Quarterly Economic Review

First Quarter 2021

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List of Abbreviations

ADX	*Abu Dhabi Securities Exchange*
AED	*United Arab Emirates Dirham*
BIS	*Bank for International Settlements*
CAR	*Capital Adequacy Ratio*
CBUAE	*The Central Bank of the UAE*
CDs	*Certificates of Deposit*
CET	*Common Equity Capital*
CPI	*Consumer Price Index*
DFM	*Dubai Financial Market*
ECB	*European Central Bank*
EIBOR	*Emirates Inter-Bank Offer Rate*
EMDEs	*Emerging Markets and Developing Economies*
FCSC	*Federal Competiveness and Statistics Center*
Fed	*The US Federal Reserve*
GCC	*Gulf Cooperation Council*
GDP	*Gross Domestic Product*
GREs	*Government Related Entities*
IMF	*International Monetary Fund*
LTD	*Loan-to-Deposit*
LIBOR	*London Inter-Bank Offer Rate*
M1	*Monetary Aggregate 1*
M2	*Monetary Aggregate 2*
M3	*Monetary Aggregate 3*
M-o-M	*Month-on-Month*
MENA	*Middle East North Africa*
NEER	*Nominal Effective Exchange Rate*
NBFI	*Non-Banking Financial Institutions*
OPEC	*Organization of Petroleum Exporting Countries*
PMI	*Purchasing Managers' Index*
Q-o-Q	*Quarter-on-Quarter*
REER	*Real Effective Exchange Rate*
SCA	*Securities and Commodities Authority*
TESS	*Targeted Economic Support Scheme*
UAE	*United Arab Emirates*
UK	*United Kingdome*
USA/US	*United States of America*
USD	*United States Dollar*
VAT	*Value Added Tax*
Y-o-Y	*Year-on-Year*

Executive Summary

Global economic growth for the year 2021 was revised upward to 6.0% in the first quarter of 2021, owing to a return to positive growth in the US and 6.7% in Emerging and Developing Economies, boosted by high growth in China. The improved growth outlook is due primarily to vaccine rollout and additional policy support in some large economies. Negative growth remains however in the UK and the Euro area.

Economic activity in the UAE continued its recovery in the first quarter. For the year 2021, CBUAE forecasts real total GDP growth to reach 2.4%, with the real non-hydrocarbon GDP growth projected to increase by 3.8%. For 2022, CBUAE foresees real total GDP to fully recover, growing by 3.8% and non-hydrocarbon real GDP to increase by 3.9%. However, economic projections include exceptional uncertainty amidst COVID-19 repercussions and are thus subject to revisions.

CPI inflation remained negative for the first quarter at –1.7% Y-o-Y, as tradable and non-tradable inflation remained at -0.5% and -2.3%, respectively. The fall in the non-tradable subcategory was mainly driven by the continued fall in prices of the housing and transportation components, in tandem with still recovering domestic demand. Residential real estate prices in Abu Dhabi started increasing again Y-o-Y after five years of decline and in Dubai they declined less Q-o-Q compared to the previous two quarters, while the Dirham depreciated in both nominal and real terms, in line with the weakening of the USD.

Deposits at banks increased Y-o-Y, while gross credit declined. Overall, the financial soundness indicators remained healthy during this period, on the back of the positive impact of the CBUAE's enhanced Targeted Economic Support Scheme (TESS) and the gradual recovery of the economy.

Finally, the 3-month USD LIBOR declined during the first quarter of the year, while the spread between the 3-month EIBOR and the 3-month USD LIBOR fluctuated in a narrow range. Monetary aggregates M_1 and M_2 increased Q-o-Q by 7.1% and 0.6%, respectively, due to an increase in monetary deposits, while M_3 decreased by 0.2% due to a decline in government deposits at CBUAE and commercial banks.

Chapter 1. International Economic Developments

Global economic growth estimates were revised upward in the first quarter thanks primarily to vaccine rollout and additional policy support in developed economies, while most Emerging Markets and Developing Economies (EMDEs) returned to positive growth, albeit with diverging paths. Inflation remained well below the 2% target in developed countries, except the US, and it remained high in some Emerging and Developing Economies. Oil prices increased during the quarter due to the rising demand.

1.1 Economic growth

The IMF revised upwards the global growth forecast for 2021 to 6.0%, owing primarily to vaccine rollout and additional policy support in some large economies. The recovery under way in the US, China, and some other countries was also boosted by the fact that labor markets in some economies witnessed a quick turnaround, and scarring turned out to be less than previously feared.

In the United States, Y-o-Y real GDP growth turned positive in Q1 2021, reaching 0.4% due to the ease in lockdowns and the adoption of a large fiscal stimulus package to the tune of USD 1.9 trillion.

On the demand side, consumption was boosted by record-low interest rates and stimulus checks, in tandem with better job prospects as the unemployment rate dropped to 6.0% in March, down from 6.7% in December 2020. The US Consumer Confidence Index reached 109.7 in March, i.e., above the 100 threshold for the first time since October 2020, which indicates optimism among consumers.

On the investment side, the US Business Confidence Survey increased from 101.4 in December 2020 to 102.5 in March 2021, while the ISM Manufacturing PMI improved from 60.7% to 64.7%, during the same period.

In the Eurozone, real GDP growth for the year fell by 1.8% in Q1 2021, compared to -4.9% in the previous quarter. The negative growth owes much to the decline in Germany, which is due to the impact of restrictive measures on domestic demand, and the fall in manufacturing by 2.2% in January and by 1.9% in February, before moving to positive growth of 2.5% in March. In contrast, France witnessed an improvement due to quick action by the government to contain the new wave of the pandemic.

In the UK, Y-o-Y real GDP growth improved in the first quarter, albeit it remained deeply negative (-6.1%), as a result of nationwide lockdowns that continued to weigh on economic activity.

EMDEs are also projected to return to positive growth, thanks mainly to China which succeeded in a remarkable return to growth since Q2 2020, owing to early and effective containment measures, in tandem with a forceful public investment program and central bank liquidity support.

Table 1. Y-o-Y Real GDP Growth Rates in Selected Countries (%)

	2019	2020 Q4	2021 Q1
World Output*	2.8	-3.3	6.0
USA	2.3	-2.4	0.4
Eurozone	1.0	-4.9	-1.8
UK	1.2	-7.3	-6.1
France	0.8	-4.8	1.5
Germany	0.4	-3.3	-3.0
China	6.0	6.5	18.3
Japan	-1.3	-1.0	-1.8
India	3.3	0.5	1.6
EMDEs*	3.7	-2.2	6.7

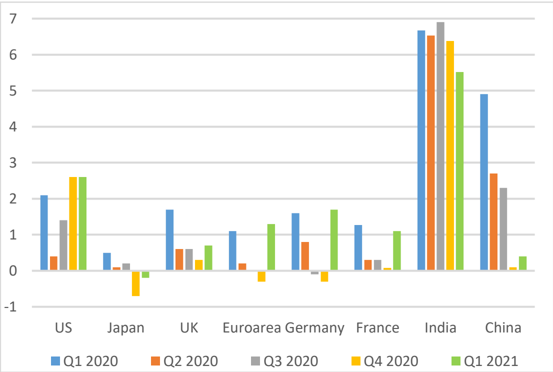
Source: Official country data for countries' Y-o-Y growth
*World Economic Outlook April 2021, yearly growth for 2019-2021.

1.2 Inflation

Headline inflation remained generally below the 2% yearly target in developed countries (0.7% in the UK, 1.3% in the Eurozone, and -0.2% in Japan). The exception in this regard was the US, where the Y-o-Y CPI inflation rate reached 2.6% in March, while the Fed's official monetary policy target, the Personal Consumption Expenditures (PCE) inflation reached 2.3%, due to the general pickup in economic activity.

In many EMDEs, inflation remained over 4%. India for instance, registered Y-o-Y inflation of 5.5% in Q1 2021 up from 4.6% in the previous quarter, due to Nominal Effective Exchange Rate depreciation of the Rupee by 5.0% Y-o-Y, and an increase in the price of fuel and some food products.

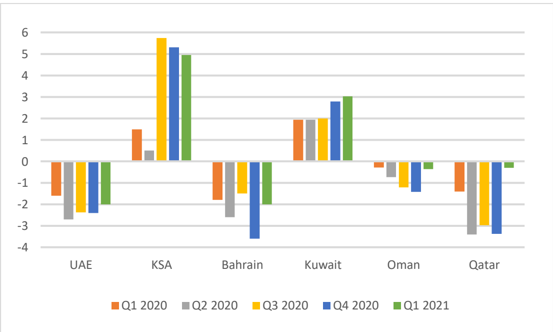
Figure 1.2.a. Y-o-Y Average Headline Inflation in Selected Economies (%)



Source: Bloomberg

In the GCC, Saudi Arabia's Y-o-Y inflation rate decreased from 5.3% in Q4 2020 to 5.0% in Q1 2021, mainly due to subdued demand. All other GCC countries, except Kuwait, experienced negative inflation due to low economic activity and in some cases falling housing rents.

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



Source: Bloomberg

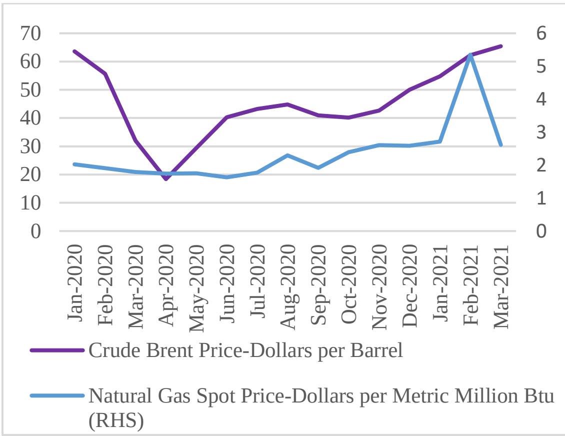
1.3 Commodities Prices

The price of Brent Crude increased from USD 50.0 per barrel at the end of December 2020 to USD 65.4 per barrel at the end of March 2021, and from an average of USD 44.3 per barrel in Q4 2020 to USD 60.8 per barrel in Q1 2021. The improvement reflects the rising demand with the pickup in global economic activity.

Meanwhile, the price of natural gas averaged in March USD 2.62 per Metric Million British Thermal Units (MMBtu), which was roughly the price level at the end of Q4 2020. The peak of $5.35/MMBtu in February was mainly due to the winter season and a drop in natural gas production due to well freeze-offs.

Gold continued to trade in line with movements in real yields in the dollar markets. A strong rally in nominal US Treasury yields pushed gold prices down during the quarter. As a result, the price of gold decreased from USD 1,848 per ounce at the end of December 2020 to USD 1,769 per ounce at the end of March 2021.

Figure 1.3. Brent Crude and Natural Gas Prices



Source: US Energy Information Administration (EIA)

1.4 Monetary policy

With policy rates in the US, UK and the Eurozone already at or near zero, the monetary authorities kept their rates unchanged in Q1 2021, while maintaining quantitative easing.

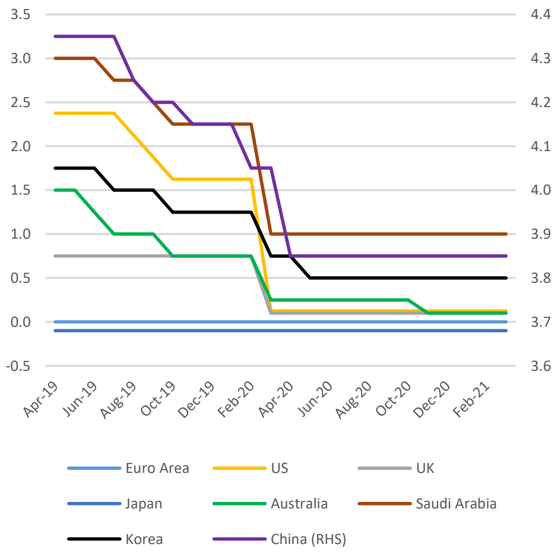
The Fed continued its asset purchasing program at USD 120 billion a month. AS a result, the Fed's balance sheet expanded by USD 200 billion in Q1 2020 to USD 7.6 trillion.

Bank of England's Monetary Policy Committee (MPC) kept its policy rate at 0.1%, during the first quarter, while maintaining its target stock of asset purchases at GBP 895 billion (USD 1.2 trillion). The MPC announced also that it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made and the 2% inflation target is achieved.

Meanwhile, the ECB left its policy rates on hold while trying to insulate the Eurozone's conditions from negative global spillovers and prevent premature tightening. To this end, the ECB increased its monthly net asset purchases under the pandemic emergency purchase program (PEPP) and continued its net purchases under the asset purchase program (APP) at a monthly pace of EUR 20 billion. The latter is expected to end shortly before the ECB starts raising its policy rates.

Finally, amid mounting deflationary pressures and fragile recovery, the Bank of Japan left the short-term policy rate for current accounts held by financial institutions unchanged at -0.1%, while its forward guidance targeted to cap the 10-year Japanese government bonds yield at around 0%, with a fluctuation margin of plus or minus 0.25%, up from the previous 0.2% band. At its 19 March meeting, the Band of Japan reiterated its dovish tone, stating that it will "closely monitor the impact of the novel coronavirus and will not hesitate to take additional easing measures if necessary."

Figure 1.4. Policy Rates in Selected Advanced Economies (%)



Source: BIS

Chapter 2: Domestic Economic Developments

Economic activity in the UAE continued to improve in the first quarter, although it remained below the pre-pandemic level. Real overall GDP growth in 2021 is projected to reach 2.4%. Headline CPI inflation rate remained negative during the quarter, albeit reduced, due to continued fall in rents and energy prices, in tandem with the recovering aggregate demand. The Dirham depreciated further in nominal and real terms.

2.1 Economic Activity and Growth

Non-oil sector continued to improve in Q1 2021, benefiting from the pick-up in global travel, while the country was a leader in containing the spread of the virus. The UAE ranked first globally in the number of tests and second worldwide in the distribution of the vaccine per capita, with 37.6 million tests and 8.3 million vaccines, which corresponded to over 405 tests performed and 89 vaccines administered per 100 people, respectively, by the end of March, as per FCSC.

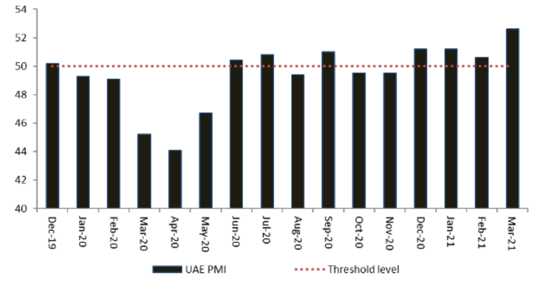
Residential real estate market improved significantly, with prices in Abu Dhabi registering Q-o-Q and Y-o-Y gains for the first time in more than five years, while declined in Dubai Q-o-Q has slowed down.

Employment in March remained at the December 2020 level, while the amount of salaries paid at the end of Q1 2021 was higher than at the end of 2020 and higher than the last pre-crisis month – Februrary 2020, as per CBUAE's Wage Protection System (WPS)[1].

The number of mobile subscribers rose for a third consecutive quarter by 1.7% Q-o-Q in Q1 2021. Meanwhile, the average UAE PMI increased by 7.5% Y-o-Y, moving further up in the expansion zone to reach 52.6 in March. This also reflects the better sentiment boosted by the preparation for the Dubai World EXPO.

Tourism and hospitality data in Dubai in Q1 2021 showed a recovery in hotel occupancy to 64%, close to the 69% recorded during the same period in 2020, owing to the resumption of international travel.

Figure 2.1.a. UAE PMI (0-100 Index (> 50 = improvement since previous month))

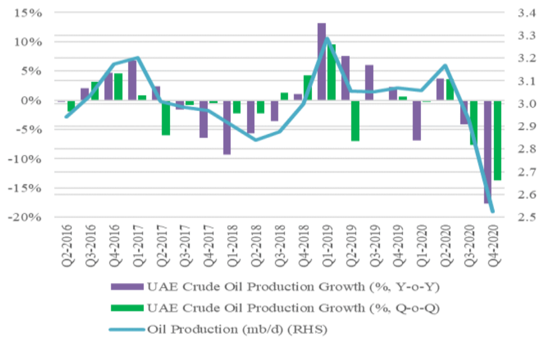


Source: IHS Markit

The Oxford Stringency Index[2] remained almost unchanged at 53 at the end of March 2021, affirming the relative openness of the economy compared to regional and international peers. This benefited the UAE, given its role as a regional trade, transportation and travel hub.

UAE's oil production fell by 17.6% Y-o-Y, while increasing by 4.3% Q-o-Q, in line with the agreement by OPEC+. Real oil GDP is projected to contract in 2021 by 1.0%, corresponding to an average oil production of 2.75 mb/d for the year as a whole.

Figure 2.1.b. Average UAE Crude Oil Production (in mb/d)



Source: OPEC

[1] Including employees under the Ministry of Human Resources and Emiratization, Jebel Ali Free Zone Authority and some employed by licensed financial institutions, where the labor related authority is not participating in the WPS.

[2] A measure, produced by the University of Oxford, between 0 and 100, indicating the level of closure, due to restrictions, aiming to reduce the spread of COVID-19.

The real non-oil GDP growth forecast for the year 2021 has been revised up to 3.8% from 3.6% previously. CBUAE, however, projects overall real GDP to grow by 2.4%[3,4], due to a revised decline in projected real oil GDP by 1.0% during 2021, from 0.0% growth previously, based on UAE's realized production in the first four months of the year, OPEC+ announcements and the anticipated output schedule.

For 2022, CBUAE has revised upwards its projections and anticipates a further recovery, with overall real GDP increasing by 3.8%, while the non-oil real GDP rising by 3.9%. This is expected to be the result of the continued increase in public spending, healthy banks' credit growth, strong improvement in employment and recovered business sentiment, as Dubai World EXPO will continue to take place in Q1 2022. Furthermore, being a major tourism, transit and trade hub in the region, the UAE is expected to benefit from the FIFA World Cup which is planned to take place in Qatar in 2022. Real oil GDP growth projection has been revised upwards to 3.5%, reflecting the increase in demand with majority of the world economies being vaccinated.

Table 2.1. Annual Real GDP Growth Rates in the UAE (%)

	2019	2020	2021^F	2022^F
Overall GDP	3.4	-6.1	2.4	3.8
Non-oil GDP	3.8	-6.2	3.8	3.9
Oil GDP	2.6	-6.0	-1.0	3.5

Source: FCSC for 2019 and 2020 and CBUAE projections for 2021 and 2022.

[3] Forecasts subject to revision, due to the high uncertainty around COVID-19.

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

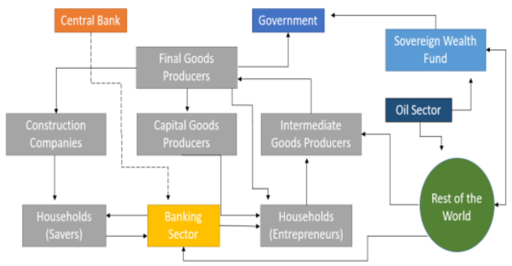
Box 1. The Impact of COVID-19 on the UAE Economy: Assessment Using the CBUAE's Dynamic Stochastic General Equilibrium (DSGE) Model

CBUAE's DSGE Model

DSGE models are widely used by central banks for policy analysis. They are a useful tool to explore the transmission channels, for counterfactual policy analysis and forecasting. In the aftermath of the Global Financial Crisis, the financial sector became a key focus of the research agenda, with the benchmark models enriched with detailed financial sector variables, heterogeneous agents and transmission channels.

CBUAE has developed the Optimizing Agents Simulated Stochastic model (OASiS), which is a DSGE model structured and estimated using Bayesian estimation to match the characteristics of the UAE economy. The model economy contains rational optimizing agents and allows for real, nominal and credit frictions and borrowing constraints. It also includes hydrocarbon, banking and housing sectors. The main usage of the OASiS model at the CBUAE is for forecasting, policy analysis and development of consistent scenarios for stress testing.

Figure B1.a. Sectors and Linkages in OASiS



Assessing the Impact of COVID-19 on the UAE through OASiS

CBUAE has used the OASiS model to project the impact of COVID-19 on the economy for the period 2020-2022. To this end, firstly, CBUAE forecasted the real oil and non-oil GDPs starting from 2020 Q1, i.e. considering no shock was affecting the economy. This was compared to the official figures from FCSC for 2020 and the CBUAE forecasts considering the pandemic impact for 2021-22. As shown in Figures 2 and 3, the Q4 2019 overall and non-oil GDP levels would be reached in Q4 2021, i.e. two years later.

Figure B1.b. Real Overall GDP (2019Q4=100, SA)

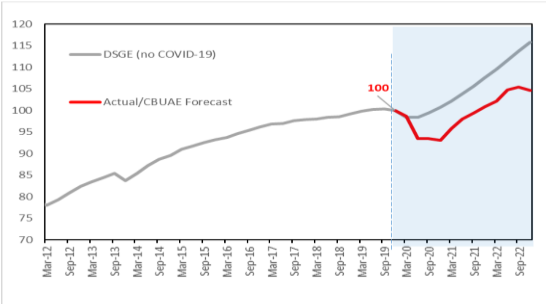
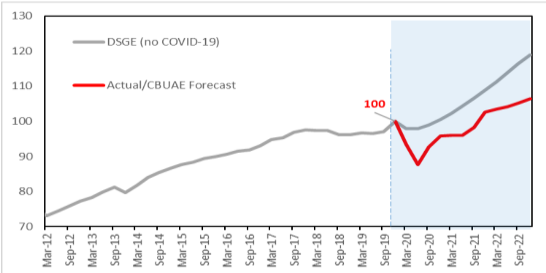


Figure B1.c. Real Non-oil GDP (2019Q4=100, SA)



The results in Table 1 summarizes the relative loss compared to the situation if the pandemic would not have happened.

Table B1. Real GDP Loss Relative to No-COVID Trend

2020	2021	2022
Overall GDP		
-5.2%	-8.0%	-7.5%
Non-Oil GDP		
-7.1%	-9.3%	-9.0%

2.2 Developments in the Residential Real Estate Market

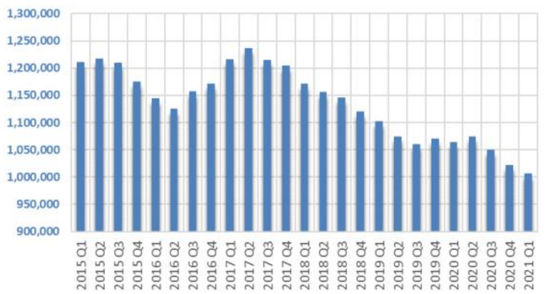
In Q1 2021, residential real estate prices marked the first Y-o-Y increase in more than five years in Abu Dhabi, while marking a third consecutive positive Q-o-Q growth. In Dubai sales prices continued to decline, with Q-o-Q drop reducing significantly.

Dubai Residential Market

According to recent data from Dubai Land Department (DLD),[5] residential property prices in the Emirate declined on average by 5.5% Y-o-Y in Q1 2021, while rents decreased by 4.3% Y-o-Y. The implied rental yield[6,7] moved to 6.7% in Q1 2021, down from 6.9% in the previous quarter.

Figure 2.2.a. Average Dubai Residential Unit Sale Prices

Dirhams



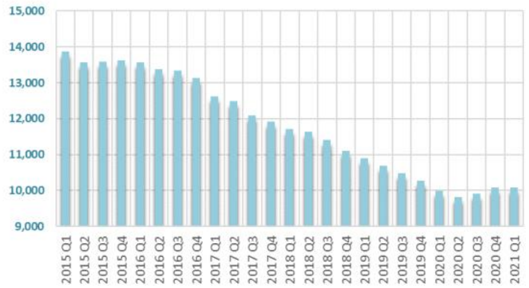
Source: DLD

Abu Dhabi Residential Market

According to the REIDIN[8] house price index, the average price in the Abu Dhabi housing market increased for a third consecutive quarter in Q1 2021, marking also the first Y-o-Y increase for more than five years of 0.9%.

Figure 2.2.b. Abu Dhabi Residential Prices

Dirhams per SQM



Source: REIDIN

Rents in Abu Dhabi declined in the first quarter of 2021 by 5.9% Y-o-Y. The decline in rents by 2.3% Q-o-Q in parallel with the increase in sales prices resulted in declining rental yield to 6.6%, compared to 6.7% in the last quarter of 2020.

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[5] Data from DLD remain subject to revisions.
[6] The rental yield measures the rate of income return over the cost associated with an investment (the property price).
[7] CBUAE calculates the implied rental yield in Dubai, by dividing the annual rent by the average Dubai residential unit sale prices. Annual rent and average Dubai residential unit sale prices are provided by DLD.
[8] REIDIN Residential Price Index in Abu Dhabi covers 7 areas and 5 districts.

2.3 The Consumer Price Index and Inflation

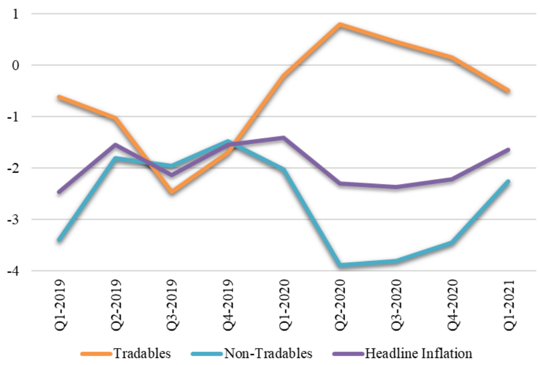
Inflation remained negative in the first quarter of 2021 as the headline consumer price index declined by 1.7% Y-o-Y, compared to a drop by 2.2% in the previous quarter. This was the result of a drop by 2.3% in the price of non-tradables, i.e. goods and services that are not traded across borders, therefore their prices are mainly determined by domestic supply and demand conditions[9]. Meanwhile, tradables[10] prices fell by 0.5%.

Tradables prices, accounting for 34% of the CPI consumption basket, decreased in Q1 due to the decline in all categories except food and soft drinks. Prices of food increased to a lesser extent, while beverages and tobacco; and textiles, clothing and footwear shifted from positive inflation in the last quarter of 2020 to negative at -0.4% and -0.2%, respectively, in the first quarter of 2021. The prices of the other subcategories of the tradable basket continued their Y-o-Y decline.

The continued decline in the housing component (34% weight in the consumer basket) by 3.3% Y-o-Y, transportation by 2.0%; and recreation and culture by 13.1% were the drivers of the drop in price of non-tradeables during Q1.

Based on its analytical model and analysis, the CBUAE projects the average CPI inflation for 2021 to remain negative at about -0.3%, especially in the first half of the year in view of the still recovering real estate market and private consumption, and the uncertain economic environment. A move into positive territory is expected to start in the second half of 2021.

Figure 2.3. Headline, Tradable and Non-Tradable Inflation (Y-o-Y, %)



Source: FCSC and CBUAE calculations

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

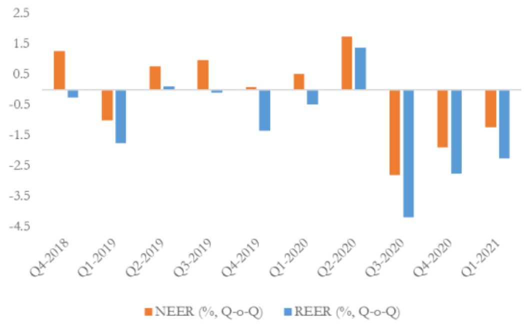
[10] As per CBUAE calculations, tradables include the following categories of goods and services: food and soft drinks; beverages and tobacco; textiles, clothing and footwear; furniture and household goods; transportation; and miscellaneous goods and services.

2.4 Exchange Rates and Outward Personal Remittances

2.4.1 Exchange Rate

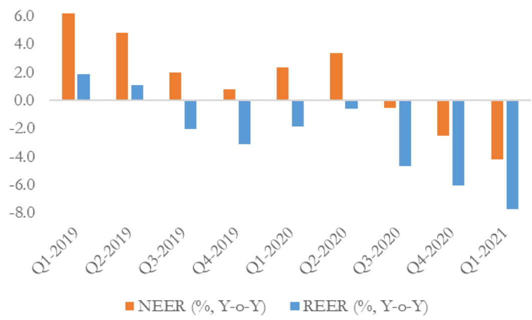
The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the bilateral exchange rates of the UAE's trading partners, depreciated in Q1 2021 by 1.2% and 4.2%, Q-o-Q and Y-o-Y, respectively, after a depreciation of 1.9% and 2.5%, respectively, in the previous quarter, due to the strong depreciation of the US Dollar.

Figure 2.4.1.a. Q-o-Q Nominal and Real Effective Exchange Rates Appreciation/Depreciation (%)



Source: BIS

Figure 2.4.1.b. Y-o-Y Nominal and Real Effective Exchange Rates Appreciation/Depreciation (%)



Source: BIS

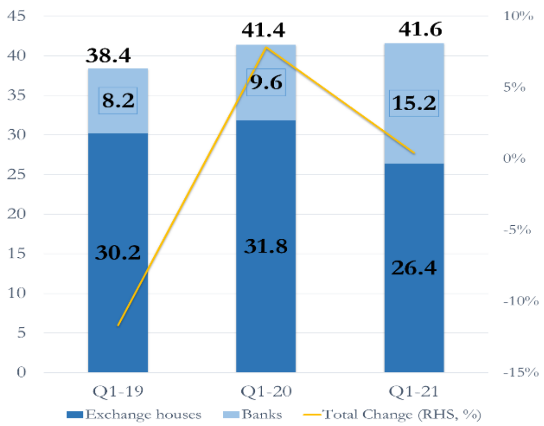
In real terms, the Dirham Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, also depreciated by 2.3% and 7.7% Q-o-Q and Y-o-Y, respectively, in the first quarter. The higher depreciation in the REER compared to the NEER was due to the lower and negative inflation in the UAE compared to the inflation rates prevailing in the trading partners.

2.4.2 Outward Personal Remittances

In Q1 2021, outward personal remittances increased by 0.4% or AED 200 million Y-o-Y. There was an increase of outward remittances through banks by AED 5.6 billion, while transfers through exchange houses declined by AED 5.4 billion.

Figure 2.4.2. Outward Personal Remittances Settled Through Banks and Exchange Houses, Q1 2019-2021

Billions of Dirhams



Source: CBUAE

The top three countries for outward personal remittances during the first quarter were India, Pakistan and the Philippines accounting for 28.9%, 12.3% and 6.6%, respectively, of the total. Outward personal remittances to Pakistan increased by 7.7% Y-o-Y, while those to India and the Philippines declined by 23.2% and 6.0%, respectively.

Chapter 3. Banking and Financial Developments

Deposits at banks increased Y-o-Y, while gross credit declined. Overall, the financial soundness indicators remained healthy during this period, supported by the positive impact of the CBUAE's enhanced Targeted Economic Support Scheme (TESS) and the gradual recovery of the economy in the first quarter of 2021.

3.1 Banking Structure

The number of licensed commercial banks remained unchanged at 58 in the first quarter of 2021. As a result, the total of 58 banks comprises of 21 national banks and 37 foreign banks (including 10 wholesale banks). Moreover, the need for cost effectiveness to support banks' profitability is driving digitalization and the closure of branches, whose number decreased from 640 at the end of Q1 2020 to 534 at the end of Q1 2021, while the number of banks' staff fell by 2801 (-7.8% Y-o-Y) to reach 33,037 employees at the end of March 2021.

3.1.1 Bank Deposits

Resident deposits (89.2% of total deposits) increased by 2.6% Y-o-Y in the first quarter of 2021, owing mainly to an increase in government and private sector deposits "on a yearly basis". Private sector deposits increased by AED 41 billion (3.8% Y-o-Y) while non-resident deposits (10.8% of total deposits) declined by AED 13 billion during the quarter (6.1% Q-o-Q).

With regard to the share of deposits at the end of Q1 2021, those at conventional banks were 77.8% and 22.2% at Islamic banks. Similarly, the share of national and foreign banks for customer deposits represented 87.5% and 12.5%, respectively.

Table 3.1.1. Total Deposits at UAE Banks

Billions of Dirhams

Item	Sep-20	Dec-20	Mar-21
Bank Deposits	1,907	1,885	1,881
(Y-o-Y change %)	5.8%	0.8%	1.6%
(Q-o-Q change %)	2.2%	-1.2%	-0.2%
Resident Deposits	1,716	1,682	1,678
(Y-o-Y change %)	6.4%	2.0%	2.6%
(Q-o-Q change %)	3.0%	-2.0%	-0.3%
Government Sector	334	287	277
(Y-o-Y change %)	5.4%	-4.6%	8.7%
(Q-o-Q change %)	15.4%	-13.9%	-3.5%
GREs	246	255	246
(Y-o-Y change %)	12.6%	3.9%	-5.3%
(Q-o-Q change %)	2.1%	3.8%	-3.4%
Private Sector	1,095	1,100	1,117
(Y-o-Y change %)	5.8%	4.0%	3.8%
(Q-o-Q change %)	0.3%	0.5%	1.5%
NBFI	42	40	37
(Y-o-Y change %)	-3.0%	-9.9%	-14.4%
(Q-o-Q change %)	-5.4%	-5.2%	-6.3%
Non-Resident Deposits	191	202	204
(Y-o-Y change %)	0.8%	-8.6%	-6.1%
(Q-o-Q change %)	-4.5%	5.8%	0.5%

Source: CBUAE
Note: Data as of end of period. March data are preliminary.

3.1.2 Banks' Assets and Credit

Total assets increased in the first quarter by 1.5% Y-o-Y. Aggregate bank credit decreased by 0.8% Y-o-Y amid some portfolio rebalancing and loan repayments in the corporate sector. In addition, domestic credit decreased by 0.3% driven mainly by reduction in the private sector.

Table 3.1.2.a. Assets and Credit at UAE Banks

Billions of Dirhams

Item	Sep-20	Dec-20	Mar-21
Total Assets	3,253	3,188	3,176
(Y-o-Y change %)	7.6%	3.4%	1.5%
(Q-o-Q change %)	2.0%	-2.0%	-0.4%
Gross Credit	1,805	1,779	1,754
(Y-o-Y change %)	4.9%	1.2%	-0.8%
(Q-o-Q change %)	0.8%	-1.4%	-1.4%
Domestic Credit	1,612	1,,597	1590
(Y-o-Y change %)	2.9%	0.3%	-0.3%
(Q-o-Q change %)	-0.9%	-0.9%	-0.4%
Government	256	252	253
(Y-o-Y change %)	16.4%	-2.1%	10.2%
(Q-o-Q change %)	1.2%	-1.4%	0.2%
GREs	218	220	215
(Y-o-Y change %)	21.7%	18.7%	7.0%
(Q-o-Q change %)	-0.2%	1.0%	-2.1%
Private Sector	1,122	1,108	1,106
(Y-o-Y change %)	-2.5%	-2.3%	-3.8%
(Q-o-Q change %)	-1.5%	-1.2%	-0.2%
NBFI	16.7	16.6	16.2
(Y-o-Y change %)	-2.3%	8.5%	1.9%
(Q-o-Q change %)	-1.8%	-0.6%	-2.4%
Foreign Credit	193	182	165
(Y-o-Y change %)	24.3%	9.8%	-4.8%
(Q-o-Q change %)	17.6%	-5.5%	-9.6%

Source: CBUAE
Note: Data as of end of period. March data are preliminary.

Lending by economic activity showed that the highest yearly increase was in Transport, Storage & Communication by 33.9% Y-o-Y (AED 22 Billion). Construction & Real Estate increased by 0.9% Y-o-Y (AED 3 billion). The other main activities declined with the total declining by 0.3% Y-o-Y (AED 6 billion).

Total assets of national banks increased by 1.8% Y-o-Y, while total assets of foreign banks fell by 0.3% Y-o-Y. Foreign banks had a 12.5% share in total assets and a 9.9% share in gross credit. Meanwhile, total assets of Islamic banks increased by 5.0% Y-o-Y while assets of conventional banks increased by 0.7% Y-o-Y. Analysis by type of banks shows that the share at the end of March 2021 of Islamic banks was 19.0% in total assets and 22.2% in total gross financing of the banking system.

Table 3.1.2.b. Bank Lending by Economic Activity

Billions of Dirhams

Economic Activity	Dec-20	Mar-21
Total	**1,597**	**1,590**
(Q-o-Q change %)	-0.9%	-0.4%
(Y-o-Y change %)	0.3%	-0.3%
Of which:		
Construction and Real Estate	**328**	**323**
(Q-o-Q change %)	0.2%	-1.4%
(Y-o-Y change %)	5.3%	0.9%
Trade	**139**	**140**
(Q-o-Q change %)	-6.5%	0.6%
(Y-o-Y change %)	-9.2%	-10.4%
Transport, Storage and Communication	**85**	**85**
(Q-o-Q change %)	3.3%	-0.1%
(Y-o-Y change %)	48.6%	33.9%
Manufacturing	**74**	**73**
(Q-o-Q change %)	-4.0%	-0.8%
(Y-o-Y change %)	-8.6%	-10.7%

Source: CBUAE
Note: Data as of end of period. March data are preliminary.

With regard to bank lending to Micro, Small and Medium Enterprises (MSMEs), it increased by 0.4 billion to reach AED 93.8 billion at the end of the first quarter, 0.4% Y-o-Y higher than the level at the end of Q1 2020.

3.1.3 Financial Soundness Indicators

The Advances to Stable Resources Ratio (ASRR) of the banking system decreased from 77.6% at the end of 2020 to 77.5% at the end of March 2021, which means that the structural liquidity of the banking sector remained sound. Eligible Liquid Assets[11], as a percent of total liabilities[12] marginally increased to 18.8%, i.e., well above the 10% minimum regulatory requirement, constituting an adequate buffer for the banking system.

Total liquid assets at banks at the end of the first quarter of 2021 stood at AED 486.6 billion, i.e., AED 12.4 billion higher compared to the end of 2020 (2.6% increase).

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

[12] Balance sheet total assets less (capital and reserves + all provisions except staff benefit provisions + refinancing + subordinated borrowing/deposits). https://www.centralbank.ae/sites/default/files/2021-02/Credit%20Sentiment%20Survey%20-%20Q4%202020.pdf.

Overall, the UAE banking system remained well capitalized, with an average Capital Adequacy Ratio (CAR) at 17.9%, Tier 1 Capital Ratio at 16.7%, and Common Equity Tier 1 Ratio (CET 1) at 14.7%.[13]

Table 3.1.3. UAE Financial Soundness Indicators

	Sep-20	Dec-20	Mar-21
Total Banking System			
Advances to Stable Resources Ratio (ASRR)	78.6%	77.6%	77.5%
Eligible Liquid Assets Ratio (ELAR)	16.9%	18.4%	18.8%
Capital Adequacy Ratio (CAR)	18.0%	18.2%	17.9%
Tier 1 Capital Ratio	16.9%	17.1%	16.7%

Source: CBUAE
Note: Data as of end of period. March data are preliminary.

Loans to Deposits (LTD) ratio for the whole banking system decreased to 93.3% at the end of the first quarter, slightly below the 94.4% at the end of the previous quarter, due to the decrease in gross credit.

[13] The minimum regulatory requirement for CAR is 13% (10.5% minimum adequacy and 2.5% capital conservation buffer), 8.5% for Tier 1, and 7% for CET 1.

Box 2. Extension of the Targeted Economic Support Scheme (TESS) to further support the UAE's economic recovery

CBUAE announced on 20 April 2021 an extension of integral parts of the TESS until 30 June 2022. This is to contain the repercussions of the COVID-19 pandemic on the economy and to support the recovery and safeguard the financial system.

The scheme was amended in April 2021 to extend the collateralized AED 50 billion Zero Cost Facility (ZCF) for eligible financial institutions and the TESS Recovery Program until 30 June 2022. The recovery program enables eligible financial institutions to provide new loans and financing to individuals, micro, small and medium-sized enterprises (MSMEs), and other private corporates affected by Covid-19 repercussions. Further, the TESS Deferral Program was also extended but will be phased out gradually, with the allocated limit for each financial institution reducing to 50% of its original capacity by the end of September 2021, with a full phase out to be achieved by the end of the year.

Under the revised recovery program, financial institutions are to prioritize lending supported through the ZCF to the most negatively affected sectors and customers. Such lending should be informed by a forward-looking view of the viability of banks' customers and their contribution to a balanced recovery of the UAE economy. The enhanced TESS supported negatively affected sectors, including MSMEs by providing financing to eligible financial institutions to support small businesses with payment deferrals and access to new credit.

3.2 Financial developments

3.2.1 Share Prices

Stock markets continued their upward trend worldwide in the first quarter, mainly due to improved investor sentiment, monetary policy stimulus and economic recovery hopes. The MSCI World Index gained 4.7% during this period.

In the UAE, the Abu Dhabi Securities Exchange (ADX) share price index increased by 17.2% Q-o-Q and by 17.2% Y-o-Y, while the Dubai Financial Market (DFM) index rose by 2.3% Q-o-Q and by 44.0% Y-o-Y.

The big increase in ADX market capitalization (100.7% Y-o-Y) was due to some companies increasing market shares.

Table 3.2.1. UAE – Securities Markets

			2020	2021
			Q4	Q1
Abu Dhabi	Share Price Index	Q-o-Q	11.7%	17.2%
		Y-o-Y	-0.6%	58.3%
	Market Capitalization	Q-o-Q	8.6%	15.9%
		Y-o-Y	39.8%	104.7%
		AED Billion	743	861
	Turnover (Traded Value)	Q-o-Q	4.6%	156.3%
		Y-o-Y	129.3%	359.8%
		AED Billion	8.4	21.6
Dubai	Share Price Index	Q-o-Q	9.6%	2.3%
		Y-o-Y	-9.9%	44.0%
	Market Capitalization	Q-o-Q	7.3%	4.7%
		Y-o-Y	-9.1%	32.4%
		AED Billion	340	356
	Turnover (Traded Value)	Q-o-Q	-25.9%	-24.8%
		Y-o-Y	35.0%	-33.5%
		AED Billion	5.6	4.2

Source: SCA
Note: Changes are based on quarterly averages for the share price index and market capitalization

3.2.2 Credit Default Swaps (CDS)

CDS decreased generally worldwide during the first quarter of 2021 compared with 2020 levels as a result of the easing of COVID-19 restrictions and the start of economic recovery. The government of Abu Dhabi CDS premium increased marginally by 4.2 basis points (bps) to 44.7 bps, however, remaining the lowest CDS premium in the Middle East and Africa region, while for the Emirate of Dubai, the premium decreased by 19.7 bps to 107.8 bps. Both emirates' CDS were at pre-COVID-19 levels.

Table 3.2.2. UAE – Sovereign Credit Default Swaps (CDS) (in bps)

	2020				2021
	Q1	Q2	Q3	Q4	Q1
Emirate of Abu Dhabi	61.1	104.5	52.2	40.5	44.7
Emirate of Dubai	144.0	244.7	168.0	127.5	107.8

Source: Bloomberg
Note: All data are quarterly averages

Chapter 4. Interest Rates and Money Supply

LIBOR rates decreased during the first quarter of the year, while the EIBOR and the spread between EIBOR and the USD LIBOR fluctuated. Monetary aggregates M1 and M2 increased during the quarter thanks to a rise in resident private sector deposits, while M3 decreased driven by a fall in government deposits.

4.1 Interest rates

4.1.1 Short-term interest rate

The 3-month USD LIBOR decreased during the first quarter of the year, from 0.24% in the last week of 2020 to 0.19% in the last week of Q1 2021, owing to improved market liquidity.

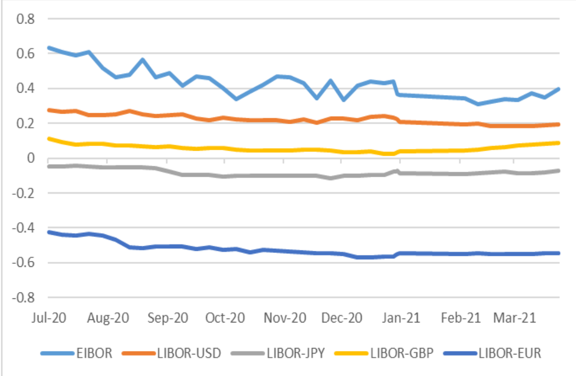
Meanwhile, the 3-month EIBOR decreased in the UAE from 0.43% in the last week of 2020 to a trough of 0.31% in the second week of February before increasing to 0.39% in the last week of Q1 2020.

The spread 3-month EIBOR vis-à-vis 3-month USD LIBOR remained tight during this period, decreasing from a peak of 21.0 bps in early January to a trough of 11.3 bps in the second week of February before increasing to 20.1 bps in the last week of March.

The GBP LIBOR increased during this period, from 0.02% in the last week of 2020 to 0.08% in the last week of March 2021, owing to better economic outlook thanks to vaccine rollout and falling infection rates.

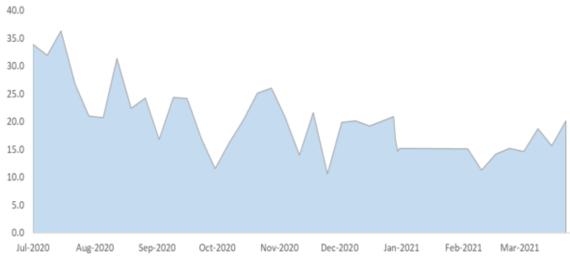
Meanwhile, both the 3-month EURIBOR and the JPY LIBOR rates remained in negative territory, consistent with the policy orientation of the ECB and the Bank of Japan.

Figure 4.1.1.a. EIBOR and USD-LIBOR (%)



Source: Bloomberg, weekly data

Figure 4.1.1.b. Spread of 3-month EIBOR vs. 3-month USD LIBOR (bps)

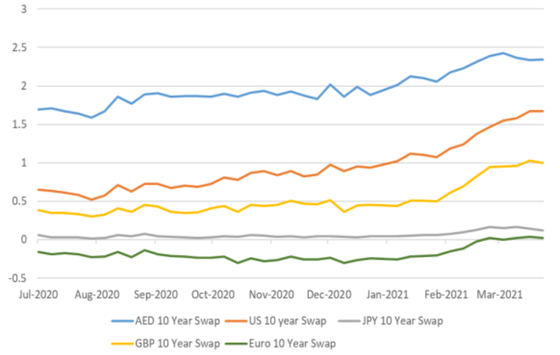


Source: Bloomberg, weekly data

4.1.2 Long-term swap rates

The 10-year swap rate on the Dirham increased from 1.88% in the last week of 2020 a peak to 2.42% in the first week of March 2021 before declining to 2.34% in the last week of the quarter.

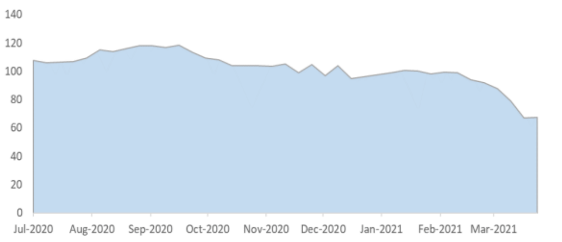
Figure 4.1.2.a. Selected 10-year interest rate Swaps (%)



Source: Bloomberg, weekly data

The spread of the 10-year swap rate on the Dirham vs. that on the USD witnessed a decline from 95 bps at the end of 2020 to 67 bps at the end of Q1 2021.

Figure 4.1.2.b. Spread 10-year AED Swap vs. USD Swap (bps)



Source: Bloomberg

4.2 Money supply

The monetary aggregate M_1[14] increased by 7.1% Q-o-Q (AED 42.0 billion) to reach AED 642.0 billion, driven by a rise in monetary deposits (85.1% of M_1) by 8.1% (AED 41.0 billion) reaching AED 546.0 billion, while currency in circulation (14.9% of M_1) increased by 1.3% (AED 1.0 billion).

On year on year basis, M_1 rose by 18.4% due to an increase in monetary deposits by 19.7% and currency in circulation by 11.3%.

Table 4.2. Money supply in the UAE

Billions of Dirhams

	M_1	M_2	M_3
Dec-20	600	1,479	1,769
Jan-21	625	1,496	1,766
Feb-21	614	1,489	1,769
Mar-21	642	1,488	1,766

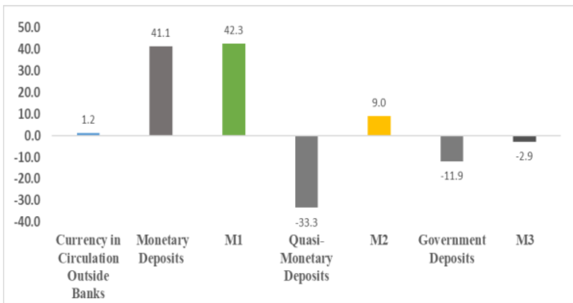
Source: CBUAE

Monetary aggregate M_2[15] increased by 0.6% (AED 9.0 billion) Q-o-Q to reach AED 1,487.0 billion, owing to the increase in M_1, while quasi-monetary deposits (56.8% of M_2) decreased by 3.8% (AED 33.0 billion) to reach AED 845.0 billion, due to the fact that term deposits became less attractive as a result of the low interest rates.

On a Y-o-Y basis, M_2 increased by 2.2 %, due to an increase in M_1 while quasi-monetary deposits decreased by 7.3%.

Figure 4.2. Q-o-Q Change in Monetary aggregates in 2021 Q1

Billions of Dirhams



Source: CBUAE

M_3[16] decreased on a quarterly basis by 0.2% (AED 2.90 billion) to reach AED 1,766.0 billion, driven by a decrease in government deposits (15.8% of M_3) by 4.1% (AED 12.0billion), reaching AED 278.9 billion.

M_3 increased by 3.1% Y-o-Y driven by the increases in M_2 and government deposits by 7.6%.

[14] Currency in Circulation outside banks + Monetary Deposits
[15] M_1 + Quasi Monetary Deposits
[16] M2 + Government Deposits at commercial banks and CBUAE

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