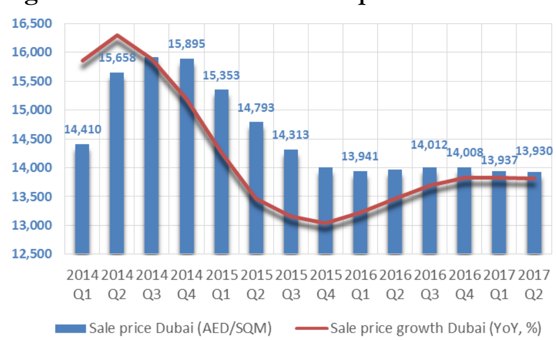
Box 1: Recent Developments in the Real Estate Market

According to REIDIN Price Index[5], Q2 2017 illustrates continued decline in the UAE residential Market, but with different patterns of change for Abu Dhabi and Dubai markets. In fact, during the second quarter of 2017, the annual change in property prices decreased slightly by 0.29% in Dubai, while the prices declined by 6.6% in the Abu Dhabi market. Moreover, the rental yield in both emirates contracted during the second quarter of 2017, due to the more pronounced fall in rents, but remains attractive for investors (7.16% for Abu Dhabi and 7.11% for Dubai).

Dubai residential market

In the second quarter of 2017, the change in property prices, which measures the average sample price in dirham per square meter, decreased marginally by 0.29% compared to last year, but at a slower pace than in 2016 (Figure 1). Therefore, the trend observed since 2016 has started to show signs of price stabilization in the residential market in Dubai during 2017.

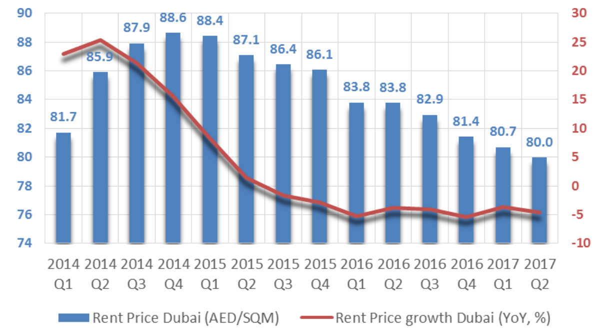
Figure 1: Dubai residential sale prices



Source: REIDIN

Despite the property price stability since mid-2016, the Dubai rental market continues to decline (Figure 2), due to low demand and a softer job market. Indeed, rent prices declined by an annual rate of 4.5% in the second quarter, following a decrease of 3.7% in the previous quarter.

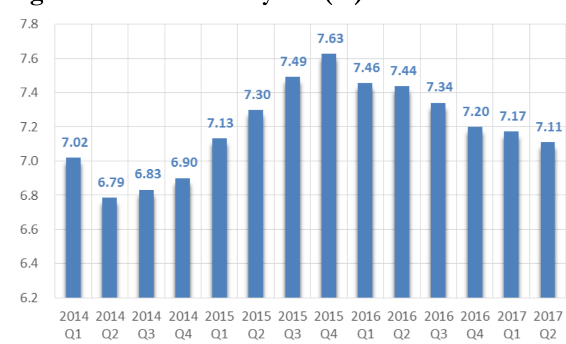
Figure 2: Dubai residential rent prices



Source: REIDIN

Concerning investment in Dubai's real estate market, 2016 was marked by a slowdown in rental yield from a high of 7.46% in the first quarter to a low of 7.20 % in the last quarter of 2016 (Figure 3). This trend was a result of relatively stable prices towards the end of the year, combined with further decline in rents. More recently, the rental yield reached 7.11% during the second quarter of 2017, but remains attractive for investors.

Figure 3: Dubai rental yield (%)



Source: REIDIN

---

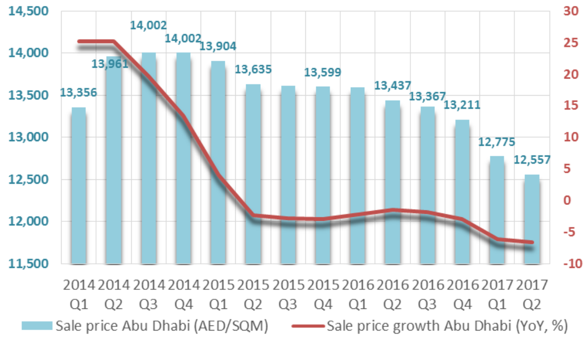
[5] REIDIN Residential Sales Price Index series are calculated on a monthly basis and cover 21 areas and 6 districts in Dubai. For Abu Dhabi, the indices cover 7 areas and 5 districts.

[Please Rate this Report](#)

Abu Dhabi residential market

For Abu Dhabi, the REIDIN Price Index exhibited continued fall in residential property prices of 6.6% y-o-y on average in the second quarter of 2017, following a decrease of 6.0% in the previous quarter (Figure 4).

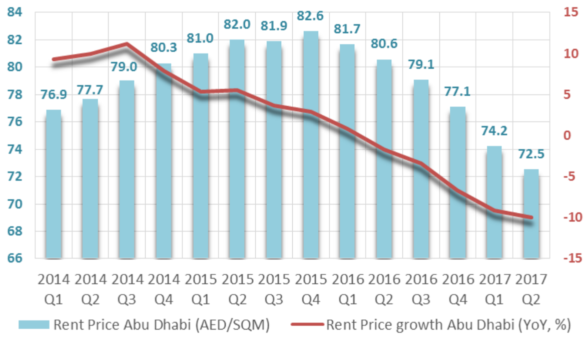
Figure 4: Abu Dhabi residential prices



Source: REIDIN

As for the rental market, in addition to the reinstatement of the 5% residential rent cap in mid-December 2016, the rent values in Abu Dhabi continued to decline at an annual rate of 10% on average in the second quarter of 2017, after a reduction of 9.2% in the previous quarter. This trend reflects the impact of a softer job market and the cuts in public expenditures, which continue to weigh in on demand in the housing market (Figure 5).

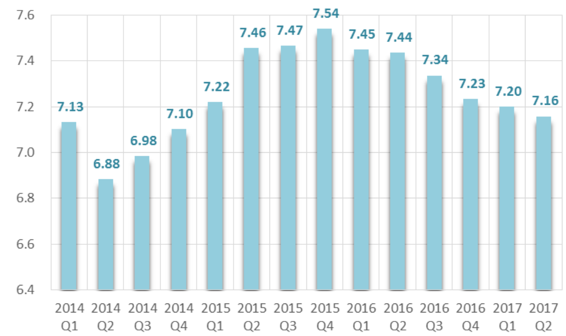
Figure 5: Abu Dhabi residential rent prices



Source: REIDIN

Concerning the rental yield, Abu Dhabi registered a yield of 7.16% for the second quarter of 2017, down from 7.2% in the previous quarter (Figure 6). The observed pattern in rental yield reflects a faster pace of decline in rent relative to property values, in consistency with the continued decline in the job market relative to the investment sentiment in properties, given the persistence of low oil prices.

Figure 6: Abu Dhabi rental yield (%)



Source: REIDIN

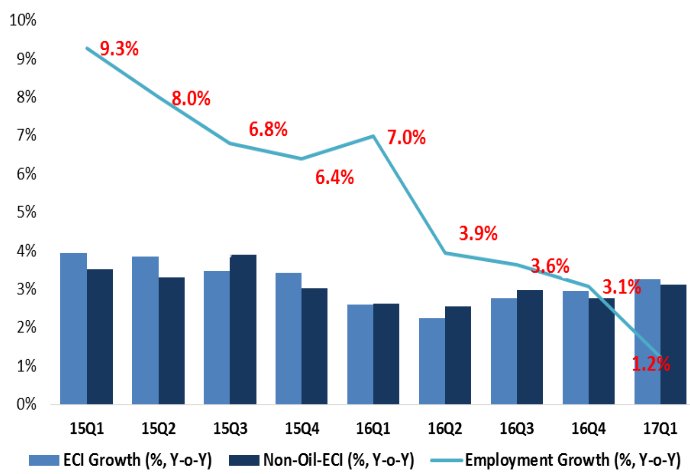
Please Rate this Report

2.3 Employment and labor market dynamics

Aggregate employment continued its decreasing trend for the fifth consecutive quarter. Its growth slowed down further in the first quarter of 2017 to reach 1.2% on a year-on-year basis after 3.1% in the last quarter of 2016. It is the lowest reading recently observed[6] (see Figure 2.3.a.). Compared to the previous quarter, the demand for labor by different sectors of the UAE's economy increased during the first quarter of 2017 by 0.5%, but lower than the 0.8% and 1.1% growth registered during the third and the fourth quarters of 2016, respectively.

The decreasing trend of employment reflects the slowdown in the domestic economy in the aftermath of the declining oil prices starting mid-2014. Although labor demand showed some resiliency to external shocks so far, fiscal consolidation, particularly the sharp decline in capital spending, weighed significantly on the declining labor demand.

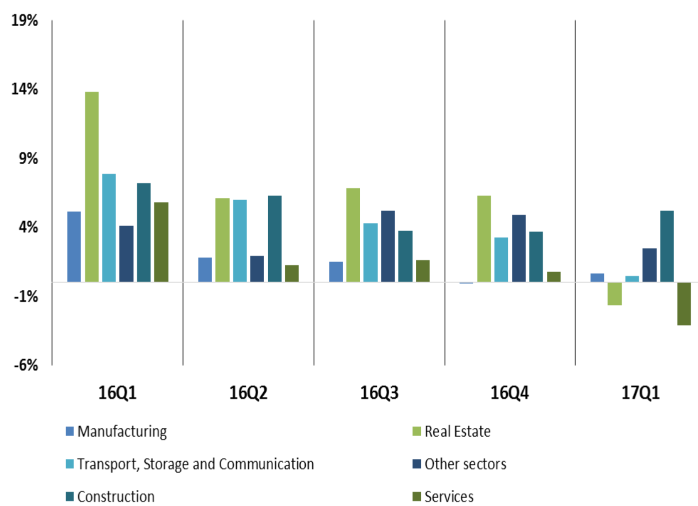
Figure 2.3.a. Employment growth and economic activity in the UAE



Source: Central Bank of UAE and Ministry of Human Resources and Emiratisation

Figure 2.3.a. shows the delayed negative impact of the economic slowdown, charted by the ECI and the Non-Oil ECI on the labor demand by all sectors of the economy (see Figure 2.3.b.). This continued decline in annual employment growth was driven mainly by the decline of labor demand in the Services sector as well as the Real Estate sector, while the labor demand by the Manufacturing sector has recovered. The employment growth in the services sector was the most affected by the economic slowdown. The number of employees in the Services sector declined by 3.1% in the first quarter of 2017 on a year-on-year basis, against a 0.8% increase in the last quarter of 2016. It is the first drop ever observed according to available information. The Real Estate sector is another sector where the labor demand declined by 1.7%. Except for the Construction and Manufacturing sectors where employment increased by 5.2% (from 3.7%) and 0.7% (from -0.1%), respectively, the labor demand has slowed down in the Transport, Storage and Communication sector, where the demand for labor grew only by 0.5% in the first quarter of 2017 against 3.2% in the last quarter of 2016.

Figure 2.3.b. Employment growth by sector (%, Y-o-Y)



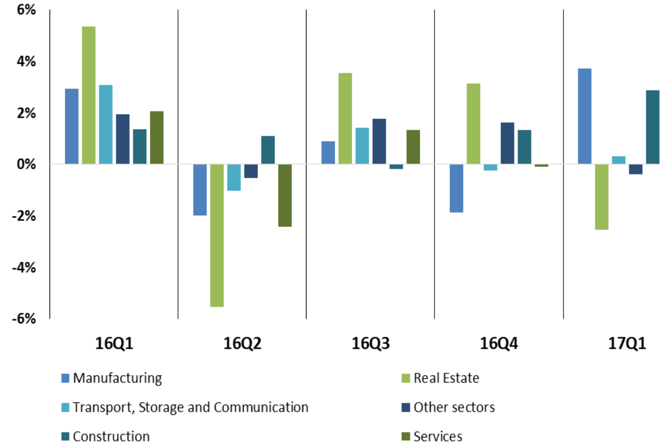
Source: Ministry of Human Resources and Emiratisation

The short-term developments of the labor demand in all sectors are depicted by Figure 2.3.c. Total employment grew by 0.5% compared to the last quarter of 2016, to which the Construction sector contributed 2.9%, Manufacturing sector 3.7% and Transport, Storage and Communication sector 0.3%. The labor demand declined in the Services and Real Estate sectors by 1.9% and 2.5%, respectively.

[6] Data for the second quarter of 2017 are not available yet.

[**Please Rate this Report**]

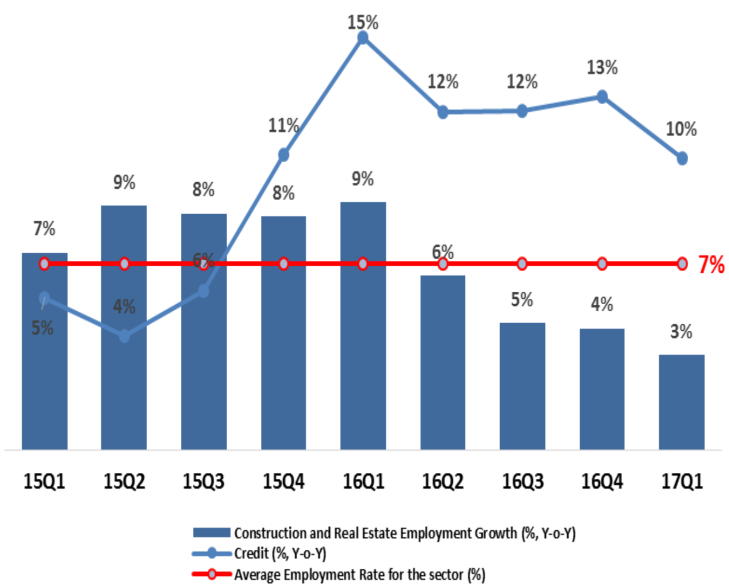
Figure 2.3.c. Employment growth by sector (%, Q-o-Q)



Source: Ministry of Human Resources and Emiratisation

The Construction and The Real Estate sectors which absorbed altogether around 45% of the total employment in the first quarter of 2017 showed labor demand slowing down and reaching a growth rate of 3% on a year-on year basis against a previous increase of 4%. It is the lowest growth rate given the available information and lower than the quarterly average annual employment growth rate since the first quarter of 2015 (7%).

Figure 2.3.d. Employment and credit developments in the Construction and Real Estate sector



Source: Ministry of Human Resources and Emiratisation and CBUAE

The developments in the employment level of the Construction and Real Estate sectors can be explained by the slowdown in their levels of investment. The domestic credit allocated to both sectors slowed down (see Figure 2.3.d) increasing by only10% on a year-on-year basis, the lowest growth rate since the third quarter of 2015. The quarterly annual domestic credit and the quarterly employment growth for the Construction and the Real Estate sectors exhibit a correlation of 88.7% in 2016.

Please Rate this Report

2.4 Exchange Rate and Foreign Trade Balance

The second quarter of 2017 signaled a turning point in the appreciation of the Dirham against the UAE's trading partners. After a continuous quarterly appreciation which started from the first quarter of 2014, the Dirham depreciated on average against all the main trading partners for the UAE for the first time during the second quarter of 2017.

From the import side, the weighted Dirham's depreciation against its top-nine non-dollarized import partners was 1.12% in the second quarter of 2017 (see Table 2.3.a.) against an appreciation of 0.37% during the previous quarter. On a quarter-on-quarter basis, the Dirham depreciated by 3.7% against the Indian Rupee. India accounts for around 10% of the total imports to the UAE. This is the highest quarterly depreciation of the Dirham against the Rupee since a decade.

Moreover, the Dirham depreciated sharply against the Euro. The main European import-partners to the UAE are Germany, Italy and France. The imports from these countries constitute more than 12% of the total imports. The Euro appreciated by 3.12% against the Dirham in line with the recent appreciation of the Euro against the US Dollar. In addition, the Dirham lost 3.11% and 1.9% against the UK Pound and the Swiss Franc, respectively. The United Kingdom and Switzerland account for around 3.35% and 2.53% of all imports to the UAE, respectively.

As the top exporter to the UAE, China accounts for 12.4% of the UAE's total imports, and the Renminbi gained more than 0.4% against the Dirham. The Dirham lost against the Japanese Yen around 2%. Japan is the fourth largest source of the UAE's imports and the largest source for imports of High-Tech items.

On the other hand, despite its average quarterly decline, the Dirham appreciated by 1.11% against the UAE's main trading partners on a year-on-year basis in the second quarter of 2017. This is the 11th consecutive annual appreciation averaging a quarterly annual appreciation of 2.53% year-on-year. The highest appreciation of the Dirham was against the UK Pound reaching 12.14% followed by the appreciation against the Chinese Renminbi by 4.9%. However, the only depreciation of the Dirham on a year-on-year basis was against the Indian Rupee and the South Korean Won by 3.6% and 2.8%, respectively.

Table 2.3.a. Dirham appreciation against currencies of top non-dollarized import partners

Currency	Share of UAE imports (%) 2015	% Change of Currencies per Dirham (Q4-Q3) 2016	% Change of Currencies per Dirham (2017Q1 -2016Q4)	% Change of Currencies per Dirham (2017Q2 -2017Q1	% Change of Currencies per Dirham (2017Q2 -2016Q2)
Chinese Yuan	12.40	2.53	0.71	-0.42	4.91
Indian Rupee	9.70	0.76	-0.72	-3.69	-3.60
Germany (EUR)	6.48	3.54	1.20	-3.12	2.68
Japanese Yen	5.65	7.08	3.64	-2.22	2.88
UK Pound	3.35	5.67	0.30	-3.11	12.14
Italy (EUR)	2.99	3.54	1.20	-3.12	1.44
South Korean Won	2.87	3.48	-0.61	-1.86	-2.78
France (EUR)	2.53	3.54	1.20	-3.12	2.68
Swiss Franc	2.53	2.60	0.30	-1.89	1.44
Total	**48.50**				
Weighted Appreciation		**1.57**	**0.37**	**-1.12**	**1.11**

Source: Data on Imports shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2015. Data for the exchange rates are the quarterly average observations, recorded and displayed by Bloomberg.

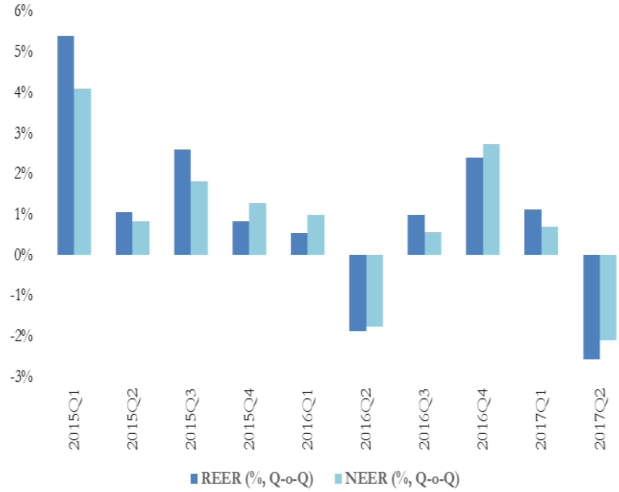
Table.2.3.b. Dirham appreciation against currencies of top non-dollarized partners for non-oil Exports

Currency	Share of UAE Exports (%) 2015	% Change of Currencies per Dirham (Q4-Q3) 2016	% Change of Currencies per Dirham (2017Q1 -2016Q4)	Change of Currencies per Dirham (2017Q2 -2017Q1)	% Change of Currencies per Dirham (2017Q2 -2016Q2)
Indian Rupee	12.47	0.76	-0.72	-3.69	-3.60
Swiss Franc	5.64	2.60	0.30	-1.89	1.44
Iraqi Dinar	5.61	0.29	0.11	-0.96	-0.41
Turkish Lira	5.16	10.95	12.24	-3.06	23.51
Singapore Dollar	4.26	4.34	0.34	-1.67	2.53
Kuwaiti Dinar	4.01	0.80	0.37	-0.40	0.82
Chinese Yuan	2.34	2.53	0.71	-0.42	4.91
Netherlands (EUR)	1.84	3.54	1.20	-3.12	2.68
Pakistan	1.78	0.16	0.05	-0.04	0.2
Total	**43.11**				
Weighted Appreciation		**1.17**	**0.63**	**-0.93**	**1.13**

Source: Data on Exports shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2015. Data for the exchange rates are the quarterly average observations, recorded and displayed by Bloomberg.

[Please Rate this Report](#)

Figure 2.4.a. Nominal and Real Effective Exchange rates developments



Source: Bank for International Settlement (BIS)

A similar pattern was observed on the export side for non-oil exports. The weighted deprecation of the Dirham against its top-nine non-dollarized non-oil export partners was 0.93% during the second quarter of 2017 (see Table 2.3.b.). The Dirham depreciated against all its non-oil export partners with the largest depreciation against the Indian Rupee and the Turkish Lira, 3.69% and 3.06%, respectively. Together, they account for 17.6% of the total non-oil exports from the UAE. The dirham depreciated against the Indian Rupee for the second consecutive quarter; since the last quarter of 2014.

The Dirham depreciated against the Iraqi Dinar and the Kuwaiti Dinar by 0.96% and 0.4%, respectively. Together, they account for 9.6% of non-oil exports from the UAE. However, on a year-on year basis, the Dirham appreciated by 1.13%. The most important appreciation of the Dirham was against the Turkish Lira by 23.5%, followed by the appreciation with respect to the Chinese Yuan (4.9%), the Netherlands (2.68%) and Singaporean Dollar (2.53%).

These developments were confirmed by the decline of the Real and the Nominal effective exchange rates in the second quarter of 2017 (see Figure 2.4.a.). The quarterly average Real Effective Exchange Rate (REER) dropped by 1.67% compared to the last quarter.

Similarly, the Nominal Effective Exchange Rate (NEER) fell by around 0.36% for the same period. The contribution of the price differential is important, reflecting the decline of the inflation rate in the UAE and the pickup in price inflation in the rest of the world, which magnified the depreciation of the REER relative to the NEER.

The REER and the NEER figures as well as the results reported in the Tables 2.3.a. and 2.3.b. indicate recent depreciation of the US dollar relative to major currencies on account of improved growth recovery in several emerging and advanced economies and growing uncertainty about growth conducive policies in the US.

The Dirham's appreciation over an extended period that preceded the second quarter of 2017 has raised some questions regarding its impact on the non-oil exports competitiveness. A qualitative analysis conducted by the CBUAE, reported in Box 2 below, shows the existence of a delayed negative impact of the Dirham's appreciation on the UAE's trade competitiveness. The volume of non-oil exports increased (decreased) after some sharp Dirham depreciation (appreciation) episodes with a lagged response of 4 quarters. On the other hand, the volume of imports does not seem to be highly elastic to price changes but depends more on the domestic demand and economic activity in the UAE (see Box 2 for details).

In addition, the impact of the Dirham's depreciation on the personal outflows during the second quarter of 2017 was examined. In consistency with the depreciation of the dirham more recently, the remittances' outflows decreased by 7.3% on a year-on-year basis in the second quarter of 2017. India is the leading destination of remittances outflows with a share of 35.9% during the same period (see Box 3 for more details).

On the other hand, the fluctuations of the Dirham did not seem to have a significant impact on the tourism sector in the UAE. An improvement of the tourism activity has been recorded during the first two quarters. In the first half of 2017, compared to the same period in 2016, the number of international tourists increased by 9.9% showing an increasing trend in attracting international visitors (see Box 4 for more details).

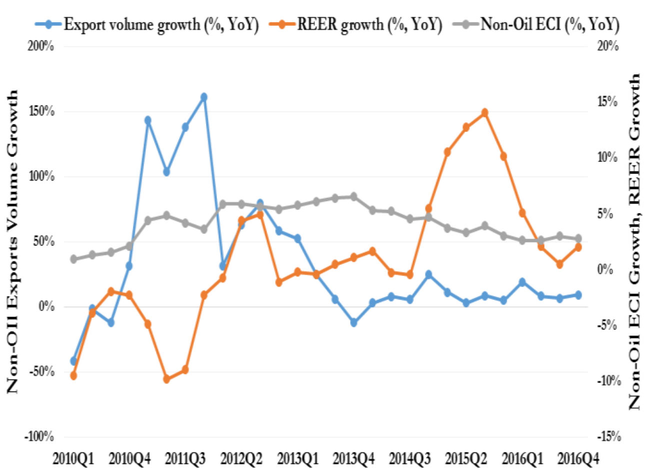
[Please Rate this Report]

Box 2: Fluctuations in the Real Effective Exchange Rate and External Competitiveness

The analysis in this box aims to focus on the impact of weighted fluctuations of the dirham relative to the currencies of major trading partners (REER) on the competitiveness of UAE's non-oil exports and external balance. Furthermore, the analysis aims to track the response of the non-energy trade balance for goods with respect to fluctuations in the REER.

Figure 1 plots the non-oil exports' fluctuations with respect to variations in the REER on a Y-o-Y basis. As the graph shows, the changes in the REER induce non-oil exports to respond in different directions. Using the average annual growth for each quarter, the REER declined by 1.8% against UAE's major trade partners for non-oil exports during the period between the first quarter of 2010 and the third quarter of 2014, preceding the decline in the oil price. In the same period, the volume of non-oil exports of goods registered an increase of 44.3% on average[7]. The implications being depreciation of the real effective exchange rate boosted the competitiveness and the growth of non-energy exports.

Figure 1: Non-oil Exports volume of goods, Non-Oil ECI, and REER developments



Source: Federal Customs Authority and Central Bank of the UAE

On the other hand, figure 1 displays a reversal in trends, where the REER reflects an appreciation in the Dirham against the UAE's major trading partners for non-oil exports in the periods succeeding 2014Q3. During the periods between 2014Q4 and 2016Q4, in parallel with the reduction of the oil price, the REER has appreciated on average by 7% on a year-on-year basis, and exhibited a peak at 14% in the third quarter of 2015. Although the volume of non-oil exports between the fourth quarter of 2014 and the fourth quarter of 2016 did not decline, there was clear evidence of a slowdown in the growth rate, compared to the period when the dirham registered depreciation. In fact, the average annual growth of non-energy exports between 2014Q4 and 2016Q4 was around 10.5%, with the lowest growth rate in the second quarter of 2015 being 2.8%. This evidence is supported by the negative contemporaneous correlation of 34.3% over the time span under investigation, implying a slower growth of non-energy exports with the appreciation of the dirham relative to the UAE's major trading partners for non-oil exports.

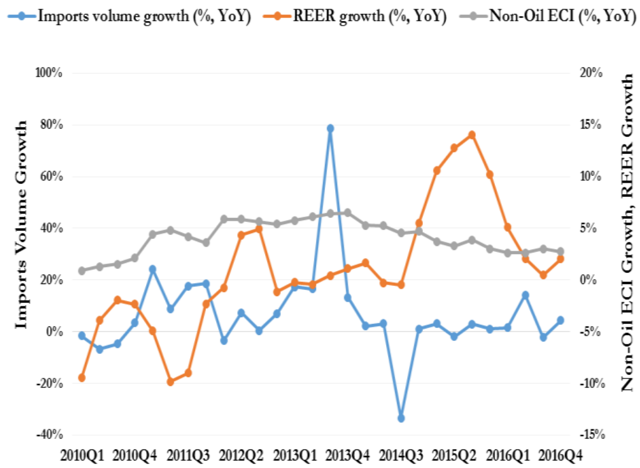
The negative correlation between the series was more evident where a lagged non-oil exports response is considered. The non-oil export growth exhibits the sharpest negative correlation to the REER appreciation when a four-quarter lag is considered, with a negative correlation of -55.1%. The implications being, the demand for non-oil exports decreases over time with the continued appreciation of the Dirham in real effective term relative to the currencies of major trading partners.

Figure 2 plots the REER appreciation and the imports volume growth on a year-on-year basis. Between the first quarter of 2010 and the fourth quarter of 2016, the figure demonstrates considerable volatility of the volume of imports. Zeroing in on the period between 2010Q1 and 2014Q3, during which the Dirham was depreciating relative to major trading partners for imports, the average annual growth for each quarter of imports volume was around 8.9%. The implications being, robust economic growth following the global financial crisis has resulted in continued growth of imports despite the dirham depreciation which increased the cost of imports in domestic currency.

[7] Using the average annual growth for each quarter.

[Please Rate this Report]

Figure 2: Imports volume of goods, Non-Oil ECI, and REER developments



Source: Federal Customs Authority and Central Bank of the UAE

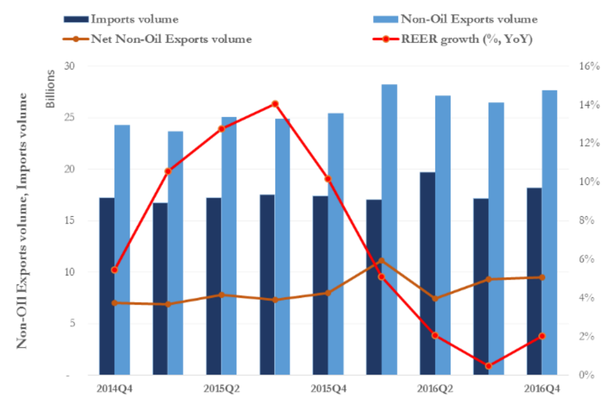
Between the fourth quarter of 2014 and the fourth quarter of 2016, with the slowdown in economic activity in response to lower oil price, the volume of imports slowed down and the average annual growth was only 2.8%, pronouncedly lower than the average between 2010Q1 and 2014Q3, notwithstanding the continued appreciation of the dirham relative to the UAE major trading partners for imports over this time span.

Figure 2 clearly illustrates that there is a lag effect between the REER growth and the imports growth, such that an appreciation of the Dirham against the UAE's major trading partners for imports in real terms led to an increase in the volume of imports in later quarters as imports became relatively cheaper. The highest positive correlation was observed after four-quarters.

That said, the global effect on the trade balance in the UAE was positive. Figure 3 illustrates an improvement of the UAE's trade balance as the volume of non-energy net exports has been on a rising trend recently, notwithstanding the recent slowdown of non-energy export growth with the dirham's continued appreciation. Net non-energy exports increased during the episode of depreciation of the dirham in real effective term, reflecting faster growth of non-energy exports, relative to the growth of imports. More recently, given slower import growth with the slowdown in the economy net non-energy exports continue to improve, notwithstanding the continued recent appreciation of the dirham.

The implications being, trade competitiveness appears to be resilient despite the continued recent appreciation of the dirham, which solidified improvement in the trade balance in support of the strength of the fundamentals of the UAE economy and its global competitiveness as evident by the country's continued improvement in international rankings.

Figure 3: Net Exports volume of goods, Non-Oil ECI, and REER developments



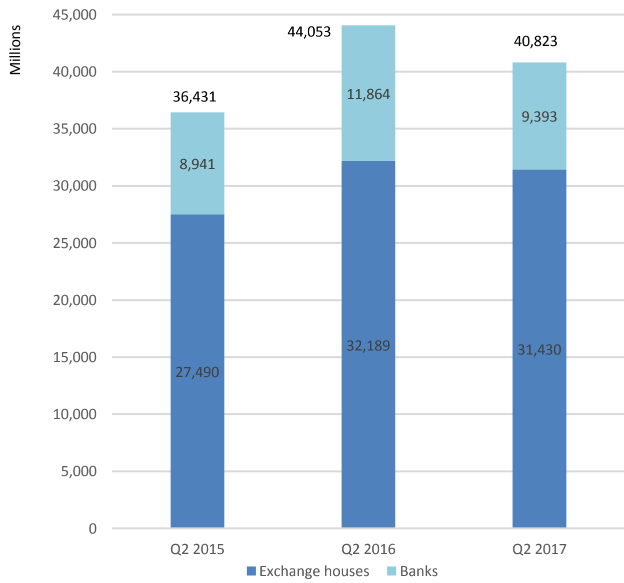
Source: Federal Customs Authority and BIS

Please Rate this Report

Box 3: Personal Transfers

The workers' remittances outflows in the second quarter of 2017 recorded AED 40.8 billion, a reduction of 7.3% or AED 3.2 billion compared to the same period of 2016 (AED 44.1 billion) (figure 1). The data capture the outflows reported from the exchange houses and the banks to CBUAE. The outflows of the workers' remittances that were settled only through the exchange houses recorded AED 31.4 billion in the second quarter of 2017 (-2.4% or AED 0.8 billion decrease compared to the second quarter of 2016).

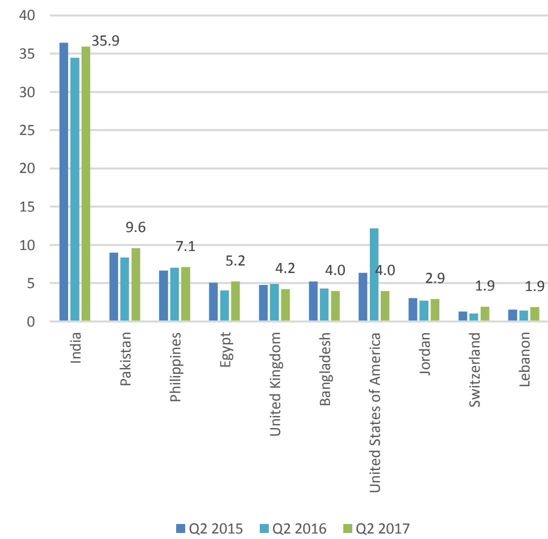
Figure 1. Evolution of workers' remittances settled through Banks and Exchange houses in the UAE Q2 2015-2017



Source: CBUAE

The most important country of destination for workers' remittances during the second quarter of 2017 was India accounting for 35.9% of the outflows (figure 2). This high share is in accordance with the significant share of expats from India in the UAE. According to available statistics, dated October 2008 from the Federal Competitiveness and Statistics Authority, 82.7% of the employees in the UAE belong to Asian Non-Arab Countries, which include India. The next five most important countries in the share of outflows of remittances were Pakistan (9.6%), Philippines (7.1%), Egypt (5.2%), and the United Kingdom (4.2%) (Figure 2).

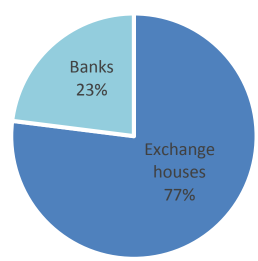
Figure 2. Share of the major countries for workers' remittances during Q2 2015-2017 (percentage of total, exchange houses and banks)



Source: CBUAE

In the second quarter of 2017, the data provided by BSD indicate that 77% of the workers' remittances outflows are through the exchange houses and 23% through the banks. Figure 3 illustrates the shares of exchange houses and banks in total transactions of remittances.

Figure 3. Share of settlement of total workers' remittances



Source: CBUAE

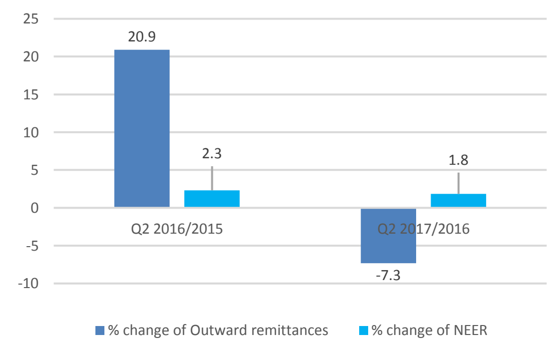
The total recorded workers' remittances outflows for the first half of 2017 (AED 77.9 billion) represent 48.4% of the total estimated outward remittances in the UAE balance of payments for 2016 (at AED 160.8 billion) that is in line with the estimated reduction in the growth rate of outward remittances for 2017.

The decreasing trend of the total outflows of private transfers in the second quarter of 2017 could be attributed also to a slowdown in economic activity and

[Please Rate this Report]

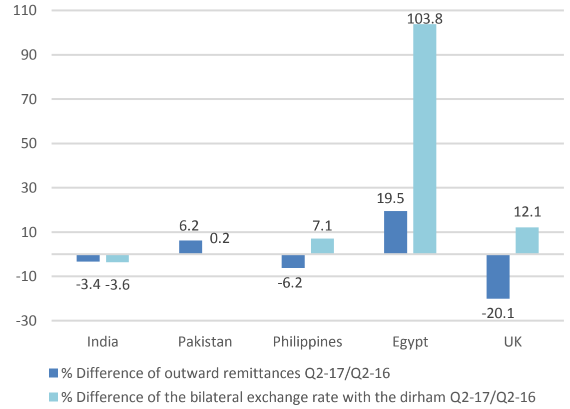
the recent depreciation of the dirham in this quarter which slowed down the annual rate of appreciation of the nominal effective exchange rate of the dirham, increasing by 1.8% on average during the second quarter of 2017 (the average index for Q2 2017 was 118.5 based on data provided by the Bank for International Settlements (BIS)) compared to Q2 2016.

Figure 4. Percentage change of total outward remittances versus the percentage change of nominal effective exchange rate (Q2 2015-2017)



Source: CBUAE and BIS

Figure 5. Percentage change of outward remittances of top countries versus the percentage change of the bilateral exchange rate with the dirham (Q2 2016-2017)



Source: CBUAE and Bloomberg

Figure 5 depicts the percentage change of outflows of remittances from the UAE to the top destination countries compared to the evolution of the bilateral exchange rate of the dirham relative to the currencies of the recipient countries. The appreciation of the dirham was positively correlated with the remittances outflows for Egypt and Pakistan whereas the United Kingdom and Philippines recorded decrease of outflows. The appreciation of the rupee relative to the dirham decreased the remittances outflows to India.

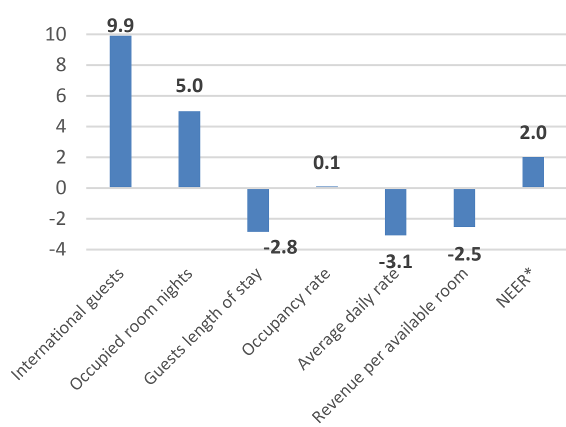
[Please Rate this Report](#)

Box 4: The Impact of Exchange Rate Fluctuations on Tourism Activity in the UAE

This box describes the effect of the dirham appreciation on tourism to the UAE for the period of the first half (H1) of 2017 compared to the first half of 2016 based on the most recent data available for Dubai, Abu Dhabi and Ras Al Khaimah (RAK) emirates. The figures of the three emirates contribute the largest share of the total aggregates.

In the first half of 2017, compared to the same period in 2016, the number of international tourists increased by 9.9% (figure 1) showing an increasing trend in attracting international visitors. The increase in the specific period records high seasonality compared to the rest of the year due to the UAE's good climate. The average daily rate and the revenue per available room decreased by 3.1% and 2.5%, respectively (weighted average prices of the three emirates) for the same period. These evolutions resulted in an increase in occupied room nights by 5%. Despite the appreciation of the dirham in terms of the nominal effective exchange rate by 2% on a year-to-date basis, guest arrivals increased. In addition, the average hotel occupancy rate records increased by 0.1% for the first six months of 2017, compared to the same period of 2016.

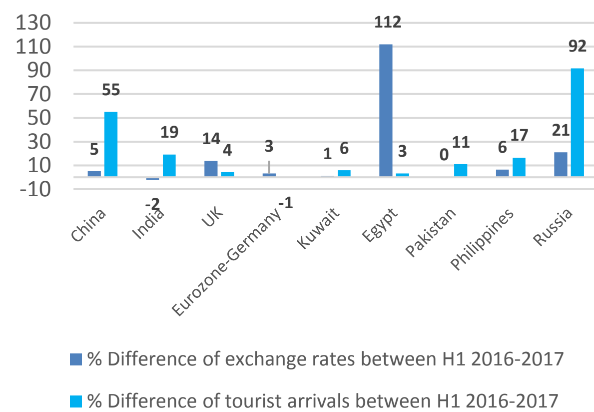
Figure 1: Major combined indicators of Dubai, Abu Dhabi & RAK inbound tourism H1 2017-16 (% difference)



Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority, Ras Al Khaimah Tourism Development Authority, Bank for International Settlements
*nominal effective exchange rate

Figure 2 shows the effect of the bilateral exchange rate movements on tourism between the first half of 2017 compared to the first half of 2016. Despite the appreciation of the dirham with respect to other currencies, tourists' arrivals increased from major countries except from Germany in the Eurozone. Specifically, Russia almost doubled their tourists following the easing of visa rules despite the appreciation of the dirham relative to the ruble. Simultaneously, China, India, Philippines and Kuwait recorded larger increases in tourist arrivals despite the appreciation of the dirham relative to their currencies. The incoming tourists from the UK, however, recorded a smaller increase reflecting larger appreciation of the dirham relative to the pound.

Figure 2. Guest arrivals and exchange rate on selected countries H1 2017-16 (% difference)



Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority, Ras Al Khaimah Tourism Development Authority, Bloomberg

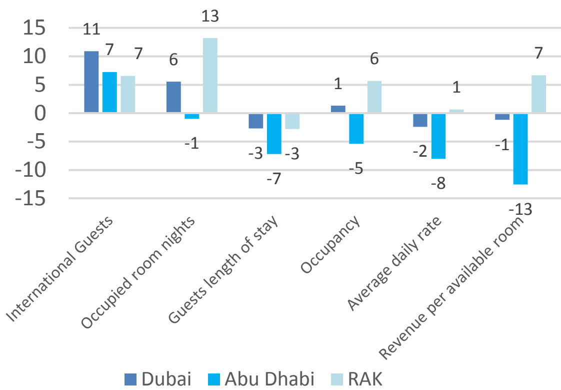
In figure 3, the data for the Dubai emirate indicate that the number of international visitors increased by 10.9% in the first six months of 2017 compared to the same period of 2016. However, the average daily rate and the revenue per available room decreased by 2.4% and 1.2%, respectively. This evolution resulted in an increase in occupied room nights by 5.5%. Simultaneously, the average hotel occupancy rate increased slightly from 78% to 79%, for the first half of 2017, compared to 2016.

The guest arrivals in the Abu Dhabi emirate increased by 7.2% in the first six months of 2017 compared to the same period in 2016 following a similar trend. However, the reduction in the average room rate by 8% contributed to the decrease in total revenues by 10.2% in the first half of 2017 compared to the same period of 2016.

Please Rate this Report

Available data for tourism in the emirate of Ras Al Khaimah show that the guest arrivals increased by 6.5% for the first half of 2017 compared to the same period of 2016. All other indicators for the emirate recorded an increasing trend, signifying increasing attraction for tourists.

Figure 3: Major indicators of Dubai, Abu Dhabi & RAK inbound tourism H1 2017-16 (% difference)



Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority[8], Ras Al Khaimah Tourism Development Authority

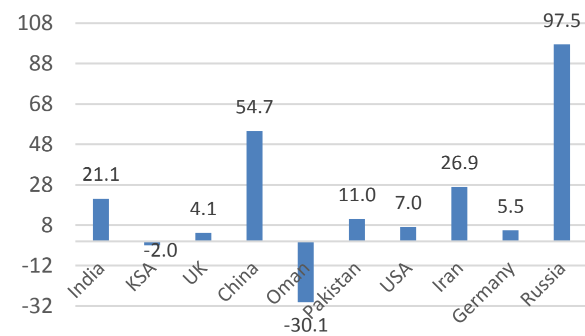
The countries that are the major markets for inbound tourism to Dubai show increase in the arrivals of tourists, except from Oman. The vast majority of tourists to Dubai originate from GCC countries and the MENA region (19% and 12% respectively), while Western Europe and North America cover 21% and 6% of inbound tourism. Finally, 18% of inbound tourism comes from the region of South Asia. The largest increase for H1 2017 was recorded from Russia (97.5%) and China (54.7), where Chinese tourists represent 5.1% of total visitors.

Most of the countries that are major markets of inbound ourism for the Abu Dhabi Emirate recorded increase in guest arrivals, apart from Germany (-7.8%) and Jordan (-2.6%). The largest increase in guest arrivals was recorded from China (55.4%), Philippines (10.4%) and India (8%).

The major sources of guests for the emirate of Ras Al Khaimah include Germany, Russia, the United Kingdom and India. However, the largest change compared to the first half of 2016 was recorded for tourists from Poland, Russia, and the Czech Republic.

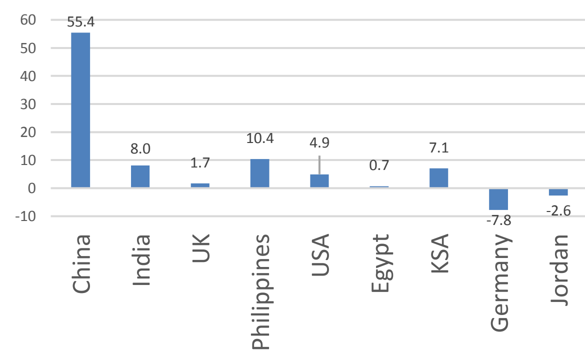
Figure 4. Major markets of inbound tourism H1 2017-16 (% difference)

a. Dubai



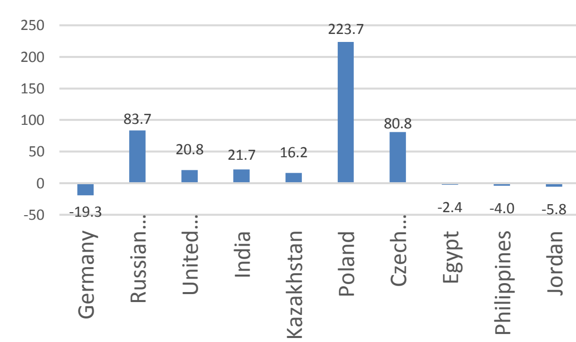
Source: Dubai Corporation of Tourism and Commerce Marketing

b. Abu Dhabi



Source: Abu Dhabi Tourism & Culture Authority

c. Ras Al Khaimah



Source: Ras Al Khaimah Tourism Development Authority

[8] Data are based on the official tourism authorities' publications. Dubai Tourism Authority publishes *International Guests* whereas Abu Dhabi Tourism Authority publishes *Actual Guest Arrivals*. Also, for the variable *Room Nights* Dubai Tourism Authority publishes *Occupied Room Nights* whereas Abu Dhabi Tourism Authority publishes *Room Nights* that include the number of nights a guestroom is occupied regardless of the number of persons occupying the room.

[Please Rate this Report]

2.5 Consolidated Fiscal Stance

After five quarters of consecutive negative growth of government spending, the sharp fiscal consolidation instituted in 2015 following the sharp decline in oil prices, appears to have slowed down markedly. In fact, the government has initiated in the first quarter of 2015 a sharp spending reduction as a response to the decline of oil prices starting mid-2014. The spending cut which affected acutely the capital and development expenditure contributed significantly to the observed economic slowdown.

In contrast, government spending has increased by 15.7% during the fourth quarter of 2016 on a year-on-year basis. This increase has contributed to an annual public spending rally and confirmed the growth-supportive fiscal policy that the government has started to follow since the second quarter of 2016. In fact, government spending increased by 2.1% in 2016 compared to the previous year when spending declined by 12% (see Table 2.5).

The fourth quarter of 2016 was marked by positive annual growth for all public spending items, except for interest payments on outstanding debt and social benefits expenditures. They declined by 19.9% and 48.9% on a year-on-year basis, respectively. Both items have followed a decreasing trend starting from the second half of 2015 and intensified in 2016 leading to an annual decline of social benefits spending by 57% in 2016, the highest decline for more than a decade.

In contrast, capital spending, one of the main drivers of the non-oil economic growth has increased by 97.7% in the last quarter of 2016 on a year-on-year basis. It is the fourth important consecutive increase during the year leading to an annual growth of 73.8% in 2016, the highest growth rate for the recent years.

Compensation of employees rebounded by 21.6% during the fourth quarter of 2016 on a year-on-year basis. It is the highest increase since the fourth quarter of 2015. Grants jumped by 354.6% in the last quarter of 2016 after an increase by 247% in the third quarter of 2016. These developments lifted the annual growth rate of grants to reach 82.2% after two quarters of drop in the first half of 2016 (decline by 85.4% and 81.3%, respectively).

Other expenses which cover all Abu Dhabi’s transfers made on behalf of the Federal Government rose by around 39.3% during the last quarter of 2016 against 49.8% previously. It is the third consecutive quarter of increase after an important decline that started in 2015 and was accelerated in the first quarter of 2016 when they dropped by 88.7%.

Subsidies continued their increasing trend during the fourth quarter of 2016. They grew by 6.8% during the last quarter of 2016 against a previous increase of 24.2% during the third quarter.

On the Other hand, total revenues continued their improvement for all quarters in 2016 confirming an increasing trend that started at the beginning of 2016. They displayed an important increase of 89.6% during the fourth quarter of 2016, on a year-on-year basis after an increase of 31% during the previous quarter, leading to annual jump of 36.5% in 2016 against a decline of 25% in 2015. The increase in revenues was triggered by a 15.8% increase in tax revenues (royalties on oil companies) for the first time since the last quarter of 2014 in consistency with the recovery of oil prices.

Other revenues, which include principally the property income, sales of goods and services and fines and penalties, jumped by 160%. These revenues do not include profit transfers from the national oil company to the sovereign wealth funds, neither the government’s investment income.

Social contributions displayed their first decline since the end of 2015. They fell by 13.8% in the fourth quarter of 2016 against an increase of 15% in the previous quarter. The annual growth rate was, however, positive (9.2%) against a negative growth in 2015 (-46.5%).

Please Rate this Report

Table. 2.5. Consolidated Government Finances

	2014	2015					Change (%, Y-o-Y)					2016					Change (%, Y-o-Y)				
		Q1	Q2	Q3	Q4	2015	2015Q1	2015Q2	2015Q3	2015Q4	2015	Q1	Q2	Q3	Q4	2016	2016Q1	2016Q2	2016Q3	2016Q4	2016
Revenues (a)	**380.7**	**74.9**	**84.2**	**64.8**	**60.7**	**284.7**	**-17.0**	**-14.2**	**-31.5**	**-37.9**	**-25.2**	**85.7**	**102.7**	**84.9**	**115.2**	**388.5**	**14.3**	**21.9**	**31.1**	**89.6**	**36.5**
Taxes	279.9	54.9	50.6	41.9	28.1	175.4	-19.4	-25.4	-44.5	-59.0	-37.3	21.1	26.0	28.9	32.5	108.6	-61.5	-48.5	-30.9	15.8	-38.1
Social contributions	5.3	1.1	1.1	1.0	1.3	4.5	14.0	-27.8	172.1	-46.5	-14.6	1.5	1.2	1.2	1.1	4.9	37.5	3.4	15.0	-13.8	9.2
Other revenues	95.5	19.0	32.5	21.8	31.4	104.7	-10.4	13.2	17.1	16.6	9.7	63.1	75.5	54.8	81.5	274.9	232.2	132.2	151.0	159.8	162.5
Expenditure (b)	**414.6**	**89.9**	**96.1**	**85.6**	**93.3**	**364.8**	**-13.6**	**-7.4**	**-13.5**	**-13.6**	**-12.0**	**51.0**	**104.0**	**109.5**	**107.9**	**372.5**	**-43.3**	**8.3**	**28.0**	**15.7**	**2.1**
Compensation of employees	47.5	14.4	15.8	14.5	14.4	59.1	36.4	38.0	27.3	2.1	24.4	15.5	15.8	15.8	17.5	64.6	7.6	0.1	8.8	21.6	9.3
Use of goods and services	49.5	10.5	13.5	10.8	16.3	51.0	18.3	11.5	-22.0	10.4	3.0	10.4	14.8	11.1	17.1	53.5	-0.6	9.5	3.6	5.3	4.8
Consumption of fixed capital	3.8	0.9	1.1	0.9	1.5	4.4	0.3	48.1	-14.8	37.7	16.7	1.1	1.5	1.2	1.8	5.7	32.1	38.2	31.8	18.2	28.7
Interest	4.1	0.5	0.5	0.6	1.3	2.9	-52.4	-49.1	-38.3	13.8	-29.5	0.2	0.4	0.3	1.1	2.0	-49.0	-16.0	-45.5	-19.9	-28.9
Subsidies	12.1	3.1	3.1	3.1	3.1	12.3	22.1	-14.1	-10.3	19.9	1.7	4.3	6.4	3.8	3.3	17.8	41.4	108.5	24.2	6.8	45.2
Grants	21.9	3.1	2.8	2.5	2.1	10.6	-67.9	-54.9	-55.1	507.3	-51.8	0.5	0.5	8.6	9.7	19.3	-85.4	-81.3	247.0	354.6	82.2
Social benefits	61.4	12.9	15.2	13.5	11.6	53.2	2.2	9.5	-16.1	-38.4	-13.4	6.3	5.4	5.4	5.9	22.9	-51.6	-64.7	-60.4	-48.9	-56.9
Other expenses	174.4	39.9	35.4	33.4	37.0	145.7	-23.8	-13.6	-10.2	-15.7	-16.4	4.5	47.8	50.1	51.5	153.9	-88.7	34.8	49.8	39.3	5.6
Net acquisition of non-financial assets	39.9	4.7	8.7	6.4	5.9	25.6	-15	-36.7	-33.3	-47.2	-35.8	8.1	11.4	13.3	11.7	44.5	73.8	31.2	109.7	97.7	73.8

Source: - UAE Ministry of Finance, revenues do not include ADNOC transfers and government investment income.

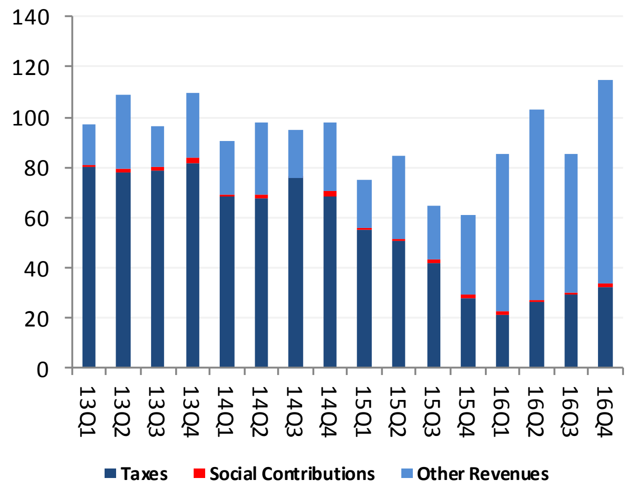
- Other Revenues covers: Property income (interest, dividends, rent), Sales of goods and services (including administrative fees), Fines and penalties and other revenues not elsewhere classified. Effective 2016Q1, the Emirate of Abu Dhabi has added some transfers of important investment authorities from financing accounts to revenues, included in the distributed profit computation.
- Subsidies include social and price subsidies as well as transfers to GREs.
- Other expenses include the payments of Abu Dhabi made on behalf of the Federal Government.
- 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.

Note: All values are expressed in Billions of Dirhams unless otherwise indicated.

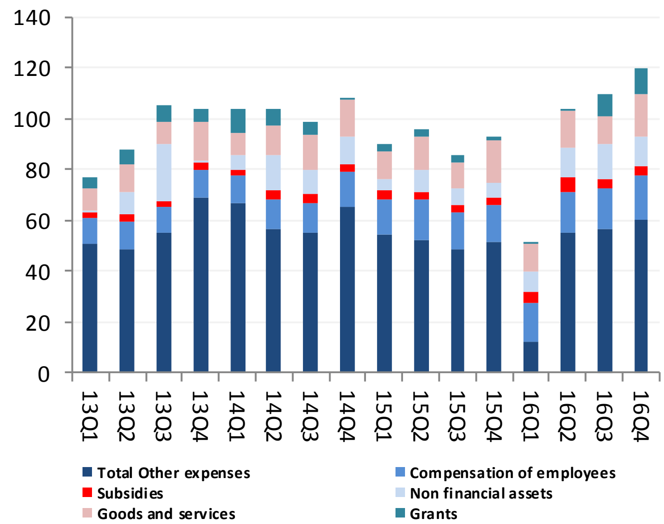
[Please Rate this Report]

Government Finances

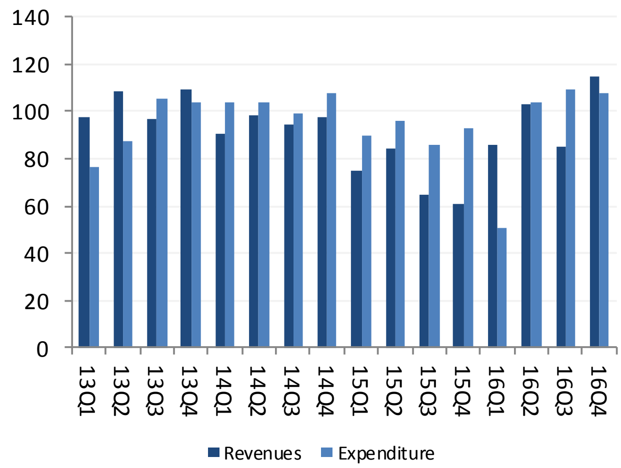
2.5. a. General government revenues
(Billions of Dirhams)



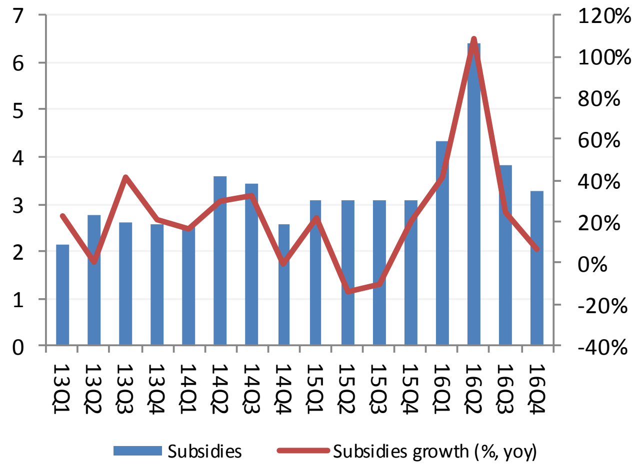
2.5.b. General government expenditures
(Billions of Dirhams)



2.5.c. Fiscal stance
(Billions of Dirhams)



2.5.d Development in subsidies and transfers to GREs
(Billions of Dirhams)



Source: Ministry of Finance.
Note: Other expenses cover all the payments of Abu Dhabi Government made on behalf of the federal government.
The total revenues do not include ADNOC transfers and government investment income. Total expenditures are also adjusted such that Abu Dhabi capital transfers are excluded.

Please Rate this Report

Chapter 3. Banking and Financial Developments

In the second quarter of 2017 there was a marginal decline in deposits, mainly from the private sector, and in credit. However the Financial Soundness Indicators (FSIs) remain robust, boosting confidence that the UAE banking system is sound and stable.

3.1 Banking developments

The 22 national banks have increased the number of branches to 838 at the end of 2017 Q2 compared to 834 at the end of the first three months of 2017. The 26 foreign banks have kept the number of branches at 85 at the end of June 2017, same as in March 2017. At the same time the number of bank employees has declined for both, national and foreign banks from 29,504 and 7,454, respectively at the end of 2017 Q1 to 28,986 and 7,365, respectively after the first six months of the current year, mainly due to consolidation in banking activity and cost efficiency.

3.1.1. Banks' Deposits

Total Customer Deposits at banks declined in the second quarter of 2017 by AED 12.9 billion due to the decrease in Resident Deposits by AED 3.7 billion, while Non-resident Deposits fell by AED 9.1 billion.

The marginal decline in Resident Deposits in 2017 Q2 is essentially due to the decrease in the Private sector deposits by AED 14.7 billion or 1.5% and deposits of GREs by 1.3% or AED 2.4bn. The growth in the Government sector by 1.4% or AED 2.8 billion and for NBFIs by 36.9% or AED 10.6 billion was not sufficient to sustain the overall positive growth for the Resident deposits. The Non-Resident deposits declined by AED 9.2 billion or 4.9% during the second quarter of 2017, with their share in total deposits declining to 11.3% compared to the 11.8% share in the previous quarter. In the banking system, deposits by the type of banks, i.e., Conventional or Islamic, represent respectively 76.4% and 23.6% of the total deposits. Figures 3.1.1.a and 31.1.b, and Table 3.1.1.b show that in the second quarter of 2017 the growth in Islamic banks remains strong, while that in the Conventional banks turned negative, however on a Y-o-Y basis both are growing. Looking at the subcategories, the growth in Islamic banks is stronger than that in conventional banks with exception of NBFIs, in consistency with the previous quarter.

Table 3.1.1.a. Deposits at UAE Banks

	2016			2017	
	June	**Sep**	**Dec**	**Mar**	**Jun**
Bank Deposits	**1,493.0**	**1,508.7**	**1,562.9**	**1,602.0**	**1,589.1**
(Q-o-Q change %)	-0.6	1.1	3.6	2.5	-0.8
(Y-o-Y change %)	3.4	5.0	6.2	6.6	6.4
Resident Deposits	**1,315.9**	**1,321.8**	**1,363.9**	**1,413.0**	**1,433.5**
(Q-o-Q change %)	-0.7	0.4	3.2	3.6	-0.3
(Y-o-Y change %)	2.1	3.4	4.9	6.6	7.1
Government Sector	**185.9**	**169.5**	**186.8**	**194.0**	**196.8**
(Q-o-Q change %)	19.5	-8.8	10.2	3.9	1.4
(Y-o-Y change %)	14.1	3.2	18.7	24.8	5.9
GREs	**161.5**	**172.2**	**168.2**	**192.0**	**189.6**
(Q-o-Q change %)	-16.5	6.0	-1.8	14.0	-1.3
(Y-o-Y change %)	-12.3	-1.2	-11.8	-0.7	17.4
Private Sector	**945.3**	**956.6**	**980.7**	**998.3**	**983.6**
(Q-o-Q change %)	-0.3	1.2	2.5	1.8	-1.5
(Y-o-Y change %)	4.2	5.0	6.2	5.3	4.1
NBFI	**23.2**	**24.6**	**28.2**	**28.7**	**39.3**
(Q-o-Q change %)	-17.7	6.0	14.6	1.8	36.9
(Y-o-Y change %)	-32.4	-16.6	0.4	1.8	69.4
Non-Resident Deposits	**177.1**	**186.9**	**199.0**	**189.0**	**179.8**
(Q-o-Q change %)	-0.2	5.5	6.5	-5.0	-4.9
(Y-o-Y change %)	13.7	17.9	16.0	6.5	1.5

Source: Central Bank of the UAE
Note: All data indicate the end of period values. Values are expressed in billions of Dirhams.

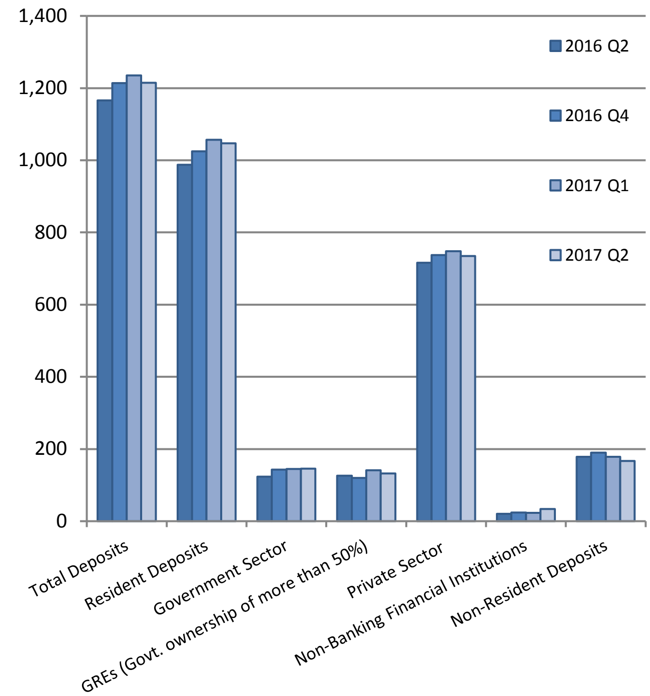
[Please Rate this Report]

Table 3.1.1.b. Deposits at Conventional/Islamic Banks

	Conventional		Islamic	
	2017 Mar	2017 Jun	2017 Mar	2017 Jun
Bank Deposits	**1,235**	**1,214**	**367**	**375**
(Q-o-Q change %)	1.7	-1.7	5.3	2.1
(Y-o-Y change %)	6.6	5.8	6.7	8.7
Share of Total, %	77.1	76.4	22.9	23.6
Resident Deposits	**1,057**	**1,047**	**356**	**362**
(Q-o-Q change %)	3.1	-0.9	5.0	1.7
(Y-o-Y change %)	6.9	6.9	5.8	7.5
Share of Total, %	74.8	74.3	25.2	25.7
Government Sector	**144**	**146**	**50**	**51**
(Q-o-Q change %)	0.9	0.8	13.5	3.2
(Y-o-Y change %)	32.1	6.4	7.4	4.3
Share of Total, %	74.4	74.0	25.6	26.0
GREs	**142**	**133**	**51**	**57**
(Q-o-Q change %)	18.1	-6.4	4.3	13.1
(Y-o-Y change %)	5.2	18.3	-14.1	15.4
Share of Total, %	73.7	69.9	26.3	30.1
Private Sector	**748**	**735**	**250**	**249**
(Q-o-Q change %)	1.4	-1.7	3.0	-0.7
(Y-o-Y change %)	3.9	3.5	9.6	5.7
Share of Total, %	74.9	74.7	25.1	25.3
NBFI	**23**	**34**	**6**	**5**
(Q-o-Q change %)	-4.2	48.0	34.9	-6.9
(Y-o-Y change %)	-8.0	68.7	75.8	74.2
Share of Total, %	79.8	86.3	20.2	13.7
Non-Resident Deposits	**178**	**167**	**11**	**13**
(Q-o-Q change %)	-6.1	-6.1	16.0	14.7
(Y-o-Y change %)	4.6	-1.1	49.3	56.3
Share of Total, %	94.2	93.0	5.8	7.0

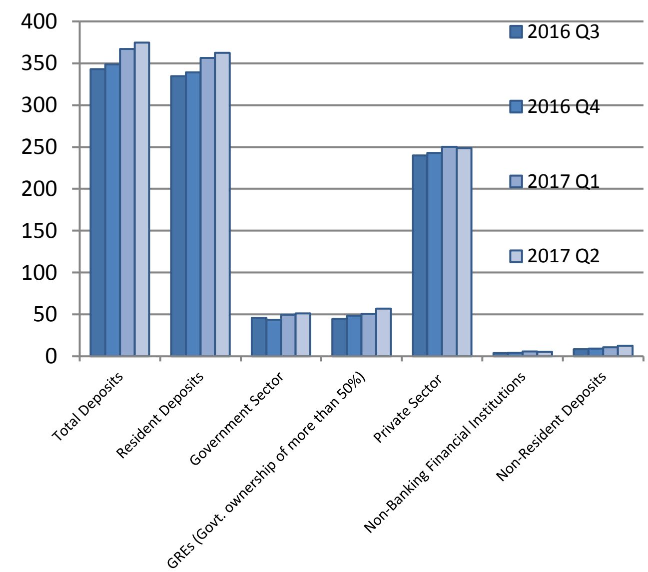
Source: Central Bank of the UAE
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.

Figure 3.1.1.a. Banking System Deposits for Conventional Banks (AED billion)



Source: Central Bank of the UAE

Figure 3.1.1.b. Banking System Deposits for Islamic Banks (AED billion)



Source: Central Bank of the UAE

The breakdown of National and Foreign banks in Figures 3.1.1.c and 3.1.1.d show that National and Foreign banks experienced a decline in 2017 Q2 Q-o-Q. National banks grew at a rate of -0.6% and 8.5% Q-

Please Rate this Report

o-Q and Y-o-Y respectively in contrast to Foreign banks for which deposits declined by 2.2% on a Q-o-Q basis and by 5.6% compared to 2016 Q2. At the end of 2017 Q2, 87.1% of the total deposits are in National banks and 12.9% are in Foreign banks.

	National		Foreign	
	2017 Mar	2017 Jun	2017 Mar	2017 Jun
Bank Deposits	**1,393**	**1,385**	**209**	**205**
(Q-o-Q change %)	3.0	-0.6	-1.0	-2.2
(Y-o-Y change %)	9.4	8.5	-9.0	-5.6
Share of Total, %	87.0	87.1	13.0	12.9
Resident Deposits	**1,237**	**1,237**	**176**	**172**
(Q-o-Q change %)	3.8	0.0	2.1	-2.3
(Y-o-Y change %)	7.8	8.1	-1.0	0.5
Share of Total, %	87.5	87.8	12.5	12.2
Government Sector	**192**	**195**	**2**	**2**
(Q-o-Q change %)	3.7	1.5	30.8	0.0
(Y-o-Y change %)	25.0	5.6	6.3	41.7
Share of Total, %	99.1	99.1	0.9	0.9
GREs	**183**	**184**	**9**	**6**
(Q-o-Q change %)	13.9	0.3	20.3	-32.6
(Y-o-Y change %)	-0.3	18.8	-8.2	-14.3
Share of Total, %	95.4	96.8	4.6	3.2
Private Sector	**839**	**824**	**160**	**159**
(Q-o-Q change %)	1.9	-1.7	1.1	-0.2
(Y-o-Y change %)	6.5	4.7	-0.6	1.0
Share of Total, %	84.0	83.8	16.0	16.2
NBFI	**23**	**34**	**6**	**5**
(Q-o-Q change %)	2.2	50.4	0.0	-15.3
(Y-o-Y change %)	2.7	90.6	-1.7	-3.8
Share of Total, %	79.4	87.3	20.6	12.7
Non-Resident Deposits	**156**	**147**	**33**	**33**
(Q-o-Q change %)	-2.6	-5.6	-14.9	-1.2
(Y-o-Y change %)	24.2	11.9	-36.4	-28.4
Share of Total, %	82.5	81.9	17.5	18.1

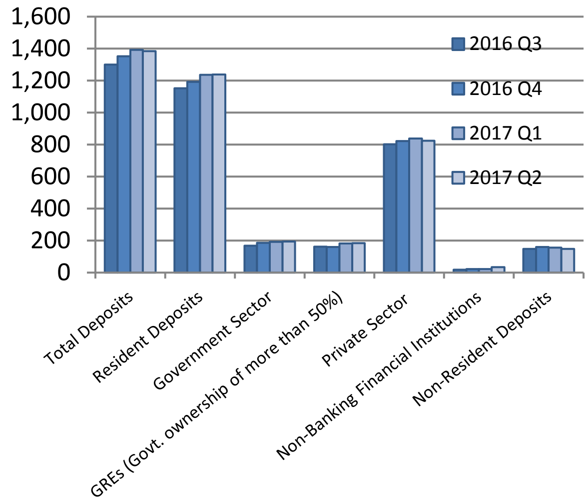
Table 3.1.1.c. Deposits at UAE National/Foreign Banks

Source: Central Bank of the UAE

Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.

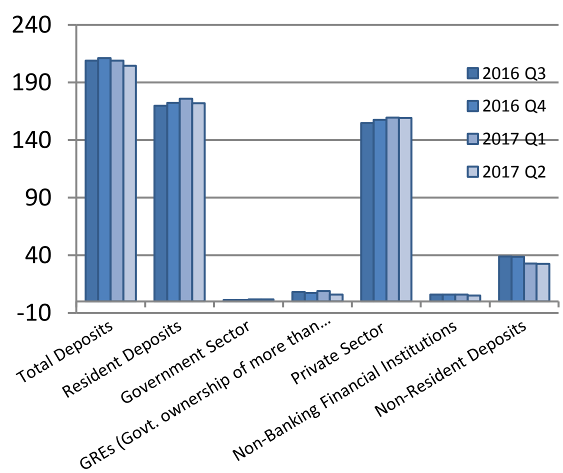
The sectors growing the most in 2017 Q2 for National banks were the NBFIs by 87.3% on a quarterly basis (growth of 50.4% on Y-o-Y basis) and the Government sector by 1.5% Q-o-Q (5.6% Y-o-Y), reflecting the ongoing fiscal consolidation and improved oil price. For the Foreign banks in the second quarter of 2017, the breakdown shows that the biggest increase was for the Government sector deposits. Despite no growth Q-o-Q they increased by 41.7% Y-o-Y or AED 500mn for the foreign banks segment. However government deposits are very low in foreign banks, and hence the impact of the overall growth remains marginal.

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



Source: Central Bank of the UAE

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



Source: Central Bank of the UAE

[Please Rate this Report]

3.1.2. Banks' Credit

Domestic Credit declined in 2017 Q2 by AED 15.5 billion (1.1%) for the first time in the last five years, which corresponded to a growth of a 2.1% Y-o-Y, mainly the result of the deleveraging by GREs, by AED 15.8 billion (8.1%), Private corporates by AED 2.8 billion (0.4%) and NBFIs by AED 600 million (3%) quarterly. In Box 5 below, an analytical framework provides more details about the drivers of credit growth in the UAE and its recent slowdown, with a particular focus on the effect of US monetary policy tightening. .Meanwhile, the Government Sector was borrowing at a slower pace of 0.6% and 5.5% Q-o-Q and Y-o-Y, leaving more room for the growth of the private sector. However, Y-o-Y Private sector's credit grew only by 2.7% while on a quarterly basis as at the end of June 2017 it remained unchanged compared to the end of March 2017.

Table 3.1.2.a. Assets and Credit at UAE Banks

	2016			2017	
	Jun	**Sep**	**Dec**	**Mar**	**Jun**
Total Assets	**2,519**	**2,550**	**2,611**	**2,648**	**2,654**
(Q-o-Q change %)	**1.1**	**1.3**	**2.4**	**1.3**	**0.2**
(Y-o-Y change %)	**4.1**	**5.3**	**5.4**	**6.3**	**5.4**
Gross Credit	**1,543**	**1,566**	**1,574**	**1,597**	**1,591**
(Q-o-Q change %)	1.7	1.5	0.5	1.4	-0.4
(Y-o-Y change %)	6.7	5.9	6.0	5.3	3.1
Domestic Credit	1,426	1,446	1,454	1,472	1,457
(Q-o-Q change %)	1.6	1.4	0.5	1.2	-1.1
(Y-o-Y change %)	6.8	5.8	5.2	4.8	2.1
Government	168.6	174.1	172.5	176.8	177.9
(Q-o-Q change %)	-0.1	3.3	-0.9	2.6	0.6
(Y-o-Y change %)	0.1	4.6	3.5	4.8	5.5
Public Sector GREs)	187.7	188.0	187.1	194.8	179.0
(Q-o-Q change %)	3.8	0.2	-0.5	3.9	-8.1
(Y-o-Y change %)	12.1	6.3	9.2	7.7	-4.6
Private Sector	1,052	1,066	1,076	1,081	1,081
(Q-o-Q change %)	2.1	1.4	1.0	0.5	0.0
(Y-o-Y change %)	7.1	6.2	5.6	5.0	2.7
Business & ndustrial Sector redit	709.7	720.0	727.8	731.4	728.6
(Q-o-Q change %)	2.3	1.5	1.1	0.4	-0.4
(Y-o-Y change %)	7.1	6.9	5.8	5.5	2.7
Individual	341.9	345.8	348.2	349.3	351.9
(Q-o-Q change %)	1.7	1.1	0.7	0.6	0.7
(Y-o-Y change %)	7.1	4.9	5.3	3.9	2.9
Non-Banking inancial Institutions	18.4	18.2	18.0	20.1	19.5
(Q-o-Q change %)	-27.3	-1.1	-1.1	5.8	-3.0
(Y-o-Y change %)	1.1	-8.5	-27.1	-20.6	6.0
Foreign Credit	117.1	119.9	120.4	124.8	134.4
(Q-o-Q change %)	3.5	2.4	0.4	3.7	7.7
(Y-o-Y change %)	5.6	6.9	15.9	10.3	14.8
of which: Loans & dvances to Non-esidents in AED	12.8	14.4	14.6	15.2	15.5
(Q-o-Q change %)	14.3	12.5	1.4	4.1	2.0
(Y-o-Y change %)	29.3	49.4	58.7	35.7	21.1

Source: Central Bank of the UAE
Note: All data indicate the end-of-quarter values. Values are expressed in billions of Dirhams.

[Please Rate this Report](#)

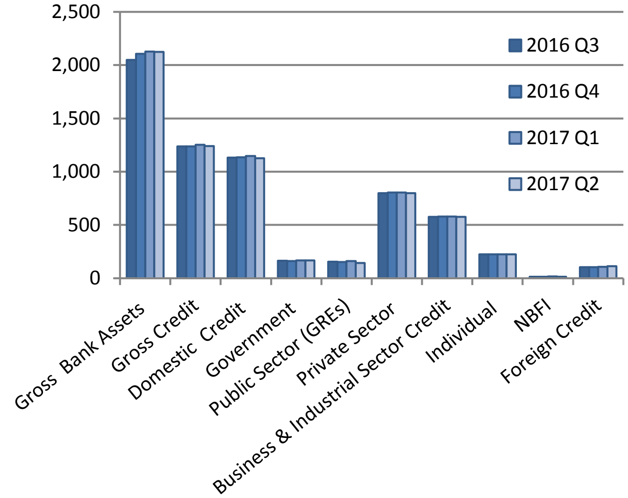
Table 3.1.2.b. Assets and Credit at UAE

	Conventional		Islamic	
	2017	**2017**	**2017**	**2017**
	Mar	**Jun**	**Mar**	**Jun**
Total Assets	**2,127**	**2,125**	**522**	**530**
(Q-o-Q change %)	**1.0**	**-0.1**	**3.2**	**1.5**
(Y-o-Y change %)	**5.9**	**4.9**	**8.0**	**7.4**
Gross Credit	**1,254**	**1,241**	**343**	**350**
(Q-o-Q change %)	1.2	-1.0	2.3	2.1
(Y-o-Y change %)	4.4	2.0	8.4	7.3
Domestic Credit	1,148	1,127	325	330
(Q-o-Q change %)	1.1	-1.8	2.1	1.4
(Y-o-Y change %)	4.1	1.0	7.4	6.1
Government	167	168	9	10
(Q-o-Q change %)	2.7	0.4	-1.1	5.3
(Y-o-Y change %)	4.8	5.3	4.4	10.0
Public Sector GREs)	160	144	34	35
(Q-o-Q change %)	4.6	-10.2	1.8	1.7
(Y-o-Y change %)	7.8	-7.2	7.5	7.7
Private Sector	804	800	277	281
(Q-o-Q change %)	0.0	-0.5	1.9	1.4
(Y-o-Y change %)	4.1	1.7	7.6	5.8
Business & ndustrial Sector redit	580	575	151	153
(Q-o-Q change %)	0.0	-0.8	2.4	1.3
(Y-o-Y change %)	4.9	1.8	7.6	6.1
Individual	224	224	126	128
(Q-o-Q change %)	-0.2	0.3	1.3	1.5
(Y-o-Y change %)	2.0	1.5	7.6	5.5
Non-Banking inancial Institutions	16	16	4	4
(Q-o-Q change %)	7.4	-2.5	32.3	-4.9
(Y-o-Y change %)	-24.9	6.8	2.5	2.6
Foreign Credit	107	114	18	21
(Q-o-Q change %)	3.1	6.7	7.1	13.7
(Y-o-Y change %)	7.7	12.2	29.1	31.0

Conventional/Islamic Banks

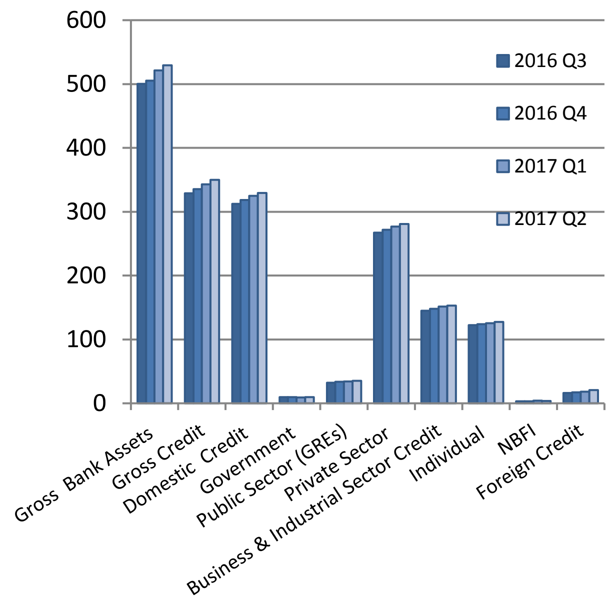
Source: Central Bank of the UAE
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.

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



Source: Central Bank of the UAE

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



Source: Central Bank of the UAE

The breakdown of the assets and credit by national and foreign banks in Figures 3.1.2.c. and 3.1.2.d. indicates that national banks were growing, with exception of the GREs and NBFIs where the decline was dominant in 2017 Q2. For the same period, foreign banks had all their assets and credit sectors deleveraging with exception of Foreign credit.

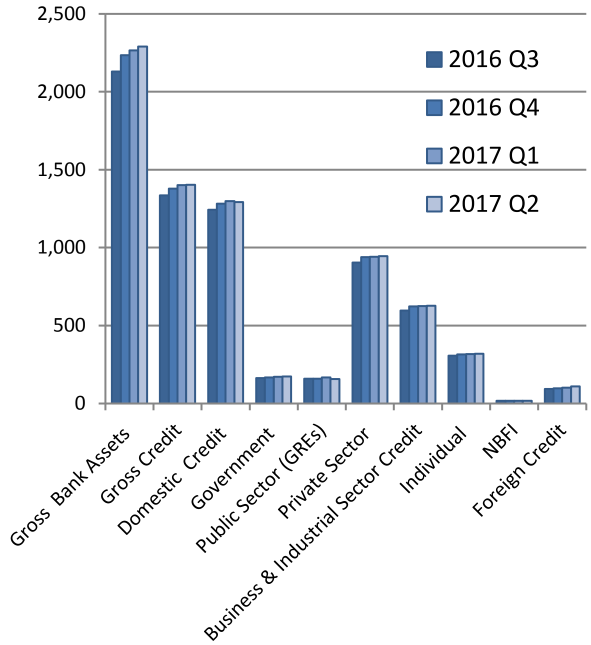
On an annual basis, as of June 2017, National banks marked an increase of 7.5% and 5% for banks' assets and gross credit, respectively, while for the Foreign banks they were both declining.

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

	National		Foreign	
	2017 Mar	2017 Jun	2017 Mar	2017 Jun
Total Assets	**2,267**	**2,290**	**382**	**364**
(Q-o-Q change %)	**1.4**	**1.0**	**1.7**	**-4.5**
(Y-o-Y change %)	**8.0**	**7.5**	**-2.7**	**-6.3**
Gross Credit	**1,401**	**1,404**	**197**	**188**
(Q-o-Q change %)	1.6	0.2	0.8	-4.5
(Y-o-Y change %)	7.2	5.0	-6.6	-9.2
Domestic Credit	1,299	1,293	174	164
(Q-o-Q change %)	1.4	-0.4	0.9	-5.6
(Y-o-Y change %)	6.8	4.1	-7.6	-10.8
Government	172	173	5	5
(Q-o-Q change %)	3.3	0.5	-20.0	4.2
(Y-o-Y change %)	6.5	6.5	-33.3	-19.4
Public Sector (GREs)	167	156	28	23
(Q-o-Q change %)	4.6	-6.2	1.1	-19.2
(Y-o-Y change %)	11.4	-1.4	-9.6	-22.3
Private Sector	942	946	139	134
(Q-o-Q change %)	0.4	0.4	0.7	-3.1
(Y-o-Y change %)	6.9	4.6	-6.7	-8.8
Business & Industrial Sector Credit	625	627	106	102
(Q-o-Q change %)	0.2	0.2	2.4	-3.9
(Y-o-Y change %)	7.8	4.9	-6.3	-9.2
Individual	317	320	32	32
(Q-o-Q change %)	0.8	0.9	-4.4	-0.6
(Y-o-Y change %)	5.3	4.1	-8.0	-7.8
Non-Banking Financial Institutions	18	17	2	2
(Q-o-Q change %)	4.1	-2.2	155.6	-8.7
(Y-o-Y change %)	-26.1	1.2	91.7	75.0
Foreign Credit	102	111	23	24
(Q-o-Q change %)	4.5	8.5	0.0	3.9
(Y-o-Y change %)	12.5	17.7	1.8	3.0

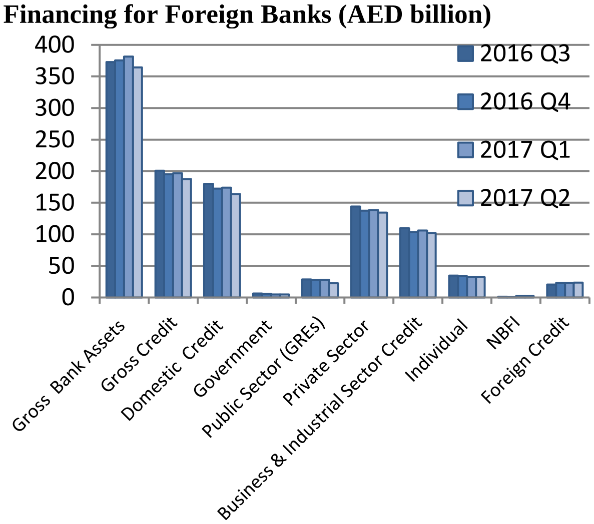
Source: Central Bank of the UAE
Note: All data indicate the end-of-period values. Values are expressed in billions of Dirhams.

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



Source: Central Bank of the UAE

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



Source: Central Bank of the UAE

[Please Rate this Report]

Table 3.1.2.d Banks credit to residents by economic activity

(End of Period , In Billions of AED)

	2016			2017	
Economic Activity	**Jun**	**Sep**	**Dec**	**Mar**	**Jun**
Agriculture	1.2	1.2	1.4	1.2	1.1
(Q-o-Q change %)	-4.9	-1.9	16.7	-15.1	-2.5
(Y-o-Y change %)	-5.7	-9.0	-11.9	-7.7	-5.3
Mining and Quarrying	12.4	14.0	13.5	19.0	13.9
(Q-o-Q change %)	6.2	12.7	-3.4	40.4	-26.8
(Y-o-Y change %)	18.9	26.6	13.6	62.3	11.9
Manufacturing	71.4	71.6	69.5	68.3	70.3
(Q-o-Q change %)	-1.2	0.3	-3.0	-1.7	3.0
(Y-o-Y change %)	0.3	-0.9	0.5	-5.5	-1.5
Electricity, Gas and Water	18.6	17.9	18.4	18.1	17.4
(Q-o-Q change %)	0.2	-3.8	3.1	-1.8	-3.9
(Y-o-Y change %)	-17.3	-13.8	-10.0	-2.5	-6.4
Construction and Real Estate	242.4	250.8	264.7	267.0	281.2
(Q-o-Q change %)	0.2	3.5	5.5	0.9	5.3
(Y-o-Y change %)	12.1	12.2	12.6	10.4	16.0
Trade	160.7	158.2	155.5	152.3	149.5
(Q-o-Q change %)	0.0	-1.5	-1.7	-2.1	-1.8
(Y-o-Y change %)	-2.5	-4.0	-3.8	-5.2	-7.0
Transport, Storage and Communication	64.0	62.7	63.5	60.4	63.1
(Q-o-Q change %)	2.4	-2.0	1.2	-4.7	4.4
(Y-o-Y change %)	5.1	6.6	7.3	-3.2	-1.3
Financial Institutions (Excluding Banks)	144.9	148.4	144.3	151.9	138.9
(Q-o-Q change %)	3.8	2.4	-2.7	5.2	-8.5
(Y-o-Y change %)	13.0	9.5	6.4	8.9	-4.1
All Others	120.6	122.0	126.6	130.0	126.2
(Q-o-Q change %)	6.7	1.1	3.8	2.7	-2.9
(Y-o-Y change %)	7.8	7.9	12.4	15.0	4.6

Source: Central Bank of the UAE
Note: All data indicate the end-of-quarter values.

Banks' lending by economic activity shows an increase in the second quarter of 2017 Q-o-Q by 3%, 5.3% and 4.4% in the Manufacturing, Construction and Real Estate, and Transport, Storage and Communication sectors respectively, while their growth Y-o-Y was -1.5%, 16%, and -1.3%, respectively. For the other sectors credit declined on Q-o-Q, during the second quarter of 2017. The growth in Mining and Quarrying was -26.8% Q-o-Q and 11.9% Y-o-Y, in Electricity, Gas and Water -3.9% Q-o-Q and -6.4% Y-o-Y, in Trade -1.8% Q-o-Q and -7% Y-o-Y, and in Financial Institutions (Excluding banks) -8.5% Q-o-Q and -4.1% Y-o-Y.

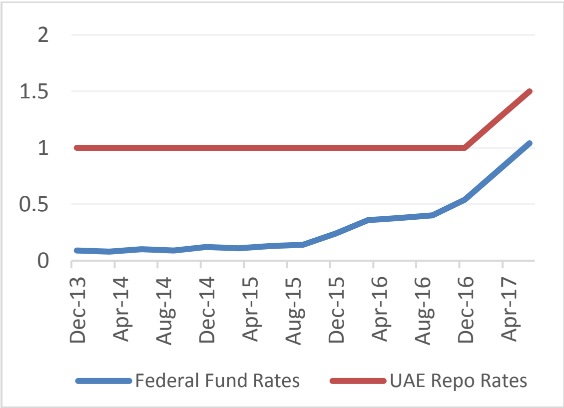
[Please Rate this Report](#)

Box 5: Monetary Policy in the US and Implications on Credit Growth in the UAE

In 2015, the US economic outlook started to improve since the 2008 financial crisis. Given the positive signs in industrial output, employment, household spending and business fixed investments, the Federal Reserve has started the cycle of raising interest rates to avert the risk of economic overheating as the economy continues to progress towards full employment. As the Federal Policy Rate was near zero following successive reductions after the global financial crisis, the Fed reversed course, increasing the policy rate successively by 25 basis points (bps) in December 2015, December 2016, March 2017, and June 2017. Thus far, the normalization process of monetary policy in the US drove the policy rate upward to reach 1.25% currently.

The policy interest rate in the UAE has to be consistent with US rates to maintain the exchange rate peg. Therefore, as US monetary policy tightens, the UAE should tighten by raising the proxy policy interest rate to maintain the spread that is compatible with exchange rate stability. Following the recent hikes in the US policy rate, the Central Bank of the UAE (CBUAE) has increased its proxy policy rate by 25 bps applied to the issuance of its Certificates of Deposits and Repo Rate which increased from 1.25% to 1.5% (see Figure 1). As the direction of the interest rate adjustment is not compatible with the economic cycle in the UAE, it is important to evaluate the impact of increasing rates on recent credit conditions.

Figure 1: The Federal Funds Rate vs Repo Rate in the UAE



Source: Bloomberg

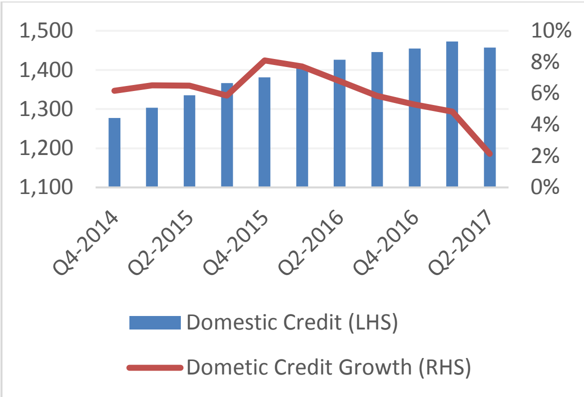
Is there a relationship between UAE's domestic credit growth and the normalization process of monetary policy in the US?

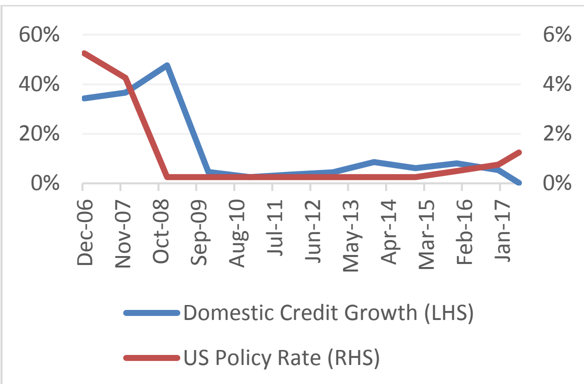
With the current UAE economic conditions and the "lasting for long" low oil prices, domestic credit growth started to decline from Q4 2015 to reach 2.2% Y-o-Y at the end of June 2017. Figure 2 captures the recent development in the US interest rate and UAE's domestic credit growth.

Since the last quarter of 2015, domestic credit growth has slowed down in the UAE. In parallel, the tightening cycle of monetary policy in the US has increased the US Policy Rate. However, other factors, primarily the slowdown in economic activity may have contributed to this negative relation by further reinforcing the pace of reduction in credit growth.

Figure 2: UAE Domestic Credit growth and US policy rate (AED billions)

[Please Rate this Report]





Source: Central Bank of the UAE; LHS is left hand side; RHS is right hand side.

Please Rate this Report

It is noteworthy that credit growth remains robust, albeit on a declining path more recently. The outlook for a revival in credit growth with the improvement in growth projections in the non-energy sector bodes well for a pickup in credit growth momentum that is likely to offset the negative spillover of further tightening in monetary policy in the US. Moreover, improvement in the liquidity position in the banking system, coupled with the Central Bank of the UAE's capacity to manage liquidity in line with priorities for the macro economy and stability in the financial system solidify the outlook for a revival in credit growth going forward, notwithstanding continued commitment to align the proxy policy rate with the direction of the Federal Fund Rate in the US to maintain the continued stability of the exchange rate peg.

Please Rate this Report

3.1.3. Financial Soundness Indicators

The overall outlook regarding the soundness of the banking sector remains positive during the second quarter of 2017.

Banks' specific provisions for NPLs increased from AED 80.5 billion at the end of March 2017 to AED 82.8 billion in the second quarter of 2017, thereby ensuring that NPLs are fully provisioned, considering that in parallel there was a decline in lending. The level has also increased compared to the end of 2016 Q2, when the specific provisions were at AED 70.6 billion.

The percentage of the number of presented and returned cheques has marginally increased from 4.1% in March 2017 to 4.3% in June 2017. However, the total amount of returned cheques from the total presented amount declined to 4.5% in 2017 Q2 compared to 4.6% in 2017 Q1, indicating an improvement in the private sector economic performance.

Banks operating in the UAE remain highly capitalized, with the capital adequacy ratio (CAR) and Tier 1 capital of banks remaining almost unchanged at 18.5% and 16.9% respectively compared to the previous quarter and a year earlier, which is well above the regulatory requirements set by the Central Bank.

Looking at the breakdown between Conventional and Islamic banks, the L/D ratio is respectively 102.2% and 93.4%, decreasing by 0.6 percentage points from the previous quarter for the Conventional banks. The level for Conventional banks in June 2017 has improved compared to a year ago when it was 106%, the same being the case for Islamic banks' L/D which has declined from 94.6% in June 2016. On the other hand, National banks have L/D ratio of 101.4% (with an increase of 0.9 percentage points compared to March 2017), while the ratio for foreign banks is 91.8%, lower than the 94.1% at the end of 2017 Q1, reflecting faster decline in credit growth.

Lending to Stable Resources Ratio (LSRR) also increased from 85.4% at the end of 2017 Q1 to 85.9% in June 2017. In the segmentation, Islamic, Conventional, National and Foreign banks, the conventional and national banks LSRR increased in the second quarter of 2017, while for the two other types of banks it declined. The increase of the indicator for national and conventional banks is mainly due to the relatively higher pace of decline in deposit growth compared to the decline in credit growth. On an annual basis, all banks' LSRR declined as the growth of deposits outpaced that of credit.

Meanwhile, liquid assets which include reserves requirements 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, as a ratio of total assets moved from 16.8% at the end of March 2017 to 17.1% at the end of 2017 Q2. This is the highest observed increase in the liquid assets ratio since December 2015. The level of total liquid assets at banks at the end of 2017 Q2 remains at AED 367.1 billion, AED 6.3 billion higher than at the end of 2017 Q1, registering growth of 1.7% in that quarter, boosting the increase in the Liquid Assets Ratio (LAR). On a Y-o-Y basis, total liquid assets at banks also increased by AED 40.7 billion or a growth of 12.5%. In addition, looking at the split between Islamic, Conventional, National and Foreign banks, data show that for all segments the LARs increased during 2017 Q2, with the exception of the Islamic banks, which might be explained by the higher credit growth. On a Y-o-Y basis LAR has increased for all banks.

To sum, the banking sector, as a whole, has remained stable at the end of 2017 Q2 based on the Financial Soundness Indicators (FSIs).

On a Y-o-Y basis, the second quarter of 2017, has also shown improvements, based on the FSIs.

Overall, as of the end of June 2017, banks' assets, credit and deposits grew by 5.4%, 3.1% and 6.4%, respectively Y-o-Y and with an average monthly growth for 2017 of 0.8%, 0.3% and 0.5%, respectively. The evidence bodes well for continued growth in the banking sector in support of non-oil GDP growth, underpinned by sound indicators of financial stability.

Please Rate this Report

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

Total system	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Lending to Stable Resources Ratio	88.1	88.9	86.6	85.4	85.9
The Liquid Assets Ratio (LAR)	15.8	15.6	16.0	16.8	17.1
Capital Adequacy Ratio (CAR) of which:	18.9	19.1	19.4	18.6	18.5
Tier 1 Capital	17.0	17.1	17.5	16.9	16.9

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values.

Table 3.1.3.b. Financial Soundness Indicators in the UAE for Conventional Banks (in %, unless otherwise indicated)

Conventional	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Lending to Stable Resources Ratio	86.4	85.7	86.8	85.8	86.6
The Liquid Assets Ratio (LAR)	17.0	16.4	16.8	16.5	16.9
Capital Adequacy Ratio (CAR) of which:	16.5	16.7	17.1	19.0	18.9
Tier 1 Capital	15.9	16.1	16.5	17.1	17.1

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values

Table 3.1.3.c. Financial Soundness Indicators in the UAE for Islamic Banks (in %, unless otherwise indicated)

	2016			2017	
Islamic	Q2	Q3	Q4	Q1	Q2
Lending to Stable Resources Ratio	89.3	89.9	88.6	83.7	83.5
The Liquid Assets Ratio (LAR)	14.6	14.4	14.8	17.9	17.1
Capital Adequacy Ratio (CAR) of which:	18.1	18.2	18.6	16.7	16.7
Tier 1 Capital	16.6	16.7	17.1	16.0	16.0

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values.

Table 3.1.3.d. Financial Soundness Indicators in the UAE for National Banks (in %, unless otherwise indicated)

National	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Lending to Stable Resources Ratio	87.7	88.2	86.6	86.6	87.6
The Liquid Assets Ratio (LAR)	16.0	15.7	16.2	15.4	15.7
Capital Adequacy Ratio (CAR) of which:	18.4	18.6	19.0	18.2	18.1
Tier 1 Capital	16.8	16.9	17.3	16.7	16.7

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values.

Table 3.1.3.e. Financial Soundness Indicators in the UAE for Foreign Banks (in %, unless otherwise indicated)

Foreign	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Lending to Stable Resources Ratio	78.8	78.3	74.8	77.6	75.0
The Liquid Assets Ratio (LAR)	24.0	23.5	24.2	25.4	25.9
Capital Adequacy Ratio (CAR) of which:	20.7	21.3	21.5	21.3	21.0
Tier 1 Capital	17.7	18.3	18.6	18.5	18.1

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values.

Please Rate this Report

3.2 Financial developments

3.2.1. Share Price Movement

The positive investors' confidence observed during the first quarter did not persist through the second one. The uncertainty regarding the global economic outlook and the economic slowdown weighed in on investors' confidence. The negative sentiment was materialized by a decrease of share price indices as well as market capitalization in both Abu Dhabi and Dubai Emirates' securities markets.

In Abu Dhabi, the average Share Price Index dropped by 1.2% in the second quarter of 2017 after an increase of 3% in the first quarter of 2017. The market capitalization followed the same pattern. It dropped by 1.4% in the second quarter after an improvement by 1.4% in the previous one (see Table 3.2.1.).

The deterioration of the securities market in Dubai was more noticeable. The average Share Price Index fell by 5.6% in the second quarter of 2017. Similarly, the market capitalization plunged by 7.8% in the second quarter against an important rebound of 18.8% in the previous quarter.

The decline of share price indices accompanied by the growing uncertainty slowed down volatility that characterized the financial market in the UAE since the beginning of the year, in consistency with global trends. In fact, the price volatility[9] declined in Abu Dhabi's Securities' Market by 0.1% in the second quarter of 2017 compared to a 4.8% drop in the previous quarter. Similarly, the volatility of the Share Price Index in Dubai declined by 0.9% in the second quarter of 2017 against a 5.5% decline in the first quarter.

Table 3.2.1. UAE – Securities Markets

		2016				2017	
		Q1	Q2	Q3	Q4	Q1	Q2
Abu Dhabi	**Change of Share Price Index (%)**	-0.5	3.9	1.7	-2.7	3.0	-1.2
	Change of Market Capitalization (%)	1.0	1.9	5.8	-3.0	1.4	-1.4
Dubai	**Change of Share Price Index (%)**	-2.7	5.5	3.4	-2.3	5.2	-5.6
	Change of Market Capitalization (%)	-3.4	6.4	1.4	-3.3	18.8	-7.8

Source: Abu Dhabi Securities Exchange and Dubai Financial Market

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

3.2.2. Credit Default Swaps Premiums

The reduction in indexes and capitalization in the financial markets coincided with an increase in the default risk premium. Indeed, the spreads of Credit Default Swaps (CDS) experienced an increase during the second quarter of 2017 after a significant tightening previously. They inverted the decreasing trend that had started in 2016 (see Table 3.2.2).

In the second quarter of 2017, the CDS of Sovereigns increased by 20.2 basis points (bp) in Abu Dhabi after a previous decline of 20.6 (bp) in the first quarter of 2017. Similarly, in Dubai, the CDS jumped by 17.5 bp after a previous cut by 35.3 bp Q-o-Q.

Table 3.2.2. UAE - Credit Default Swaps (CDS)

	2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2
Emirate of Abu Dhabi	93.6	87.5	74.3	61.5	40.9	61.1
Emirate of Dubai	215.0	182.5	167.3	149.8	114.5	132.0

Source: Bloomberg.
Note: All data are the observed end-of-quarter values. Premiums are expressed in basis points.

[9] The volatility is measured by the standard deviation.

[Please Rate this Report](#)

Chapter 4 Monetary Aggregates and Central Bank Balance Sheet

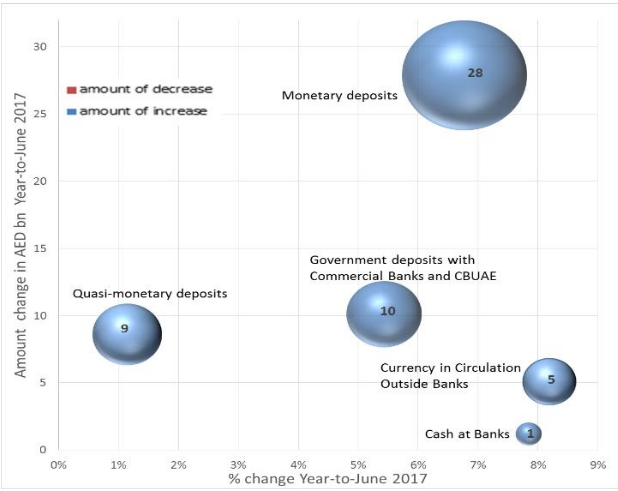
The Central Bank balance sheet exhibited an increase in 2017 Q2, triggered by the increase in foreign assets. As a result, Total Assets increased owing mainly to rising Central Bank's Cash and Bank Balances abroad. Meanwhile, interest rates in the UAE continued their upward trend in line with the Fed's decision announced on the 14th of June 2017, while swap rates for the Dirham and key foreign currencies declined owing to less market volatility worldwide and less perceived risk.

4.1 Monetary Aggregates

During the second quarter of 2017 M1 increased by 0.5%, while M2 and M3 declined by 0.4% and 0.2% Q-o-Q, respectively.

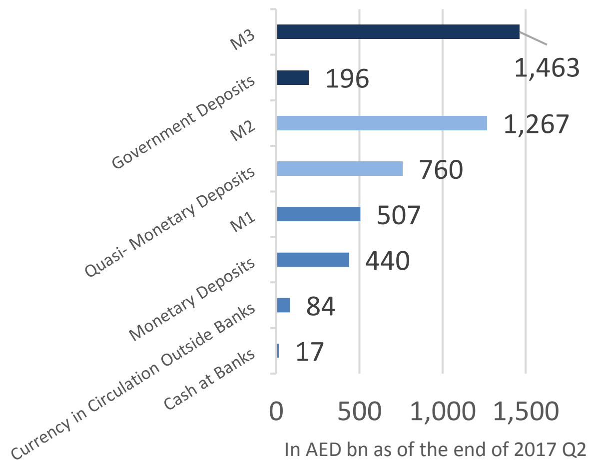
The growth in M1 is due to the increase in Currency in Circulation outside banks, cash at banks and monetary deposits that rose by 3.1%, 12.2% and 0.2% Q-o-Q respectively (AED 2 billion, AED 1.8 billion, and AED 0.7 billion, respectively). The decline in M2 is due to a 1% decrease (AED 7.8 billion) in Quasi-monetary deposits over the same period. Meanwhile, M3 fell less than M2, due to an increase in Government deposits by AED 2.4 billion (1.2%), however this was not enough to move the M3 growth in positive territory during the second quarter of 2017.

Figure 4.1 UAE Monetary aggregates components growth



Source: Central Bank of the UAE and Central Bank of the UAE analysis

Figure 4.2 Stock of UAE Monetary aggregates and their components



Source: Central Bank of the UAE and Central Bank of the UAE analysis

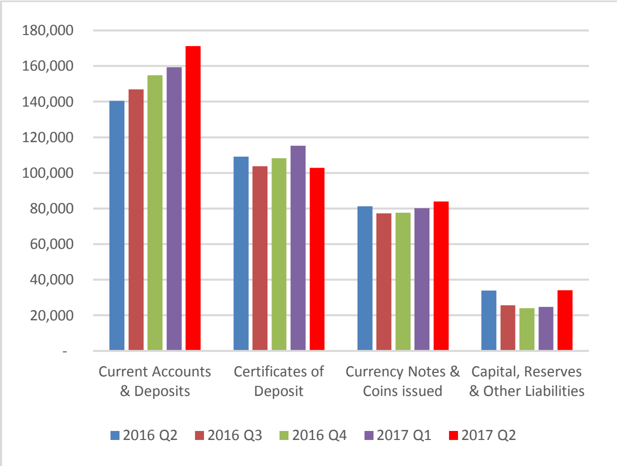
4.2. Central Bank Balance Sheet

Changes in the Central Bank balance sheet are triggered by changes in foreign assets. The increase in these assets improved the liquidity situation of the banking system, which in turn increased liabilities at the CBUAE. As a result, total capital and liabilities increased by 3.9% during 2017 Q2, due mainly to an increase in banks' Current Accounts and Deposits at the Central Bank by 7.4% and an increase in Currency Notes and Coins Issued by 4.7%. Meanwhile, Certificates of Deposit decreased during this period by AED 12.4 billion, albeit they remain at AED 102.9 billion, which is testament to sufficient liquidity at banks.

Please Rate this Report

Figure 4.3 Central Bank Liabilities

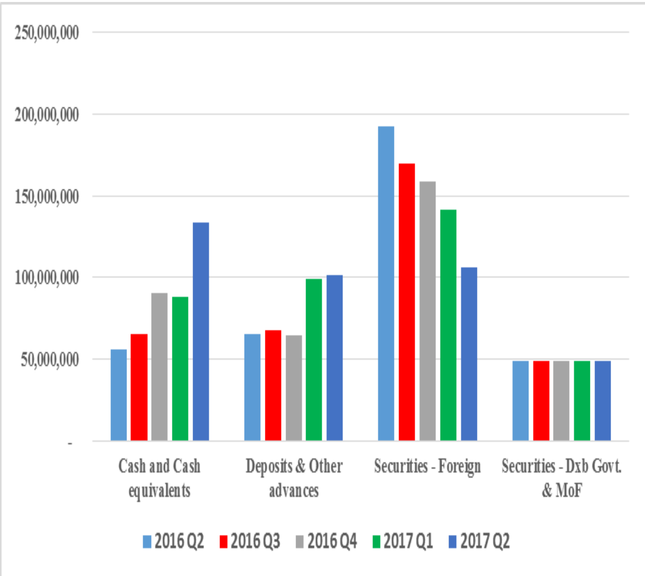
In millions of Dirhams



Source: Central Bank of the UAE

Figure 4.4 Central Bank Assets

In millions of Dirhams



Source: Central Bank of the UAE

With the above-indicated increase in foreign assets being the main driver, the total assets of the Central Bank increased by 3.3% during 2017 Q2, reaching AED 392 billion. This was mainly the result of an increase in Cash and Cash Equivalents by AED 45.5 billion, while investment in Foreign Securities decreased by AED 35.2 billion.

Table 4.1 Central Bank Balance Sheet

In Millions of Dirhams

	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Assets					
Cash and Cash equivalents	55,656,188	65,036,976	90,149,168	88,061,077	133,518,149
Deposits & Other advances	65,533,043	67,667,192	64,897,694	98,886,682	101,198,686
Securities - Foreign	192,693,880	170,008,037	158,516,393	141,635,040	106,418,527
Securities - Dxb Govt. & MoF	49,197,917	49,165,222	49,165,222	49,165,222	49,165,222
Gold Bullion	1,164,086	1,170,795	1,014,848	1,099,287	1,101,467
Others	503,898	583,264	709,829	640,838	554,654
Total Assets	**364,749,012**	**353,631,486**	**364,453,154**	**379,488,146**	**391,956,705**
Capital & Liabilities					
Current Accounts & Deposits	140,351,020	146,920,097	154,775,181	159,330,411	171,176,605
Certificates of Deposit	109,082,625	103,796,938	108,192,813	115,300,950	102,858,725
Currency Notes & Coins issued	81,316,869	77,267,075	77,551,471	80,129,948	83,877,645
Capital, Reserves & Other Liabilities	33,998,498	25,647,376	23,933,689	24,726,837	34,043,730
Total Capital & Liabilities	**364,749,012**	**353,631,486**	**364,453,154**	**379,488,146**	**391,956,705**

Source: Financial Control Division, Central Bank of the UAE

4.3 Central Bank Foreign Assets

The balance of foreign assets increased from AED 325 billion at end of 2017 Q1 to AED 338.3 billion at end of 2017 Q2, owing to an increase by AED 48.8 billion in Current Account Balances and Deposit with Banks abroad.

Table 4.2 Central Bank's Foreign Assets

In billions of Dirhams	2016			2017	
	Q2	Q3	Q4	Q1	Q2
Total Foreign Assets	314.1	301.6	310.9	325.0	338.3
Held-To-Maturity Foreign Securities	192.1	169.0	149.3	140.5	104.3
Current Account Balances & Deposit with Banks Abroad	116.9	127.0	147.9	178.8	227.6
Other Foreign Assets	5.1	5.6	13.7	5.7	6.4

Source: Central Bank of the UAE, end of quarter data

4.4 Developments in Banks' Liquidity at the CBUAE

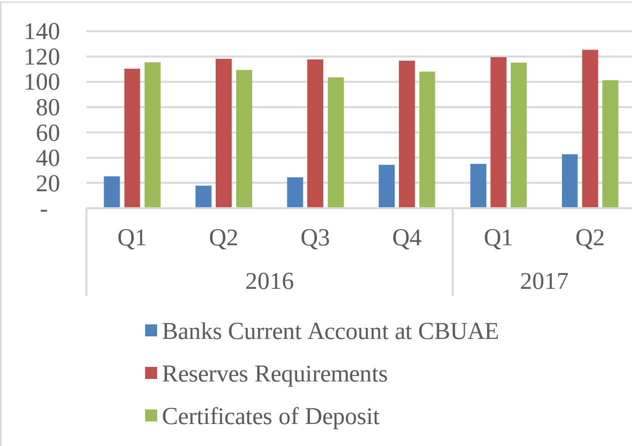
Banks' liquid assets at the CBUAE are composed mainly of their current account at the Central Bank, reserve requirements, and certificates of deposits. Total liquid assets held by banks operating in the UAE at the CBUAE increased during 2017 Q2 by AED 6.3 billion, reaching AED 367.1 billion. Underlying this increase

Please Rate this Report

is: (1) a rise in excess reserves held at the Central Bank, and (2) an increase in required reserves.

Figure 4.5 Liquid Assets at Banks

In billions of Dirhams



Source: CBUAE Data

A few banks tapped CBUAE's facilities to borrow Dirhams during 2017 Q2. At the end of June, banks' borrowing through the Interim Marginal Lending facility, as an example, was limited to AED 300 million, while there was no use of CDs Repo Facility.

4.5. Interest Rates

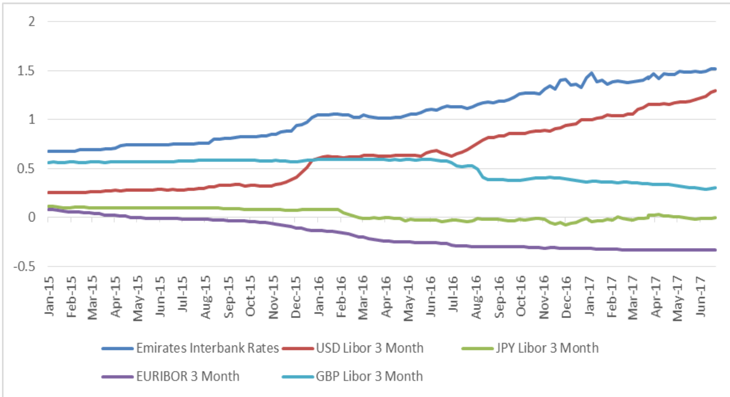
The fixed peg of the exchange rate of the Dirham to the US dollar means that the CBUAE has to peg its policy rate to the direction of interest rate policy in the U.S. Therefore, the Central Bank of the UAE announced on the 15th of June 2017 an increase in interest rates applied to its Certificates of Deposits, in line with the Fed's decision that brought the target Fed Funds interest rate to 1% - 1.25% range.

4.5.a. Short-term interest rates

Figure 4.6 shows the 3-month Emirates Interbank Offer Rate (Eibor), which comprises the daily quotes of the largest banks operating in the country, and published by the Central Bank of the UAE.

Eibor continued its upward trend during 2017 Q2 in line with the renewed commitment by the Federal Reserve for further rate hikes. Consistent with the fixed peg arrangement of the Dirham to the US dollar, the CBUAE increased the interest rate on Certificates of Deposit accordingly, while the Repo rate on CDs was also increased by 25 basis points to 1.5%.

Figure 4.6 Short-Term Rates 3-month



Source: Bloomberg

4.5.b. Long-term swap rates

Given the absence of a deep and liquid government bond market in the UAE, the swap market reflects the yields of long-term securities. By definition, interest rate swaps correspond to an exchange of a fixed rate for a floating payment that is linked to an interest rate, most often the London interbank offer rate (LIBOR). As shown in Figure 4.7, the AED 10-year swap rate exhibited mostly a downward trend in 2017 Q2 in line with directions of monetary policy in the US, reflecting increasing uncertainty about future rate hikes.

Figure 4.7 10-year swap rates

Please Rate this Report

Source: Bloomberg

Please Rate this Report