



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

United Arab Emirates
Monetary, Banking & Financial Markets Developments

2018 – 4th Quarter Report
February 2019

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 fourth quarter of 2018, in comparison to the fourth quarter of the previous year. The report also reviews ratios of annual change over the period from December 2017 to December 2018.

Monetary Developments

Money Supply **M₁**, which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, increased by 0.3% during the fourth quarter of 2018, compared to a 0.7% quarterly increase during the same period last year. On an annual basis, there was a 1.4% reduction in the monetary aggregate **M₁**, reaching AED 485.6 billion.

Money Supply **M₂** (**M₁** plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham plus Resident Deposits in Foreign Currencies)), increased by 1.3% during the fourth quarter of 2018, compared to a 1.5% quarterly increase during the same period last year. On an annual basis, there was a 2.5% increase in Money Supply **M₂**, reaching AED 1308.4 billion.

Consequently, Money Supply **M₃** (**M₂** plus government deposits at banks and at the Central Bank) also increased by 1.4% during the fourth quarter of 2018 as compared to a 2% rise during the fourth quarter of 2017. On an annual basis, there was a 7.7% increase in Money Supply **M₃**, reaching AED 1602.3 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 fourth quarter of 2018, there was a smaller increase in **M₂**, compared to slightly bigger increase during the same period of 2017. The rise in **M₂** during the fourth quarter of 2018 was mainly due to the quarterly increase in non-government resident deposits by 1.3% reaching 1237.9 billion, similar to an identical increase of 1.3% (reaching AED 1208.5 billion) during the same period of the previous year.

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

	2017				2018								
	Third Quarter		Fourth Quarter		First Quarter		Second Quarter		Third Quarter		Fourth Quarter*		
	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Change (%)	
												Quarterly	Annual
Money Supply (M ₁)	488.9	-3.6%	492.4	0.7%	510.6	3.7%	495.5	-3.0%	484.2	-2.3%	485.6	0.3%	-1.4%
Money Supply (M ₂)	1257.2	-0.8%	1276.2	1.5%	1293.8	1.4%	1300.1	0.5%	1291.1	-0.7%	1308.4	1.3%	2.5%
Money Supply (M ₃)	1458.0	-0.3%	1487.1	2.0%	1526.7	2.7%	1553.6	1.8%	1579.8	1.7%	1602.3	1.4%	7.7%

*Source- Data received from banks operating in the UAE***M₁** = 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 remain constant at 22 banks at the end of the fourth quarters of 2017 and 2018. Whereas, the branches of these locally incorporated banks decreased from 771 at the end of the fourth quarter of 2017 to 743 at the end of the same period of 2018. The number of electronic service units of these banks also decreased at the end of the fourth quarter of 2018 to 33 from 36 at the end of December 2017. The number of Cash Offices decreased from 51 offices at the end of December 2017 to 34 offices at the end of December 2018.

The number of GCC banks remains constant during the fourth quarter of 2018 at 6 banks, with 4 branches. The number of other foreign banks also remain constant at 21 banks at the end of the fourth quarters of 2017 and 2018. However, their branches decreased from 78 branches, at the end of December 2017, to 76 branches during the same period of 2018. The number of electronic service units of these banks also decreased from 25 units at the end of December 2017 to 21 units at the end of December 2018. The number of cash offices remains constant at one cash office during the fourth quarter of 2018.

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

At the end of the fourth 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 11, 99, 26, 123 and 11, respectively.

The total number of ATM of banks operating in the UAE reached 5,303 by the end of December 2018, compared to 5,302 at the end of December 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	Dec*
Locally Incorporated Banks												
Main Branches	23	23	23	23	23	23	23	22	22	22	22	22
Additional Branches	841	869	874	846	834	816	810	771	761	755	751	743
Electronic Banking Service Units	29	34	37	33	35	36	36	36	32	32	32	33
Cash Offices	89	90	90	76	72	61	58	51	48	48	40	34
GCC Banks												
Main Branches	6	6	6	6	6	6	6	6	6	6	6	6
Additional Branches	4	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	21
Additional Branches	83	82	82	81	81	81	81	78	77	77	77	76
Electronic Banking Service Units	52	48	40	31	29	29	29	25	21	21	21	21
Cash Offices	1	1	1	1	1	1	1	1	1	1	1	1
Wholesale Banks	4	7	8	11	11	11	12	12	12	12	12	11
Representative Offices	120	121	115	114	107	108	107	103	102	99	99	99
Finance Companies	25	26	27	27	28	28	28	27	27	26	26	26
Moneychangers	134	140	140	140	141	141	141	132	130	128	128	123
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	11	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	5,303

Source: Banking Supervision Department and UAESWITCH

*Estimates, subject to revision

2- Bank Assets and Loans

At the end of the fourth quarter of 2018 total assets of banks operating in the UAE increased by 1.4%, reaching AED 2878 billion, compared to a quarterly increase of 1.9% at the end of the fourth quarter of 2017. During the period between December 2017 and December 2018, the total assets of banks operating in the UAE increased by 6.8%.

Gross credit also increased by 1.1% at the end of December 2018, reaching 1656.6 billion. On an annual basis, gross credit increased by 4.8%.

3- Customer Deposits

By the end of the fourth quarter of 2018, total deposits of resident and non-resident customers with banks operating in the UAE increased by 1.6%, reaching AED 1755.6 billion, compared to an increase of 2% (AED 1627.3 billion) at the end of the fourth quarter of 2017. Resident deposits increased by 1.3%, reaching AED 1542.2 billion at the end of the fourth quarter of 2018, compared to an increase of 2% at the end of the fourth quarter of 2017 reaching AED 1435.6 billion. Non-resident deposits increased by 3.9%, reaching AED 213.4 billion by the end of December 2018, compared to a 1.8% increase at the end of the same period of 2017. On an annual basis, Resident deposits increased by 7.4% and Non-resident deposits increased by 11.3%.

4- Capital and Reserves

Aggregate Capital and Reserves of banks operating in the UAE increased by 3.5%, reaching AED 354.9 billion at the end of the fourth quarter of 2018 compared to a 3.1% quarterly increase at the end of the same period of 2017. During the fourth quarter of 2018, Total Capital Adequacy Ratio remains constant at 18.2%, compared to a 3.2% reduction during the fourth quarter of 2017, remaining well above the 12.375% Capital Adequacy Ratio, including the 1.875% Capital Conservation Buffer requirement and the 8.5% Tier1 Ratio, prescribed by the Central Bank regulations in compliance to Basel III guidelines.

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.

Table- 3: Banking Indicators

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

	2017				2018				% Annual Change
	Sep	Quarterly Change (%)	Dec	Quarterly Change (%)	Sep	Quarterly Change (%)	Dec*	Quarterly Change (%)	
Total Assets	2643.2	0.4%	2693.8	1.9%	2838.2	3.2%	2878.0	1.4%	6.8%
Banks' Investments in Central Bank CDs	126.6	23.2%	135.1	6.7%	121.4	-3.0%	138.2	13.8%	2.3%
Shariah Compliant Certificates of Deposits	30.4	49.0%	38.3	26.0%	32.4	-5.8%	36.3	12.0%	-5.2%
Gross Credit ⁽¹⁾	1580.0	0.7%	1580.3	0.02%	1638.3	1.0%	1656.6	1.1%	4.8%
Personal Loans to Residents	335.1	1.7%	337.5	0.7%	338.4	0.3%	337.4	-0.3%	-0.03%
Total Deposits ⁽²⁾	1595.8	0.4%	1627.3	2.0%	1728.2	2.6%	1755.6	1.6%	7.9%
Capital & Reserves ⁽³⁾	327.1	8.1%	337.3	3.1%	342.9	3.8%	354.9	3.5%	5.2%
Capital Adequacy Ratio	18.7%	1.1%	18.1%	-3.2%	18.2%	0.6%	18.2%	0.0%	0.6%
Tier-1 Ratio	17.1%	1.2%	16.6%	-2.9%	16.8%	1.2%	16.9%	0.6%	1.8%
Common Equity Tier 1 (CET 1) Capital Ratio ⁽⁴⁾			14.6%		14.9%	2.1%	14.9%	0.0%	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⁾ Excluding 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 fourth quarter of 2018, the Central Bank's foreign assets rose by 10.8%, reaching AED 362.6 billion, compared to a 1% increase at the end of the fourth quarter of 2017. This increase was mainly attributed to increases in Current Account Balances & Deposits with banks abroad by 15.3% (an increase of AED 39 billion) and Foreign Securities by 0.1% (an increase of AED 0.03 billion), overshadowing the reduction in Other Foreign Assets by 22.2% (a fall of AED 3.8 billion). From December 2017 to December 2018, Central Bank Foreign Assets increased by 4.3%.

6- Abu Dhabi and Dubai Financial Markets Values

Abu Dhabi's quarterly average Financial Market Index fell by 1.3% during the fourth quarter of 2018 compared to a bigger reduction of 3.5% in the fourth quarter of 2017. The quarterly average Market Capitalization of companies listed at the Abu Dhabi Securities Exchange (ADX) also decreased by AED 2.7 billion reaching AED 512.3 billion at the end of the fourth quarter of 2018 compared to AED 1.7 billion increase at the end of the fourth quarter of 2017. On the other hand, Quarterly Trading Value increased from AED 9.9 billion (without any quarterly change) during the fourth quarter of 2017 to AED 13.7 billion (67.1% quarterly increase) during the fourth quarter of 2018.

Dubai's quarterly average Financial Market Index decreased by 7.5% during the fourth quarter of 2018, compared to a 3.8% reduction during the same period in 2017. The quarterly average Market Capitalization of companies listed on the Dubai Financial Market (DFM) decreased by AED 20.4 billion reaching AED 354.6 billion at the end of the fourth quarter of 2018 compared to AED 8.9 billion increase at the end of the fourth quarter of 2017. Quarterly Trading Value decreased from AED 28.2 billion (68.9% quarterly increase) during the fourth quarter of 2017 to AED 11.8 billion (7.3% quarterly increase) during the fourth 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	Dec
Number of listed Companies	69	69	69	69	67	67	67	69	69	68	70	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	4862.3
<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%	-1.3%
<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%	6.9%
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	512.3
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	13.7

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	Dec
Number of listed Companies*	60	60	60	61	62	62	62	65	67	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	2661.0
<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%	-7.5%
<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%	-16.5%
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	354.6
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	11.8

**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.