



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

United Arab Emirates
Monetary, Banking & Financial Markets Developments

2020 – 3rd Quarter Report
November 2020

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 2020. The report also reviews ratios of annual change over the period from September 2019 to September 2020.

Monetary Developments

Money Supply **M₁**, which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, increased by 1.9% (q-o-q) during the third quarter of 2020.

On an annual basis, there was an 11% (y-o-y) climb in the monetary aggregate **M₁**, reaching AED 568 billion at the end of September 2020.

Money Supply **M₂** (**M₁** plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham, plus Resident Deposits in Foreign Currencies)), also increased by 0.7% (q-o-q) during the third quarter of 2020.

On an annual basis, there was a 7.9% (y-o-y) increase in Money Supply **M₂**, reaching AED 1,468.7 billion at the end of third quarter of 2020.

Money Supply **M₃** (**M₂** plus government deposits at banks and at the Central Bank) rose by 3% (q-o-q) during the third quarter of 2020.

On an annual basis, there was a 7.5% (y-o-y) growth in Money Supply **M₃**, reaching AED 1,805.7 billion at the end of September 2020.

Typically, the 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 in dirham denomination, except for the deposits of the government sector in the UAE. Statistical data show that at the end of the third quarter of 2020, there was a q-o-q increase in **M₂**. The rise in **M₂** during the third quarter of 2020 was mainly due to a 0.5% quarterly increase in the non-government resident deposits standing at AED 1,372 billion at the end of September 2020.

3rd Quarter 2020

[UNITED ARAB EMIRATES MONETARY, BANKING & FINANCIAL MARKETS DEVELOPMENTS]

Table 1 - Monetary Developments in the UAE**(In Billions Dirhams - End of Period)**

	2019								2020						
	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)	512.0	5.4%	507.9	-0.8%	511.9	0.8%	515.0	0.6%	542.7	5.4%	557.4	2.7%	568.0	1.9%	11.0%
Money Supply (M₂)	1328.6	1.5%	1351.0	1.7%	1361.3	0.8%	1413.1	3.8%	1454.9	3.0%	1458.0	0.2%	1468.7	0.7%	7.9%
Money Supply (M₃)	1631.7	1.8%	1645.4	0.8%	1679.9	2.1%	1717.4	2.2%	1714.1	-0.2%	1752.3	2.2%	1805.7	3.0%	7.5%

Source-** Data received from banks operating in the UAEM₁** = Currency in Circulation Outside Banks (Currency Issued - Cash at banks) + Monetary Deposits**M₂** = M₁ + Quasi-Monetary Deposits**M₃** = M₂ + Government Deposits

*Estimates, subject to revision

Banking Sector Development

1- Banks Operating in the UAE

The number of locally incorporated banks remained constant at 21 banks at the end of the third quarter of 2020. The branches of these locally incorporated banks decreased to 559 branches at the end of September 2020. The number of electronic banking service units of these banks decreased to 32 units at the end of the third quarter of 2020. The number of Cash Offices also decreased to 26 Cash Offices at the end of September 2020.

The number of GCC banks remains steady during the third quarter of 2020 at 6 banks, with 5 branches. The number of other foreign banks and their branches also continued unchanged at 21 banks and 73 branches, respectively. The number of electronic banking service units of these banks increased to 23 units at the end of the third quarter of 2020. The number of cash offices remains invariable at one cash office during the third quarter of 2020.

The technological and structural advancements in the UAE financial sector has resulted in increased accessibility of mobile banking applications, online banking and ease in the use of automated teller machines (ATM) for the past several years. These improvements continue to pay off by enhancing smooth operations of the banking system.

At the end of the third quarter of 2020, 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 11, 86, 22, 97 and 11, respectively.

The total number of ATM of banks operating in the UAE reached 4,542 by the end of September 2020.

3rd Quarter 2020

[UNITED ARAB EMIRATES MONETARY, BANKING & FINANCIAL MARKETS DEVELOPMENTS]

Table-2 Banks, Other Financial Institutions & ATM											
2018 - 2020											
	2018				2019				2020		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep*
Locally Incorporated Banks											
Main Branches	22	22	22	22	22	22	21	21	21	21	21
Additional Branches	761	755	751	743	733	713	664	656	640	611	559
Electronic Banking Service Units	32	32	32	33	33	34	33	33	34	33	32
Cash Offices	48	48	36	34	34	33	31	31	31	31	26
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	5
Foreign Banks											
Main Branches	21	21	21	21	21	21	21	21	21	21	21
Additional Branches	77	77	77	76	75	75	75	75	74	74	73
Electronic Banking Service Units	21	21	21	21	21	21	21	22	22	22	23
Cash Offices	1	1	1	1	1	1	1	1	1	1	1
Wholesale Banks	12	12	12	11	11	11	11	11	11	11	11
Representative Offices	102	99	99	99	97	98	87	87	87	86	86
Finance Companies	27	26	26	26	24	23	23	23	23	22	22
Moneychangers	130	128	128	123	123	123	123	104	102	100	97
Offices for Intermediating in Currency Trading & Money Market Operations	11	11	11	11	9	9	9	11	11	11	11
ATM	5,274	5,261	5,293	5,303	5,279	5,229	5,187	5,076	4,937	4,685	4,542

Source: Banking Supervision Department and UAESWITCH

*Estimates, subject to revision

2- Bank Assets and Loans

At the end of the third quarter of 2020 total assets of banks operating in the UAE increased by 2% (q-o-q), reaching AED 3,252.5 billion. During the period between September 2019 and September 2020, the total assets of banks operating in the UAE increased by 7.6% (y-o-y).

Gross credit also increased by 0.8% (q-o-q), reaching 1,804.6 billion at the end of September 2020. On an annual basis, gross credit increased by 4.9%.

3- Customer Deposits

At the end of the third quarter of 2020, total deposits of resident and non-resident customers with banks operating in the UAE rose by 2.2% (q-o-q), reaching AED 1,907.2 billion. Resident deposits increased by 3% (q-o-q), reaching AED 1,715.9 billion at the end of the third quarter of 2020. Non-resident deposits fell by 4.5% (q-o-q), reaching AED 191.3 billion by the end of September 2020.

On an annual basis, Resident deposits increased by 6.4% and Non-resident deposits increased by 0.8%.

4- Capital and Reserves

Aggregate Capital and Reserves of banks operating in the UAE increased by 1.9% (q-o-q), reaching AED 389.8 billion at the end of the third quarter of 2020. At the end of the third quarter of 2020, Total Capital Adequacy Ratio stood at 18%, remaining well above the 13% Capital Adequacy Ratio, including the 2.5% Capital Conservation Buffer requirement and the 8.5% Tier1 Ratio, prescribed by the Central Bank regulations in compliance with the Basel III guidelines.

Although the Capital Conservation Buffer remains at 2.5%, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective 15 March 2020 until 31 December 2021. The Domestic Systemically Important Banks' (D-SIBs) buffer remains the same; however, they are allowed to use 100% of their D-SIB buffer without supervisory consequences, effective 15 March 2020 until 31 December 2021.

Capital adequacy ratios measure the amount of a bank's capital expressed as a percentage of its risk weighted exposures. A high capital adequacy ratio provides protection to depositors and promotes the stability and efficiency of the financial system of an economy. Effective December 2017, banks in the UAE follow Basel III principles for calculating the Capital Adequacy Ratios in line with the Guidelines issued by the Central Bank.

3rd Quarter 2020

[UNITED ARAB EMIRATES MONETARY, BANKING & FINANCIAL MARKETS DEVELOPMENTS]

Table- 3: Banking Indicators

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

	2019								2020						% Annual Change
	Mar	Quarterly Change (%)	Jun	Quarterly Change (%)	Sep	Quarterly Change (%)	Dec	Quarterly Change (%)	Mar	Quarterly Change (%)	Jun	Quarterly Change (%)	Sep*	Quarterly Change (%)	
Total Assets	2894.9	0.9%	2958.6	2.2%	3022.7	2.2%	3082.9	2.0%	3128.0	1.5%	3190.2	2.0%	3252.5	2.0%	7.6%
Banks' Investments in Central Bank CDs	139.2	0.7%	155.8	11.9%	153.8	-1.3%	160.2	4.2%	144.6	-9.7%	178.5	23.4%	151.3	-15.2%	-1.6%
Shariah Compliant Certificates of Deposits	34.9	-3.9%	32.6	-6.6%	36.1	10.7%	37.5	3.9%	33.1	-11.7%	46.4	40.2%	53.1	14.4%	47.1%
Gross Credit ⁽¹⁾	1675.1	1.1%	1692.7	1.1%	1720.8	1.7%	1758.6	2.2%	1768.2	0.5%	1791.0	1.3%	1804.6	0.8%	4.9%
Personal Loans to Residents	333.5	-1.2%	332.2	-0.4%	333.6	0.4%	332.4	-0.4%	330.2	-0.7%	324.7	-1.7%	326.7	0.6%	-2.1%
Total Deposits ⁽²⁾	1748.1	-0.4%	1774.3	1.5%	1802.0	1.6%	1870.2	3.8%	1851.9	-1.0%	1866.2	0.8%	1907.2	2.2%	5.8%
Capital & Reserves ⁽³⁾	350.2	-1.4%	364.8	4.2%	377.3	3.4%	392.9	4.1%	369.9	-5.9%	382.5	3.4%	389.8	1.9%	3.3%
Capital Adequacy Ratio ⁽⁴⁾	17.9%	2.3%	17.9%	0.0%	17.7%	-1.1%	17.7%	0.0%	16.9%	-4.5%	17.6%	4.1%	18.0%	2.3%	1.7%
Tier-1 Ratio	16.6%	2.5%	16.7%	0.6%	16.5%	-1.2%	16.5%	0.0%	15.8%	-4.2%	16.4%	3.8%	16.9%	3.0%	2.4%
Common Equity Tier 1(CET 1) Capital Ratio	14.6%	2.1%	14.9%	2.1%	14.7%	-1.3%	14.7%	0.0%	13.9%	-5.4%	14.7%	5.8%	15.1%	2.7%	2.7%

⁽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 2020, the Central Bank's foreign assets increased by 1.7% (q-o-q), reaching AED 356.6 billion. This increase was mainly ascribed to quarterly increases in Current Account Balances & Deposits with banks abroad by 0.2% (a quarterly increase of AED 0.5 billion) and Other Foreign Assets by 58.7% (a quarterly increase of AED 12.1 billion), overshadowing a reduction in Foreign Securities by 46.6% (a quarterly decrease of AED 6.7 billion).

From September 2019 to September 2020, Central Bank Foreign Assets decreased by 4.7% (y-o-y).

6- Abu Dhabi and Dubai Financial Markets Values

Abu Dhabi's quarterly average Financial Market Index rose by 5.4% during the third quarter of 2020. The quarterly average Market Capitalization of companies listed at the Abu Dhabi Securities Exchange (ADX) increased by AED 188.8 billion reaching AED 672.7 billion at the end of the third quarter of 2020. The Quarterly Traded Value also increased by 78.9% during the third quarter of 2020 reaching AED 17 billion.

On an annual basis, the Abu Dhabi Financial Market Index fell by 9.3%.

Dubai's quarterly average Financial Market Index showed an increase by 10.8% during the third quarter of 2020. The quarterly average Market Capitalization of companies listed on the Dubai Financial Market (DFM) increased by AED 18.4 billion reaching AED 307.6 billion at the end of the third quarter of 2020. Quarterly Traded Value rose by 14.2% during the third quarter of 2020 reaching AED 19.3 billion.

On an annual basis, the Dubai Financial Market Index decreased by 13.9%.

3rd Quarter 2020

[UNITED ARAB EMIRATES MONETARY, BANKING & FINANCIAL MARKETS DEVELOPMENTS]

Table 4: Abu Dhabi Securities Exchange (ADX) Indicators

	2018				2019				2020		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Number of listed Companies	69	68	70	70	70	70	70	70	69	69	69
General Share Price Index**	4595.1	4611.5	4927.2	4862.3	5085.8	5080.5	5180.3	5071.4	4597.4	4219.3	4447.4
<i>Quarterly Variation (%)</i>	6.4%	0.4%	6.8%	-1.3%	4.6%	-0.1%	2.0%	-2.1%	-9.3%	-8.2%	5.4%
<i>Annual Variation Y-o-Y (%)</i>	0.1%	0.8%	3.5%	6.9%	9.2%	10.9%	9.5%	7.5%	2.3%	-4.4%	-9.3%
Market Capitalization (Billion AED)**	503.1	492.4	515.0	512.3	520.0	527.9	538.6	528.6	497.5	483.9	672.7
Quarterly Traded Values (Billion AED)	9.0	8.6	8.2	13.7	10.9	12.7	11.2	9.9	10.1	9.5	17.0

*Source: Abu Dhabi Securities Exchange (ADX)***Table 5: Dubai Financial Markets (DFM) Indicators**

	2018				2019				2020		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Number of listed Companies*	67	67	67	67	67	67	67	66	66	67	65
General Share Price Index**	3249.0	2950.4	2877.0	2661.0	2612.7	2682.0	2819.4	2730.2	2383.9	1975.6	2189.9
<i>Quarterly Variation (%)</i>	-6.5%	-9.2%	-2.5%	-7.5%	-1.8%	2.7%	5.1%	-3.2%	-12.7%	-17.1%	10.8%
<i>Annual Variation Y-o-Y (%)</i>	-1.0%	-4.2%	-10.3%	-16.5%	-19.1%	-18.5%	-14.2%	-7.6%	-4.4%	-8.5%	-13.9%
Market Capitalization (Billion AED)**	393.7	379.4	375.0	354.6	347.4	355.2	368.2	371.3	338.9	289.2	307.6
Quarterly Traded Values (Billion AED)	20.4	15.8	11.0	11.8	11.3	12.8	13.9	13.5	14.2	16.9	19.3

includes foreign companiesSource: 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.