



مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

United Arab Emirates
Monetary, Banking & Financial Markets Developments

2018 – 3rd Quarter Report
November 2018

Introduction

As part of its commitment to promote economic and financial stability and growth in the UAE, the Central Bank of the UAE actively fosters a stable and efficient financial system by providing effective central banking services. The *United Arab Emirates Monetary, Banking and Financial Markets Developments Report* is one of the many avenues through which the Central Bank seeks to keep its stakeholders informed.

This report discusses the monetary and banking activities as well as developments in the UAE financial markets during the third quarter of 2018, in comparison to the third quarter of the previous year. The report also reviews ratios of annual change over the period from September 2017 to September 2018.

Monetary Developments

Money Supply **M₁**, which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, decreased by 2.3% during the third quarter of 2018, compared to a 3.6% quarterly reduction during the same period last year. On an annual basis, there was a 1% reduction in the monetary aggregate **M₁**, reaching AED 484.2 billion.

Money Supply **M₂** (**M₁** plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham plus Resident Deposits in Foreign Currencies)), also decreased by 0.7% during the third quarter of 2018, compared to a 0.8% quarterly reduction during the same period last year. On an annual basis, there was a 2.7% increase in Money Supply **M₂**, reaching AED 1291.1 billion.

On the other hand, Money Supply **M₃** (**M₂** plus government deposits at banks and at the Central Bank) increased by 1.7% during the third quarter of 2018 as compared to a 0.3% reduction during the third quarter of 2017. On an annual basis, there was an 8.4% increase in Money Supply **M₃**, reaching AED 1579.8 billion.

Generally, the median money supply, **M₂**, is considered the best indicator for the availability of liquidity in the economy, as it comprises currency in circulation outside banks, in addition to various deposits of all the resident sectors except the government sector in the UAE. Statistical data show that at the end of the third quarter of 2018, there was a smaller reduction in **M₂**, compared to bigger reduction during the same period of 2017. The decrease in **M₂** during the third quarter of 2018 was mainly due to a fall in non-government resident deposits by 0.6% reaching 1222.2 billion, similar to an identical reduction of 0.6% (AED 1192.8 billion) during the same period of the previous year.

Table 1 - Monetary Developments in the UAE

(In Billions Dirhams - End of Period)

	2017								2018						
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		First Quarter		Second Quarter		Third Quarter*		
	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Change (%)	
														Quarterly	Annual
Money Supply (M₁)	504.4	6.4%	507.1	0.5%	488.9	-3.6%	492.4	0.7%	510.6	3.7%	495.5	-3.0%	484.2	-2.3%	-1.0%
Money Supply (M₂)	1272.2	3.8%	1267.1	-0.4%	1257.2	-0.8%	1276.2	1.5%	1293.8	1.4%	1300.1	0.5%	1291.1	-0.7%	2.7%
Money Supply (M₃)	1465.8	3.9%	1463.1	-0.2%	1458.0	-0.3%	1487.1	2.0%	1526.7	2.7%	1553.6	1.8%	1579.8	1.7%	8.4%

Source- Data received from banks operating in the UAE $M_1 = \text{Currency in Circulation Outside Banks (Currency Issued - Cash at banks)} + \text{Monetary Deposits}$ $M_2 = M_1 + \text{Quasi-Monetary Deposits}$ $M_3 = M_2 + \text{Government Deposits}$

*Estimates, subject to revision

Banking Sector Development

1- Banks Operating in the UAE

The number of locally incorporated banks decreased from 23 banks at the end of the third quarter of 2017 to 22 banks at the end of the third quarter of 2018. This reduction was due to the merger of the First Gulf Bank with the National Bank of Abu Dhabi. The branches of these locally incorporated banks decreased from 810 at the end of the third quarter of 2017 to 751 at the end of the same period of 2018. The number of electronic services units of these banks decreased at the end of the third quarter of 2018 to 32 from 36 at the end of September 2017. The number of Cash Offices decreased from 58 offices at the end of September 2017 to 40 offices at the end of September 2018.

The number of GCC banks remains constant during the third quarter of 2018 at 6 banks, with 4 branches. The number of other foreign banks increased from 20 banks at the end of the third quarter of 2017 to 21 banks, and their branches decreased from 81 branches to 77 branches during the same period of the third quarter of 2018. The number of electronic services units of these banks also decreased from 29 units at the end of September 2017 to 21 units at the end of September 2018. The number of cash offices remains constant at 1 cash office during the third quarter of 2018.

At the end of the third quarter of 2018, the number of financial institutions licensed by the Central Bank, i.e., Wholesale Banks, Representative Offices, Finance Companies, Moneychangers and Offices for Intermediating in Currency Trading & Money Market Operations reached 12, 99, 26, 128 and 11, respectively.

The reductions in banks' branches, electronic banking service units and cash offices are due to the increasing trend of online banking and ease in the use of automated teller machines (ATM).

The total number of ATM of banks operating in the UAE reached 5,293 by the end of September 2018, compared to 5,243 at the end of September 2017.

Table-2 Banks, Other Financial Institutions & ATMs 2013 - 2018											
	2013	2014	2015	2016	2017				2018		
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep*
Locally Incorporated Banks											
Main Branches	23	23	23	23	23	23	23	22	22	22	22
Additional Branches	841	869	874	846	834	816	810	771	761	755	751
Electronic Banking Service Units	29	34	37	33	35	36	36	36	32	32	32
Cash Offices	89	90	90	76	72	61	58	51	48	48	40
GCC Banks											
Main Branches	6	6	6	6	6	6	6	6	6	6	6
Additional Branches	4	4	4	4	4	4	4	4	4	4	4
Foreign Banks											
Main Branches	22	20	20	20	20	20	20	21	21	21	21
Additional Branches	83	82	82	81	81	81	81	78	77	77	77
Electronic Banking Service Units	52	48	40	31	29	29	29	25	21	21	21
Cash Offices	1	1	1	1	1	1	1	1	1	1	1
Wholesale Banks	4	7	8	11	11	11	12	12	12	12	12
Representative Offices	120	121	115	114	107	108	107	103	102	99	99
Finance Companies	25	26	27	27	28	28	28	27	27	26	26
Moneychangers	134	140	140	140	141	141	141	132	130	128	128
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	11	11	11	11	11	11	11	11
ATMs	4,664	4,847	5,119	5,243	5,211	5,219	5,243	5,302	5,274	5,261	5,293

Source: Banking Supervision Department and UAESWITCH

*Estimates, subject to revision

2- Bank Assets and Loans

At the end of the third quarter of 2018 total assets of banks operating in the UAE increased by 3.2%, reaching AED 2838.2 billion, compared to a quarterly increase of 0.4% at the end of the third quarter of 2017. During the period between September 2017 and September 2018, the total assets of banks operating in the UAE increased by 7.4%.

Gross credit also increased by 1% at the end of September 2018, reaching 1638.3 billion. On an annual basis, gross credit increased by 3.7%.

3- Customer Deposits

By the end of the third quarter of 2018, total deposits of resident and non-resident customers with banks operating in the UAE increased by 2.6%, reaching AED 1728.2 billion, compared to an increase of 0.4% (AED 1595.8 billion) at the end of the third quarter of 2017. Resident deposits increased by 1.9%, reaching AED 1522.8 billion at the end of the third quarter of 2018, compared to a reduction of 0.1% at the end of the third quarter of 2017 reaching AED 1407.5 billion. Non-resident deposits increased by 8%, reaching AED 205.4 billion by the end of September 2018, compared to a 4.7% increase at the end of the same period of 2017. On an annual basis, Resident deposits increased by 8.2% and Non-resident deposits increased by 9.1%.

4- Capital and Reserves

Aggregate Capital and Reserves of banks operating in the UAE increased by 3.8%, reaching AED 342.9 billion at the end of the third quarter of 2018 compared to an 8.1% quarterly increase at the end of the same period of 2017. During the third quarter of 2018, Total Capital Adequacy Ratio showed an increase of 0.6%, compared to a 1.1% increase during the third quarter of 2017, remaining well above the 12.375% Capital Adequacy Ratio, including the 1.875% Capital Conservation Buffer requirement and 8.5% Tier1 Ratio, prescribed by the Central Bank regulations in compliance to Basel III guidelines. Banks are now following Basel III principles for calculating the Capital Adequacy Ratios effective December 2017 in line with the Guidelines issued by the Central Bank.

Capital adequacy ratios measure the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. A high capital adequacy ratio provides protection to depositors and promotes the stability and efficiency of the financial system of an economy.

Table- 3: Banking Indicators

(End of Month, Figures in billions of Dirhams unless otherwise indicated)

											% Annual Change
	Jun	Quarterly Change (%)	Sep	Quarterly Change (%)	Dec	Quarterly Change (%)	Jun	Quarterly Change (%)	Sep*	Quarterly Change (%)	
Total Assets	2632.0	0.2%	2643.2	0.4%	2693.8	1.9%	2748.9	1.1%	2838.2	3.2%	7.4%
Banks' Investments in Central Bank CDs	102.8	-10.8%	126.6	23.2%	135.1	6.7%	125.2	-6.8%	121.4	-3.0%	-4.1%
Shariah Compliant Certificates of Deposits	20.4	-22.4%	30.4	49.0%	38.3	26.0%	34.4	-20.0%	32.4	-5.8%	6.6%
Gross Credit ⁽¹⁾	1569.0	-0.4%	1580.0	0.7%	1580.3	0.0%	1622.3	0.9%	1638.3	1.0%	3.7%
Personal Loans to Residents	329.6	0.6%	335.1	1.7%	337.5	0.7%	337.3	0.2%	338.4	0.3%	1.0%
Total Deposits ⁽²⁾	1589.1	-0.8%	1595.8	0.4%	1627.3	2.0%	1684.3	1.3%	1728.2	2.6%	8.3%
Capital & Reserves ⁽³⁾	302.7	1.5%	327.1	8.1%	337.3	3.1%	330.2	4.4%	342.9	3.8%	4.8%
Capital Adequacy Ratio	18.5%	-0.5%	18.7%	1.1%	18.1%	-3.2%	18.1%	3.4%	18.2%	0.6%	-2.7%
Tier-1 Ratio	16.9%	0.0%	17.1%	1.2%	16.6%	-2.9%	16.6%	3.8%	16.8%	1.2%	-1.8%
Common Equity Tier 1 (CET 1) Capital Ratio ⁽⁴⁾					14.6%		14.6%	5.0%	14.9%	2.1%	

⁽¹⁾ Includes credit to residents and non-residents: loans to non-banking financial institutions, Trade Bills Discounted and Loans and Advances to the Government and Public Sector, Private sector (corporates and individuals) in local and foreign currencies.

⁽²⁾ Net of inter-bank deposits and bank drafts, including commercial prepayments.

⁽³⁾ Excluding subordinated borrowings/deposits, but including current year profit.

⁽⁴⁾ Total Capital Ratio , Tier 1 Ratio and CET 1 Ratio for the period starting from Dec 2017 are calculated according to the Basel III Guidelines issued by CBUAE vide Circular 52/2017 .Whereas CAR for period prior to Dec 2017 are according to Basel II Guidelines.

*Estimates, subject to revision

5- Foreign Assets of the Central Bank

At the end of the third quarter of 2018, the Central Bank's foreign assets decreased by 1.1%, reaching AED 327.3 billion, compared to a 1.7% increase at the end of the third quarter of 2017. This fall was mainly attributed to a reduction in Current Account Balances & Deposits with banks abroad by 2.1% (a reduction of AED 5.4 billion), overshadowing the increase in Other Foreign Assets by 10.7% (an increase of AED 1.7 billion). Foreign Securities remained constant during the third quarter of 2018.

6- Abu Dhabi and Dubai Financial Markets Values

Abu Dhabi's quarterly average Financial Market Index rose by 6.8% during the third quarter of 2018 compared to a 0.4% increase in the third quarter of 2017. The quarterly average Market Capitalization of companies listed at the Abu Dhabi Securities Exchange (ADX) also increased by AED 22.6 billion reaching AED 515 billion at the end of the third quarter of 2018 compared to AED 1.5 billion reduction at the end of the third quarter of 2017. Quarterly Trading Value decreased from AED 9.9 billion (9.2% quarterly reduction) during the third quarter of 2017 to AED 8.2 billion (4.7% quarterly reduction) during the third quarter of 2018.

Dubai's quarterly average Financial Market Index decreased by 2.5% during the third quarter of 2018, compared to a 6.8% increase during the same period in 2017. The quarterly average Market Capitalization of companies listed on the Dubai Financial Market (DFM) decreased by AED 4.4 billion reaching AED 375 billion at the end of the third quarter of 2018 compared to AED 20.4 billion increase at the end of the third quarter of 2017. Quarterly Trading Value decreased from AED 16.7 billion (22.7% quarterly reduction) during the third quarter of 2017 to AED 11 billion (30.4% quarterly reduction) during the third quarter of 2018.

Table 4: Abu Dhabi Securities Exchange (ADX) Indicators

	2016				2017				2018		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Number of listed Companies	69	69	69	69	67	67	67	69	69	68	70
General Share Price Index**	4265.4	4430.5	4507.6	4385.1	4514.8	4458.4	4477.3	4318.4	4595.1	4611.5	4927.2
<i>Quarterly Variation (%)</i>	-0.5%	3.9%	1.7%	-2.7%	3.0%	-1.2%	0.4%	-3.5%	6.4%	0.4%	6.8%
<i>Annual Variation Y-o-Y (%)</i>	-7.6%	-7.1%	-5.3%	-2.7%	0.2%	1.5%	2.0%	1.0%	0.1%	0.8%	3.5%
Market Capitalization (Billion AED)**	441.1	449.4	475.5	461.1	467.4	460.7	459.2	460.9	503.1	492.4	515.0
Quarterly Traded Values (Billion AED)	14.8	10.7	8.5	11.3	17.4	10.9	9.9	9.9	9.0	8.6	8.2

Source: Abu Dhabi Securities Exchange (ADX)

Table 5: Dubai Financial Markets (DFM) Indicators

	2016				2017				2018		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Number of listed Companies*	60	60	60	61	62	62	62	65	67	67	67
General Share Price Index**	3197.7	3372.2	3487.7	3408.1	3584.5	3382.1	3611.6	3475.4	3249.0	2950.4	2877.0
<i>Quarterly Variation (%)</i>	-2.7%	5.5%	3.4%	-2.3%	5.2%	-5.6%	6.8%	-3.8%	-6.5%	-9.2%	-2.5%
<i>Annual Variation Y-o-Y (%)</i>	-18.2%	-19.4%	-15.4%	-9.3%	-3.6%	1.5%	4.8%	4.4%	-1.0%	-4.2%	-10.3%
Market Capitalization (Billion AED)**	312.4	332.4	337.0	325.8	387.0	356.9	377.3	386.2	393.7	379.4	375.0
Quarterly Traded Values (Billion AED)	40.6	28.9	21.7	42.0	48.2	21.6	16.7	28.2	20.4	15.8	11.0

**includes foreign companies*

Source: Dubai Financial Markets (DFM)

******The Quarterly Share Price Index and the Quarterly Market Capitalization are measured as the quarterly average of monthly observations.

*******The annual variation of the Share Price Indices are measured as the yearly averages of monthly observations.