مصرف الإمارات العربية المتحدة المركزي

CENTRAL BANK OF THE U.A.E.

Annual Report

2017

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President of the United Arab Emirates

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Message from
The Chairman of the Board of Directors

As a result of a rebound in oil prices, supporting fiscal policy and higher deposits at banks, and on the back of an uptick in global economic growth, the UAE economy recovered in 2017, with an upswing in non-hydrocarbon exports as well as in foreign direct investment.

Meanwhile, inflation remains flat and at a moderate level, due primarily to the continued softening in the housing sector, which led to a further slowdown in the prices of non- tradables, while the prices of tradables increased moderately due to a pickup in inflation worldwide and a depreciating US dollar in most of 2017 to which the Dirham is pegged.

We have been monitoring developments in the banking sector. The increase in deposits has solidified banks' liquidity in 2017 and reinforced their capacity to lend and provide the necessary support to non-energy growth.

However, with continued regional instability and global uncertainty, the central bank needs to ensure the right balance between efficient intermediation and financial stability. To that end, the Central Bank continues its close monitoring of the liquidity situation of banks and other indicators of financial soundness.

Going forward, we will maintain this commitment while enhancing our capacity to forecast and manage liquidity in the system. We are upgrading our capacity to provide support to banks, as deemed necessary, towards ensuring continued healthy financing of the non-energy sectors, in line with our leadership's vision for further diversification of the UAE economy.

Last but not the least, the Central Bank will continue to join efforts with the Ministry of Finance and other stakeholders in the context of the Fiscal Coordination Council, a key pillar to ensure better policy coordination between the monetary and fiscal authorities towards the attainment of our strategic objectives. We are also collaborating with the Ministry of Finance to speed up the plan to issue the Public Debt Law, which is instrumental to deepen the financial market, benchmark the yield curve in domestic currency, and increase options to mobilize domestic savings and attract foreign capital inflows.

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Message from The Governor

Important positive developments characterized the year 2017 at the Central Bank of the UAE. In tandem with some recovery in non-hydrocarbon activities, indicators in the banking system illustrate higher customer deposits and adequate liquidity. This obviously bodes well for the soundness of the financial system in the UAE.

Going forward, we are well aware that small and Medium Enterprises (SMEs) are the engine of growth, employment and the diversification drive in the UAE economy. Therefore, we continue to work with our major stakeholders to enhance the ecosystem in support of the sector, improve the regulatory framework and remove obstacles so that SMEs and Start-ups get the support and financing needed to play their vital role in the economy. To that end, the Central Bank has developed draft regulations to encourage financial institutions to play their role in the development of this sector and we are currently working with the wider UAE authorities to assist in creating a viable ecosystem for SME development. Further, the Central Bank has developed regulations to safeguard consumers with respect to loan-based crowd funding activities.

Against this backdrop, it is worth noting that the year 2017 marks the first year in our cycle for the 2017- 2021 Strategic Plan of the Central Bank. The plan includes strategic objectives that focus on the Central Bank's role in enhancing financial stability in the UAE, strengthening the monetary and reserves management functions, and enhancing the regulatory and supervisory framework. Our objectives are to increase the Central Bank's role in promoting the competitiveness of the national economy, improving banking operations services and ensuring safe, sound and efficient clearing and settlement systems within the UAE, as well as, promoting a culture of innovation in line with the National Innovation Strategy.

In 2017, the leadership of the Central Bank has focused on setting the stepping stones for the upcoming years in relation to the enhancement of the legislative and regulatory system for banks and financial institutions. A new Central Bank Law has been drafted, along with regulations on risk management and Basel III capital. Finally, The Sharia Board was established to act as a critical enabler for a competitive Islamic Finance environment in the UAE.

To support the national agenda for the Emiratization strategy, the CBUAE has issued guidelines, set rules, and increased awareness regarding the new targeted system to increase the employment of highly skilled Emiratis in the banking sector.

Meanwhile, the Central Bank is adopting a holistic program of ***Transformation*** aiming at enhancing our capacity to take a more proactive role in supporting the country's overall development vision. We are confident that these new regulations and initiatives that are well underway across the various departments will put the Central Bank's capacity at par with best international practices, thereby contributing to further stability and growth of the financial system in the UAE.

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Our Vision

Promoting monetary and financial stability towards sustainable economic growth.

Our Mission

Enhancing monetary and financial stability through effective supervision, prudent reserve management, and robust financial infrastructure in line with international best practices and standards.

Our Values

Talent Centric

Transparency

Proactivity

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List of Abbreviations

ADSM:	*Abu Dhabi Stock Market*
AED:	*Arab Emirates Dirham*
CBUAE:	*Central Bank of The UAE*
CPI:	*Consumer Price Index*
DFM:	*Dubai Financial Market*
ECB:	*European Central Bank*
EIBOR:	*Emirates Inter-Bank Offer Rate*
FATF:	*Financial Action Task Force*
FIU:	*Financial Intelligence Unit*
GREs:	*Government Related Entities*
LIBOR:	*London Inter-Bank Offer Rate*
MENAFATF:	*Middle East & North Africa Financial Action Task Force*
PCE	*Private Consumption Expenditure*
PMI:	*Purchasing Managers Index*
RBI:	*Reserve Bank of India*
STRs:	*Suspicious Transaction Reports*
UAE:	*United Arab Emirates*

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Part one: The Economic, Monetary and Financial Developments

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Chapter1. International Economic Developments

The global economy continued to build momentum in 2017. Growth projections have been revised upward worldwide, reflecting a pickup in investment and consumer confidence. In the US, the uptick in growth took place on the back of planned large tax cuts and higher spending, while growth was also revised upward in Japan and in the Euro Area, owing to continued monetary support. Moreover, the recovery in commodity prices, supported by OPEC production cuts and global growth prospects, boosted growth in resource-rich Emerging Economies. Nonetheless, inflation remained below target in Advanced Economies, while the steps towards monetary policy normalization that took place in the US lifted up interest rates and government bond yields.

1. Economic Growth

The recovery in global economic growth seems to be well on track in 2017. According to the International Monetary Fund's January 2018 World Economic Outlook (WEO), the global output is estimated to have grown by 3.7% in 2017, which is 0.1 percentage point faster than the projection made last October. More recent IMF projections brought up global growth 0.2 percentage points higher to 3.9%, for both 2018 and 2019.

Despite global uncertainties and mounting political risks, the economic momentum is largely holding up in the world's largest economies. This is mainly due to supportive fiscal policies in key countries following years of fiscal consolidation, and the recovery in global trade which boosted exports.

Real GDP Growth in Selected Advanced Countries

In the United States, the economy demonstrated particular resilience with growth estimated by the IMF to be 2.3% in 2017 and to increase to 2.7% in 2018, boosted by expansionary fiscal outlook, following the adoption by the US Congress of tax cuts which are considered the largest overhaul of the tax code in 30 years. Growth was also boosted by strong domestic demand, as a strong job market supported consumer confidence, which hit 17-year high in November 2017, stimulated by signs of firming wages and rising stock markets (the so-called wealth effect). The momentum for business investment contributed also to growth, thanks to optimism regarding surging exports, supported by dollar depreciation and the potential of a lasting impact of the corporate tax cuts and deregulation.

Recent U.S. data, however, showed economic growth lower in 2017 Q4 at 2.5% on an annualized basis, down from 3.2% in 2017 Q3. Nonetheless, growth for 2018 is estimated to be stronger thanks, to the expected positive impact of the approved fiscal stimulus and better global growth outlook.

In the Euro Area, growth picked up from 1.8% in 2016 to 2.4% in 2017. Growth estimates have been revised up for most of the **Euro Area** countries, including for France where growth increased from 1.2% in 2016 to 1.8% in 2017, and Germany where growth was up from 1.9% to 2.5%.

The Euro Area's overall PMI shows also an increase, reaching a healthy 60.6 level by the end of 2017. This owes to rising business investment as well as consumer spending.

For individual Euro Area countries, the PMI increased from 53.2 in 2015 to 55.6 in 2016 to 63.3 in 2017 in Germany, while the index reached 51.4, 53.5, and 58.8, respectively, in France, and 55.6, 53.2, and 57.4 in Italy.

In the UK, the economy slowed down from 1.9% in 2016 to 1.7% in 2017 due to the fallback from Brexit, with business investment failing to pick up due to the more cautious approach among companies ahead of Brexit implementation. Nonetheless, the PMI improved from 55.8 to 56.2, respectively, pointing to some improvements.

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Table 1.1. Growth in Advanced and Emerging Economics

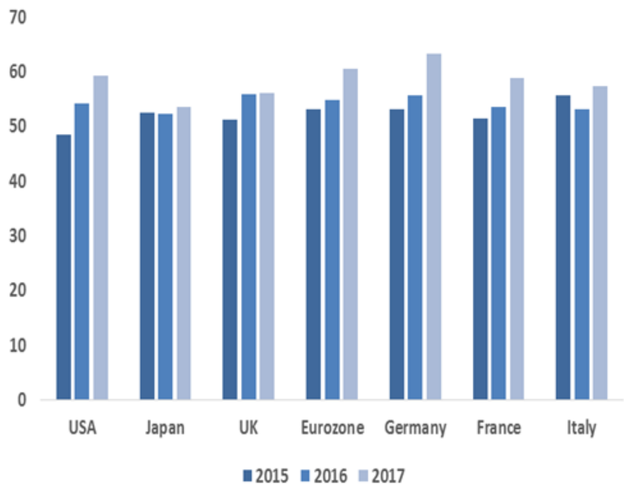
	2016	2017	2018
USA	**1.5**	**2.3**	**2.7**
EURO Area	**1.8**	**2.4**	**2.2**
France	1.2	1.8	1.9
Germany	1.9	2.5	2.3
United Kingdom	**1.9**	**1.7**	**1.5**
Japan	**0.9**	**1.8**	**1.2**
Emerging Economies	**4.4**	**4.7**	**4.9**
China	6.7	6.8	6.6
India	7.1	6.7	7.4

Source: IMF, World Economic Outlook, January 2018

Japan's real GDP growth increased from 0.9% in 2016 to 1.8% in 2017, while the PMI rose from 52.4 to 53.6, a testament of the success of Prime Minister Abe's strong stimulus programs and the easing of visa restrictions, which boosted tourism. The Japanese growth story in 2017 was boosted by investment and buoyant exports.

Indeed, rising exports and tourism arrivals led to higher investment in Japan, while private consumption failed to increase due to consumer's reluctance to buy durable goods in a low inflation environment, mostly deflationary environment.

Figure 1.1. PMI Levels for Selected Developed Countries



Source: Bloomberg

As regards Emerging Economies, China's real GDP growth increased from 6.7% in 2016 to 6.8% in 2017. The momentum was maintained thanks to the growth in exports and in the services sectors, consistent with the government strategy to shift the economy to domestic-based growth.

For India, growth slowed down from 7.1% in 2016 to 6.7% in 2017, due mainly to the impact of its demonetarization initiative (the ban of high value currency notes) and the introduction of the tax on goods and services (TGS) in 2017.

Other Emerging economies were mostly recovering in 2017, thanks to a boost from higher commodity prices for resource – rich countries, and better exports' prospects for outward – oriented economies.

Economic growth in Arab Non-oil producers

Table 1.2 shows the pick-up in growth for major Arab non-oil producers, albeit the growth rate remains moderate at an average of 3.4% in 2017.

Table 1.2. Growth in Arab Non-oil producers

Main Non-oil Countries	2016	2017	2018
Egypt	**4.3**	**4.1**	**4.5**
Jordan	**2.0**	**2.3**	**2.5**
Morocco	**1.2**	**4.8**	**3.0**
Tunisia	**1.2**	**2.3**	**3.0**

Source: IMF, Regional Economic Outlook, Middle East and Central Asia, October 2017

Economic growth in the GCC Oil Producers

Non –oil GDP growth recovered in the GCC in 2017 as shown in Table 1.3. Real non-oil GDP growth mostly improved in 2017 on the back of more gradual fiscal consolidation enhanced by higher oil prices and the reform strategy. In Saudi Arabia, as an example, non-oil GDP growth improved from 0.2% in 2016 to 1.7% in 2017, owing to more supportive government spending, despite the cap on oil production and mounting geopolitical risks.

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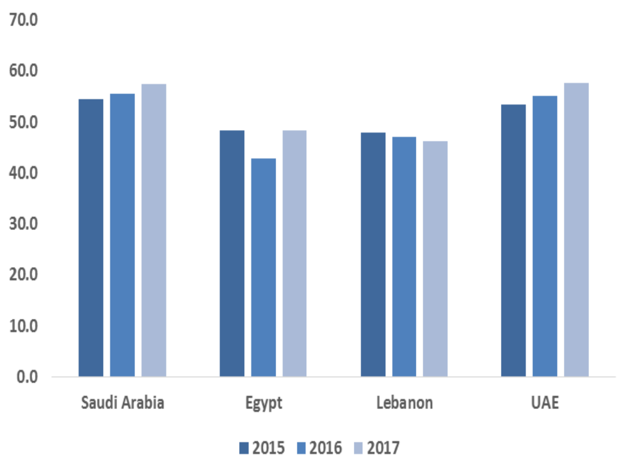
Table1.3. Growth in non-oil activities in the GCC

	2016	2017	2018
Bahrain	**3.7**	**3.1**	**2.1**
Kuwait	**3.2**	**3.5**	**3.5**
Oman	**3.4**	**2.5**	**3.5**
Qatar	**5.6**	**4.6**	**4.7**
Saudi Arabia	**0.2**	**1.7**	**1.3**

Source: IMF, Regional Economic Outlook, Middle East and Central Asia, October 2017

In the region of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)1 as defined by the IMF, oil importers are expected to grow 1.2 percentage points higher in 2017 at 4.3%, supported by the global recovery, which is expected to boost demand in the region's main export markets. Figure 1.2 illustrates improvements in the PMI levels, in general, across selected oil exporters and oil importers countries in the region.

Figure 1.2. PMI levels for selected MENA countries



Source: Bloomberg

Inflation:

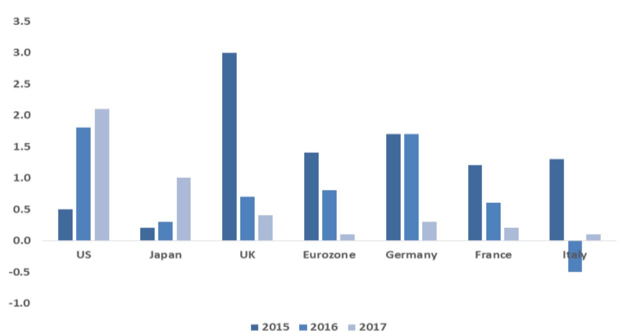
Inflation increased in 2017 in most developed and emerging economies on the back of higher commodity prices and higher global demand. In the US, the consumer price index rose from 0.5% in 2015 to 1.8% in 2016 and to 2.1% in 2017. Therefore, the economy seems to be on track towards higher inflation target set by the Federal Reserve Board. However, the official Federal Reserve target relates to the Personal Consumption Expenditure Price Index whose Core (excluding volatile food and energy prices) rose to just 1.5%.

In the Euro Area, CPI inflation remains flat in the years 2016 and 2017, at 1.5% in Germany, and at 1.7% in France, while inflation increased in other member countries.

In the United Kingdom, the increase in the Consumer Price Index accelerated from 0.4% in 2015 to 0.7% in 2016 to 3% in 2017, mainly due to higher imported inflation triggered by the depreciation of the British Pound and higher petrol prices, due to the rebound in oil prices in international markets. As wages failed to catch up with rising inflation, the "cost of living squeeze" is having an impact on consumer demand.

In Japan, inflation remains the lowest among advanced economies, albeit it accelerated from 0.3% in 2016 to 1% in 2017, thereby curbing the deflationary risk. The main reason that inflation remains stubbornly low, at half the Bank of Japan's target of 2%, is that wages did not significantly increase despite a tightening labor market with unemployment dipping below 3%. This leaves households with no choice but to keep a rein on spending, which underscores the soft consumer demand, especially for durable goods whose prices are not expected to rise in the near future. Figure 1.3 illustrates developments in price inflation across selected developed economies.

Figure 1.3. Year-on-Year Consumer Price Change for Selected Developed Economies (%)



Source: Bloomberg

[1] 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.

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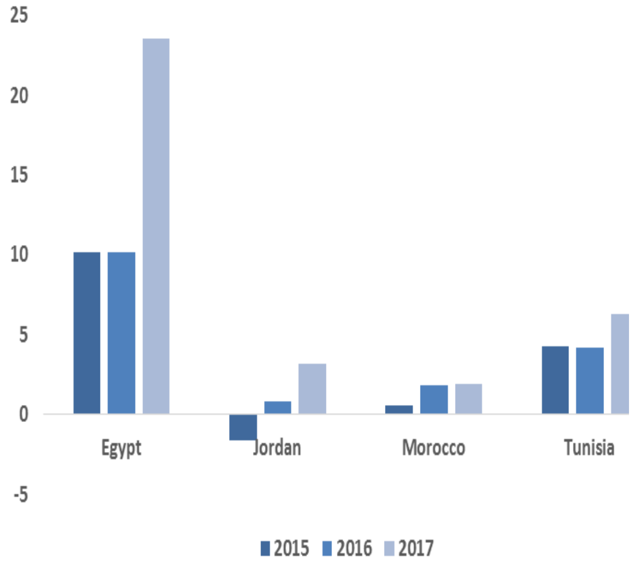
In Emerging Economies, inflation was mostly up. India, as an example, ended 2017 with inflation reaching 4.6%, up from 3% in the previous year, owing to higher rents caused by the hike in the central government's house rent allowance (HRA).

In the MENA region, inflation accelerated in post – Arab spring countries, reaching in 2017 the rate of 23.5% in Egypt and 6.3% in Tunisia (Figure 1.4.a). The main factor is rising imported food and energy products due to currency depreciation in the context of ongoing reforms.

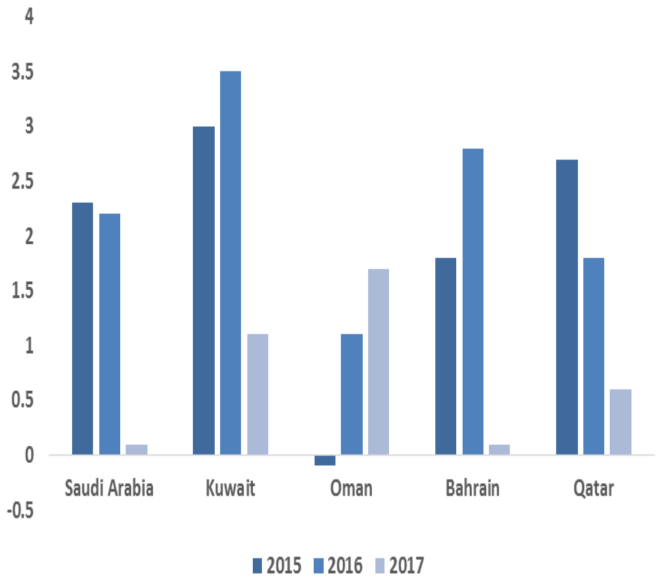
In contrast, inflation is down in 2017 in GCC countries (Figure 1.4.b.), reaching 0.1% in Saudi Arabia and Bahrain, 0.6% in Qatar, and 1.1% in Kuwait, with the exception of Oman where inflation rose from 1.1% in 2016 to 1.7% in 2017. The main reason is that imported inflation remained under control due to low international inflation and the fixed peg of the exchange rate to the US dollar, which fluctuated relative to major trading currencies, ruling out significant depreciation of domestic currencies.

Figure 1.4. a. Year-on-year consumer price change in Arab non-oil producing countries (%)



Source: Bloomberg

Figure 1.4.b. Year-on-year consumer price change in the GCC (%)



Source: Bloomberg

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Commodity prices:

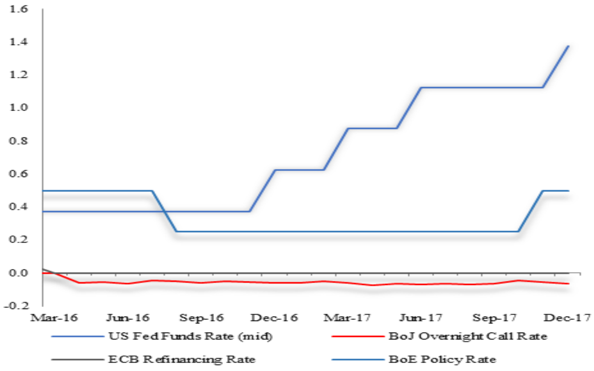
Commodity prices witnessed a remarkable rebound in 2017, with the price of Brent Crude increasing Y-o-Y by about 24%, hovering over 70 dollars per barrel by the end of the year, for the first time since 2014. This owes mainly to the extension of the OPEC agreement and to disturbances in some oil producing countries such as Libya and Iran. The rebound, however, may not be sustained for long as the US daily oil production is hovering at around 9.75 million barrels at the end of the year 2017, and the U.S. Energy Information Administration (EIA) forecasted that total U.S. crude oil production will average 10.04 million barrels per day, starting in early 2018, thereby surpassing production in Saudi Arabia. The synchronized global growth also firmed up demand and contributed to a rebound that was also evident in other commodity prices such as Gold and Silver,

Policy Interest Rates:

Monetary policy normalization adopted by the Federal Reserve Board in the United States continued as expected. The Federal Open Market Committee (FOMC) took decisions in March, June and December 2017 to increase the Target Federal Funds Rate by 25 basis points each time, bringing the target policy rate to the range 1.25%-1.5% (Figure 1.5.). Moreover, markets expect at least further three rate hikes in 2018 by 25 basis points each, and roughly the same for 2019, as growth in the US is edging up, the labor market is tightening and record high stock prices increase the risk of asset bubbles.

The Bank of England reversed its emergency action which was taken to mitigate the fallback from Brexit, raising its policy rate for the first time since 2007 in November 2017 from 0.25% to 0.5%. The decision was explained as an attempt to protect British households from inflation.

Figure 1.5. Policy rates for selected developed countries (%)



Source: Bloomberg

Meanwhile, the European Central Bank's normalization started with its announcement made in September 2017 to cut down its monthly bond-buying program from 60 billion Euros to 30 billion Euros, effective early 2018. On the policy interest rate side, however, the ECB's Governing Council took a decision at its 14th of December meeting to maintain the interest rate on refinancing operations, on the marginal lending facility and on the deposit facility unchanged, at 0.00%, 0.25% and -0.40%, respectively. Specifically, the ECB expects the key interest rates to remain at their present levels for an extended period of time, except in the event of less favorable economic conditions, or if financial conditions become inconsistent with further progress towards a sustained increase of inflation. The Governing Council announced also that it will stand ready to increase the Assets Purchase Program (APP) in terms of size and/or duration if needed.

The Bank of Japan announced that as inflation remains well below its 2% target, it is holding its monetary policy steady, i.e., it is holding its short – term policy rate at -0.1% and the target 10 year government yield at 0%. As a result, the policy rate remains in negative territory, decreasing from -0.046% at the end of October, to -0.055% at the end of November and to negative -0.062% at the end of December 2017.

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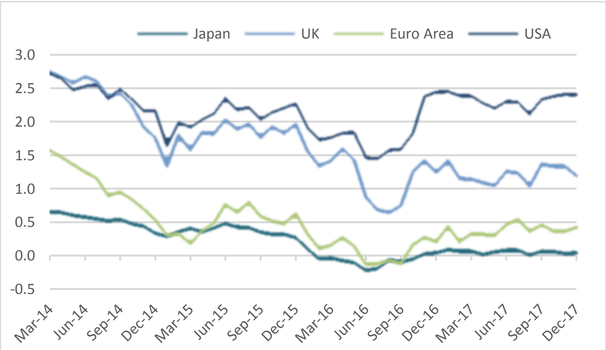
Government Bond yields:

Government bond yields mostly fluctuated in 2017 with an observed increase in the end of the year, on the back of US monetary policy normalization as well as improved growth and inflation outlook (Figure 1.6.). In the United States, government bond yield increased on expectations of continued Federal Reserve's commitment to raise interest rates. As a result, the 10-year US government bond ended 2017 with a yield in the order of 2.4%, which nonetheless remains far below the long-term average of 6.2%.

In the Euro Area, government bond yields reflected economic recovery and expectation of monetary tightening as the ECB announced in October that it will cut its monthly bond-buying program from €60bn to €30bn a month. Similarly, the UK government bond yields moved slightly higher, while the Japanese bond yields remain the lowest in the developed world, as a result of Bank of Japan's upholding the policy of negative interest rates against the backdrop of low inflation.

Figure 1.6. The 10-year government bond yields for selected countries (%)



Source: Bloomberg

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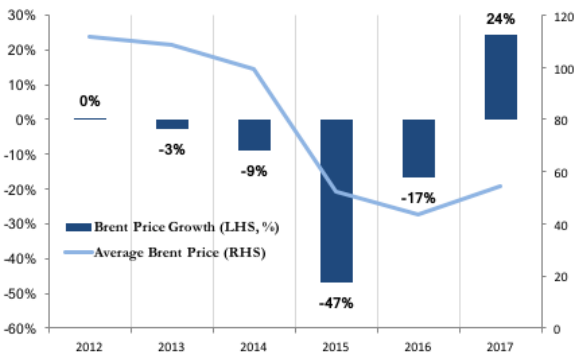
Chapter 2. Domestic Economic Developments

According to the CBUAE's estimation, the UAE's economy expanded by 1.5% in 2017, driven by a 2.9% growth in the non-oil sector. The non-hydrocarbon sector's resiliency was supported by employment expansion, higher government spending and improved growth in the main UAE's trading partners. However, the Real Oil-GDP declined by 1.5 on account of the OPEC-oil production cut agreement to which the UAE has committed. Annual inflation reached 1.8% in 2017, the same rate as in 2016, primarily driven by the rebound of Tradables prices: Tobacco and Beverages prices jumped by 18.3% on account of the excise tax implemented in October and Transportation Price inflation (5.4%). Employment expanded by 2.6% y-o-y in the first nine months of 2017. Fiscal expansion continued in the first nine months of 2017, increasing government spending by 23% y-o-y.

2.1. Economic Activity and Growth

After a dramatic decline of oil prices in 2014 and the subsequent declining trend where the Brent price hit less than $30 for the first time since February 2004, oil prices started their recovery in 2017. Oil prices declined by 47% in 2015, followed by a trough of 17% in 2016 which weighed heavily on the UAE's hydrocarbon revenues and resulted in adverse shock to the UAE's terms of Trade. Effective January 2107, following an OPEC agreement that stipulates a coordinated oil-production-cut among its members and other Non-OPEC countries, the Brent price climbed by 24% in 2017 to end-up the year around $70 per barrel (see Figure 2.1.a).

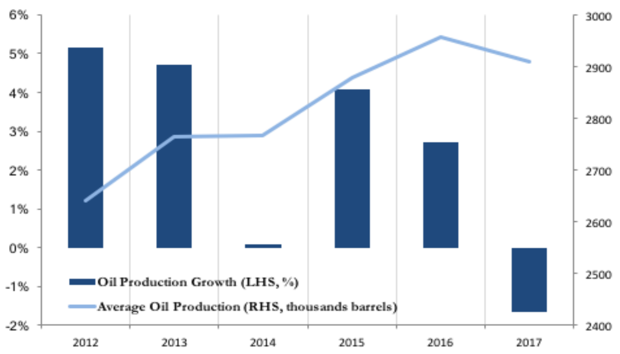
Figure 2.1.a Oil prices development, Brent price



Source: EIA

As part of its commitment to the OPEC agreement, the UAE has cut its oil production by 2% in 2017 after an increase by 3% in the previous year. The UAE's oil production was growing on average by 3% since 2012, albeit it stagnated in 2014 (see Figure 2.1.b).

Figure 2.1.b Oil Production



Source: OPEC (as of January 2018)

The oil production-cut was clearly reflected in the Real Oil GDP growth in 2017. According to the estimation of the CBUAE, Real Oil GDP shrank by 1.5% in 2017 against a previous expansion by 3.8% in 2016.

The improvement of oil prices has supported the recovery of the UAE's economy, as evident by an improved sentiment that was transmitted to the improved growth of non-oil activity. In addition, the diversification of the UAE's economy has been a strong pillar to weather the adverse implications of continued fluctuations of the oil price. Indeed, the non-oil sector showed a remarkable resiliency, relative to comparators; it has sustained a stable growth pattern since the decline of the oil price in 2014. The Non-Oil GDP per capita adjusted to the purchasing power in the UAE has improved significantly and grew by 11.9% during the period 2014-2016 (see Box 1).

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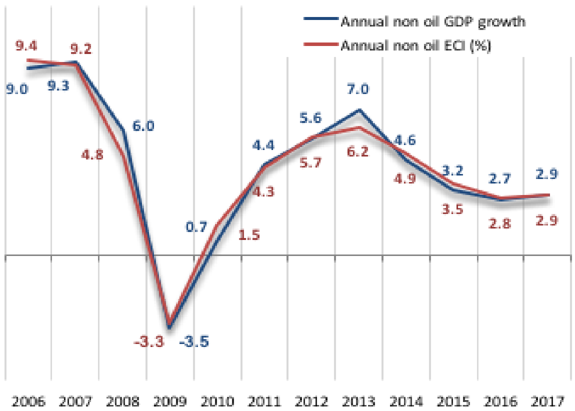
The Annual Non-Oil ECI, a composite indicator of the non-oil economic activity in the UAE, grew by 2.9% in 2017 against 2.8% in 2016. This improvement was confirmed by the expansion of the Real Non-Oil GDP by 2.9% in 2017[2] after a previous expansion by 2.7% in 2016 (see Figure 2.1.c).

Figure 2.1.c Non-Oil Economic Outlook (Non-Oil ECI and Non-Oil Real GDP Growth (%))



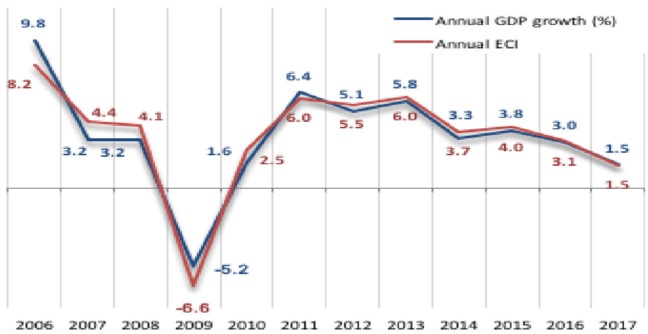
Source: CBUAE

The fiscal policy adopted by the UAE in 2017 has contributed significantly to this improvement. Following fiscal consolidation implemented in 2015, the strategy has shifted to more growth friendly spending, as evident by an increase of public spending by 23% y-o-y during the first 9 months of 2017, adding to a previous increase by 19% in 2016. Historically, government spending, particularly on infrastructure and capital development, has played an important role in fostering growth of the non-economic activity in the UAE in support of the country's diversification strategy.

In addition, the recovery of growth in the non-energy sector was supported by the improvement of the UAE's non-oil trade whose volume reached AED 784 billion ($213 billion) during the first half of 2017[3]. The direct non-oil foreign trade formed 68% of the total volume of general trade, valued at AED 535.5 billion ($145 billion). Free-zone trade accounted for 32% of the total, valued at AED 248.6 billion ($67 billion). Moreover, the share of imports of the UAE's total non-oil general trade amounted to AED 477.8 billion ($129 billion) in the first six months of 2017. The growth of non-energy exports was supported by the recovery of the economies of the UAE's main trade partners.

The growth of the non-oil sector has boosted overall growth, offsetting the negative effect of the oil-production-cut in line of the UAE's commitment to the OPEC Agreement. The Annual Overall ECI index of economic activity increased by 1.5% y-o-y in 2017 after a previous growth by 3% in 2016. Real GDP is estimated to have expanded by the same growth rate in 2017 (1.5%) in 2017 (see Figure 2.1.d).

Figure 2.1.d Overall Economic Outlook (Overall ECI and Real GDP Growth (%))



Source: CBUAE

The recent Central Bank's revised estimate of the real GDP growth shows the impact of the OPEC agreement on the UAE's economy. Real GDP is estimated to have expanded by 1.5% in 2017 on account of estimated growth of the real Non-Oil GDP by 2.9% in 2017. The real Oil-GDP is estimated to have shrunk by 1.4% in 2017 and is expected to continue its decline by 0.2%in 2018. The increase of government spending by 23.3% in the first three quarters of 2017 and the recovery of global external demand for oil is projected to boost the UAE's economy by 2.5% in 2018. The non-oil sector is projected to grow by 3.6% according to the Central Bank's forecasts (see Table 2.1).

Table 2.1. Economic Growth in the UAE (%)

	2014	2015	2016	2017(E)	2018(P)	2019(P)
Real GDP	3.3	3.8	3.0	1.5	2.5	2.8
Real Oil GDP	0.4	5.4	3.8	-1.4	-0.2	0.1
Real Non-Oil GDP	4.6	3.2	2.7	2.9	3.6	3.9

Source: Federal Competitiveness and Statistics Authority (FCSA) for 2014, 2015, and 2016, and Central Bank's estimation (E) and Projections for 2017, 2018 and 2019.

[2] Estimates are produced by the Research and Statistics Department of CBUAE.

3 According to preliminary data compiled by the Federal Customs Authority (FCA).

Box 1: Non-Oil GDP per Capita in the UAE

The diversification efforts implemented by the UAE government during the past decade, as part of its strategic vision, has borne considerable results. As evidence of these results, the country has progressed on the path of a higher share of non-oil activity in the economy.

In 2016, real non-oil GDP constituted around 69% of the total real GDP against 42%, 56% and 60% for Kuwait, Oman and Saudi Arabia, respectively. Oil exports, as a percentage of total exports has declined to 32% in 2016 from 37% in 2015. Moreover, the share of hydrocarbon revenues in total fiscal revenues reached 40.7% in 2016, down from 45.3% in 2015, while it constitutes 84.2% in Oman, 80.3% in Kuwait, 70.2% in Bahrain and 64.2% in Saudi Arabia (see Table 1).

Table 1. Diversification in GCC Countries

	Real Hydrocarbon GDP as % of Total Real GDP	Total Hydrocarbon Revenues as % of Total Gov. Revenues	Hydrocarbon Exports as % of Total Exports
Bahrain	20.8	70.2	65.8
Kuwait	57.7	80.3	83.5
Oman	43.8	84.2	64.1
Saudi Arabia	40.0	64.2	79.7
United Arab Emirates	31.1	40.7	32.0

Source: National Authorities' data for 2016

The UAE had the highest pre-financial crisis non-oil GDP per capita adjusted to the Purchasing Power Parity, which averaged $57,100 during the period 2000-2007 against $28,900 for Kuwait, $26,000 for Bahrain, $21,000 for Saudi Arabia and $19,800 for Oman (see Table 2).

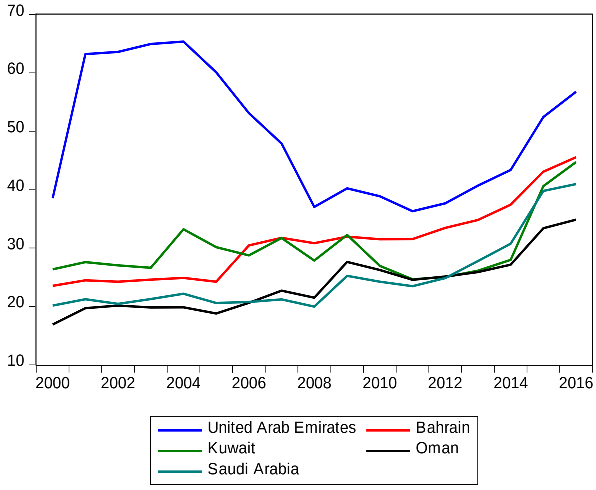
Table 2. Non-Oil GDP per capita, PPP, dollars (`000)

	2000-2007 (Pre-crisis)	2008-2013 (Post-crisis)	2014-2016 (Oil-price decline)	2016
Bahrain	26	32.3	42.0	45.5
Kuwait	28.9	27.1	37.8	44.7
Oman	19.8	25.1	31.8	34.9
Saudi Arabia	21	24.3	37.2	41.0
United Arab Emirates	57.1	38.5	50.9	56.8

Source: CBUAE

Of course, the aftermath of the global financial crisis imposed greater risks to the diversification model of expanding the non-energy sector in the UAE, warranting necessary reforms to hedge against potential risks and stem the risks of global spillovers. Indeed, the financial crisis has generated a structural break in the trend of the average growth rate of non-oil GDP per capita (PPP). Nonetheless, thanks to the UAE's economy diversified structure, the non-oil sector in the UAE demonstrated a remarkable resilience to the adverse exogenous financial shocks.

Figure 1. Non-Oil GDP per capita, PPP, dollars (`000)



Source: CBUAE

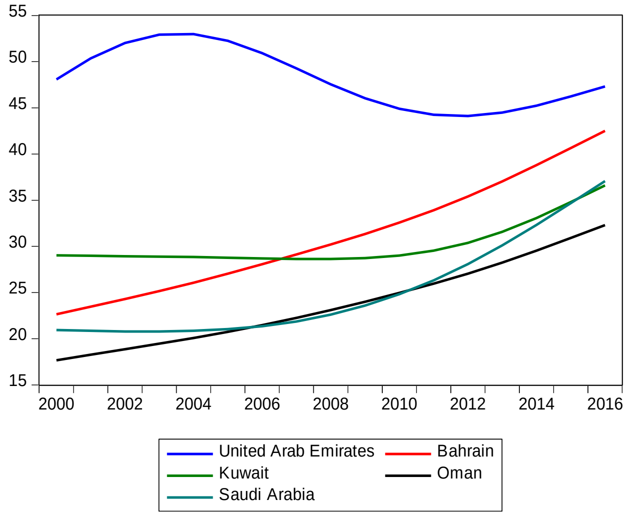
Table 3. Average Annual Growth of Non-Oil GDP per capita, PPP (%)

	2000-2007 (Pre-crisis)	2008-2013 (Post-crisis)	2014-2016 (Oil-price decline)
Bahrain	4.7	1.6	9.5
Kuwait	3.2	-2.6	20.8
Oman	4.5	2.8	10.8
Saudi Arabia	0.8	5.2	14.4
United Arab Emirates	5.4	-2.0	11.9

Source: CBUAE

As the UAE has taken the lead in terms of diversifying its economy, other economies have followed suit. Indeed, Figure 2 indicates a rising trend of the growth of non-oil GDP in other GCC economies, as they try to position themselves on the path of further diversification and a larger share of the non-energy sector in the era of the new norm of lower oil price.[4]. Consistently, the growth of the potential non-oil GDP per capita (PPP) ranged from 1.7% in Kuwait to 5.5% in Saudi Arabia. Remarkably, however, for an economy as diversified as the UAE economy, the potential for further growth of per capita non-oil GDP remains high, albeit slower than that projected for neighboring economies that have lagged in diversification efforts and growing non-energy sectors of the economy.

Figure 2. Potential (long-run) Non-Oil GDP per capita, PPP, dollars (`000)



Source: CBUAE

Post the Global financial crisis, non-oil GDP per capita (PPP) rebounded by an annual average of 11.9% during the period of 2014-2016 in the UAE. This high-performance was due to the higher diversification of the UAE's economy which created structural buffers to shield the economy from the continuous fluctuations of exogenous oil price shocks, preserving high growth rates of the economy, notwithstanding the slowdown imposed by the oil price shock and its impact on government spending. This shock-absorption capacity, thanks to continued degree of diversification of the UAE economy, was reflected in the higher growth rates of the non-energy sector that sustained the momentum of real growth in the face of continued oil price volatility and commitment to oil production cuts more recently. **Source: CBUAE**

[4] The potential growth is computed using an HP filter applied to the Non-Oil GDP per capita (PPP) series.

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2.2 Consumer Price Index and Inflation

The Consumer price inflation stagnated in 2017 compared to 2016 around 1.8%, supported by the recovery of oil prices, despite the deflation of housing costs during the year.

The inflation rate in the UAE has moderated during the last two years following the adverse oil price shock and the subsequent softening of domestic demand and economic activity. Indeed, inflation declined significantly during 2016-2017 to 1.8% after 4.1% in 2015 (see Table 2.2). Disinflation was driven mainly by the drop of non-tradables' price inflation.

Non-tradables account for 66% of the standard consumption basket in the UAE, of which housing and utilities costs cover around 52%. Housing and utilities' prices increased sharply starting from the third quarter of 2014 until January 2016 where rental prices started plummeting on account of the economic slowdown and soft labor market. The average housing inflation during the rental-boom period reached 7.9% with an absolute maximum of 10.2% in June 2015, supported by the removal of water and electricity subsidies in January 2015. Starting from February 2016 until the end of 2017, the housing and utilities price inflation averaged 2% with a deflation of 1.9% in September of 2017. All these developments led to an annual decline of housing and utilities price inflation from 8.8% in 2015 to reach 4.1% and 0.4% in 2016 and 2017, respectively.

In 2017, the continuous housing excess supply and slower employment growth in the labor market have exerted a downward pressure on rental prices in both the Emirates of Dubai and Abu Dhabi. In Dubai, rental prices declined by 5.2% in 2017 adding to a previous drop of 4.6% in 2016. Similarly, in Abu Dhabi, the decline of rental price was sharper; they fell by 10.2% in 2017 after a 2.8% drop in 2016 (see Box 2 for the details).

Prices of communication, recreation and culture altogether account for 13% of non-tradables. Their prices dropped by 1.6% and 4.5% in 2017, respectively.

Education costs represent 12% of non-tradables. They increased by 4.2% in 2017 against 1.7% in 2016 on account of the increase in tuition fees in the UAE. Dubai school fees' rate of increase reached 4.8% in 2017, according to the latest published figures.

Table 2.2. UAE CPI inflation (%)

	Weight %	2014	2015	2016	2017
CPI Inflation (period average)	100	2.3	4.1	1.8	1.8
CPI Inflation (end-of-period)	100	3.1	3.6	1.2	2.7
Tradable Inflation	34	2.2	1.4	0.0	3.0
Non-tradable Inflation	66	2.6	5.5	2.3	1.6
Housing Inflation	34	3.1	8.8	4.1	0.4
Transportation Inflation	15	1.4	2.0	-4.1	5.4
Other[5] Inflation	51	4.8	1.6	1.4	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

Total costs of Restaurants and Hotels, which account for 6% of non-tradables, increased by 1% in 2017 adding to a 2.2% increase in 2016. In addition, the cost of medical care services, which account for 2% of the total non-tradables, advanced by 3.9% in 2017 after an inflation rate of 1.7% in 2016.

Prices of Tradables jumped by 3% in 2017 after stagnating in 2016 on account of the depreciation of the Dirham in 2017 (see Section 4 for more details). Tradables' inflation hike was driven mainly by an important increase of Beverages and Tobacco prices in the fourth quarter of 2017. The authorities in the UAE have implemented an excise tax effective October 2017 on carbonated drinks at a rate of 50%, and energy drinks and tobacco products at a rate of 100%. This taxation scheme boosted prices of Beverages and Tobacco by 18.3% in 2017, with a net increase of 72% in the fourth quarter of 2017. Beverages and Tobacco price inflation was 0.3% in 2016.

[5] Excluding housing and transportation.

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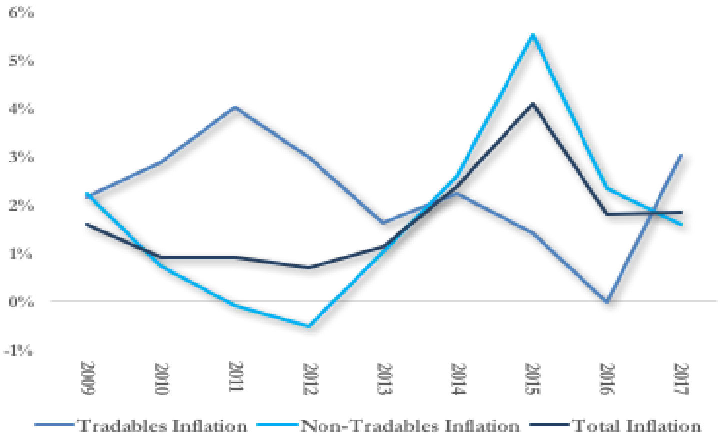
Prices of Food and Soft Drinks, which account for 42% of Tradables, grew by 1.2% in 2017 against 1.1% in 2016, with an increase by 2.4% y-o-y in the fourth quarter of 2017. Moreover, prices of furniture and households' goods inflation picked-up significantly in 2017 by 1.1% after 0.3% in 2016. The share of Furniture and Households' goods in the UAE's standard consumption basket is around 16.5% of Tradables.

Since August 2015, the authorities in the UAE implemented an energy-subsidy reform stipulating a cut to subsidies allocated to retail energy. This reform induced a direct alignment of national prices to the international price market. Therefore, the recent rally of oil prices was reflected in Transportation costs. The latter constitute 15% of the standard consumption basket in the UAE. Their price grew by 5.4% in 2017 after a previous decline by 4.1% in 2016. The highest price hike for transportation was in December of 2017 where it climbed by 9.3%, driving the end-of-period headline inflation to 2.7% in 2017.

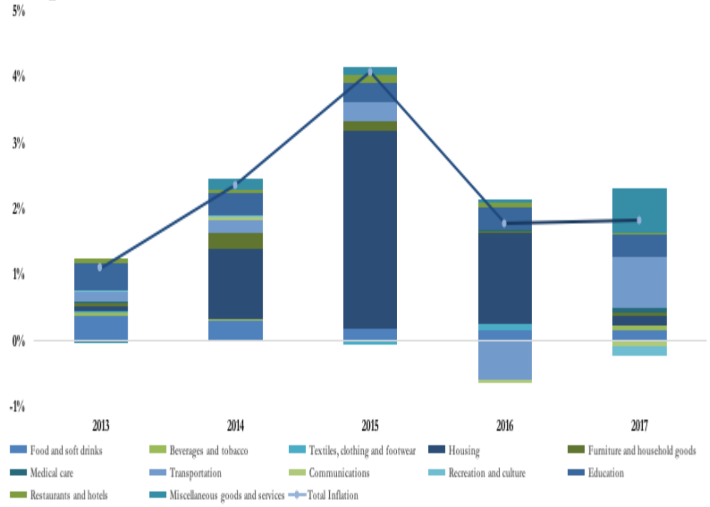
Transportation costs as well as housing prices are quite pro-cyclical and dominate the headline inflation by their high weight. Removing these two components, one obtains a more a-cyclical 'Stable' measure of inflation in the UAE. 'Stable' inflation reached 2.3% in 2017 against 1.4% in 2016.

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).

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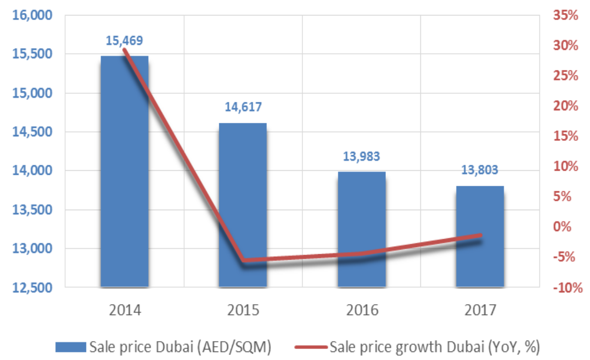
Box 2: Annual Developments in the Real Estate

The Price Index[6] of the Real estate market in the UAE has seen changes for the residential segment[7]. In fact, the property prices in Dubai decreased by 1.3% during 2017, while prices in Abu Dhabi dropped by 7.6%. Therefore, the rental yield has contracted during 2017 in both emirates (at levels of 7.16% for Abu Dhabi and 7.06% for Dubai), due to the continued fall in rents since 2014, but both markets are still attractive for investors.

Dubai residential Market

For Dubai, the recent data show a fall in residential property price of 1.3%, after a decrease of 4.3% in 2016 (Figure 1). Indeed, the average price in the property market reached 13,803 dirham per square meter (AED/m^2) in 2017, following 13,983 AED/m^2 in 2016.

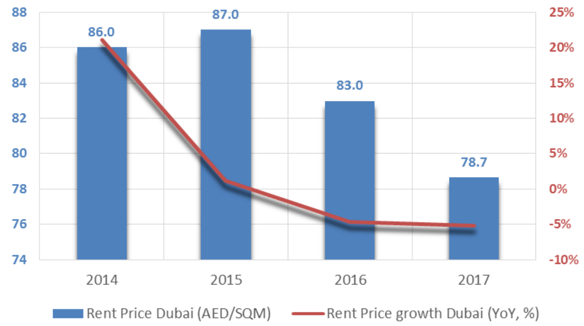
Figure 1: Dubai Residential Sale Prices



Source: REIDIN, CBUAE

Since the downward cycle in mid-2014, the fall in prices has led to the fall in rents in Dubai (Figure 2). Indeed, the average rent prices declined by 5.2% in 2017, following a fall of 4.6% during the previous year.

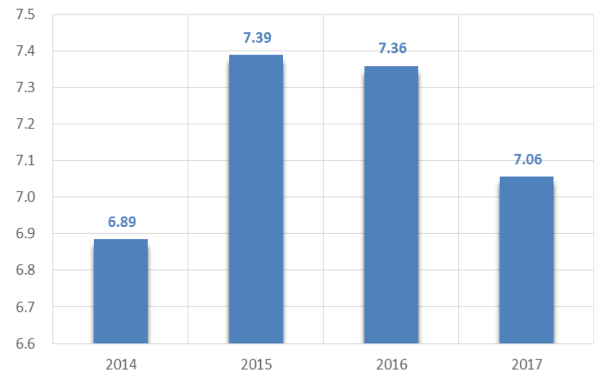
Figure 2: Dubai Residential Rent Prices



Source: REIDIN, CBUAE

As for the rental yield, Dubai registered a yield of 7.06% during 2017, down from 7.36% in the previous year (Figure 3), owing to a faster pace of decline in rent relative to property values. This trend reflected the decline of demand, in line with developments in the job market, compared to existing supply. Despite this continued decline in the rental yield, it remained attractive for investors.

Figure 3: Dubai rental yield (%)



Source: REIDIN, CBUAE

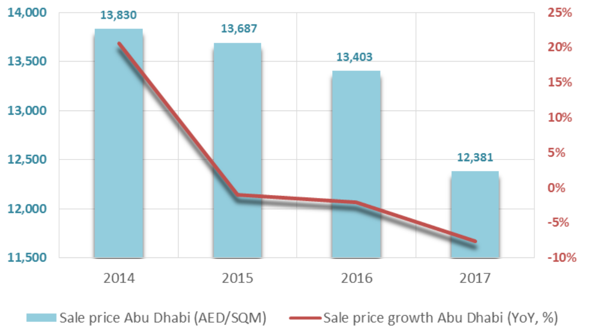
[6] REIDIN Residential Sales Price Index series are calculated on a monthly basis and cover 21 areas and 6 districts in Dubai. For Abu Dhabi, the indices cover 7 areas and 5 districts.

[7] All the values in this box are year average.

Abu Dhabi residential Market

In 2017, the average price in Abu Dhabi housing declined compared to the previous year, reaching 12,381 AED/m^2. Thus, the downward trend illustrates a further deterioration in the residential market during 2017 by 7.6% (Figure 4).

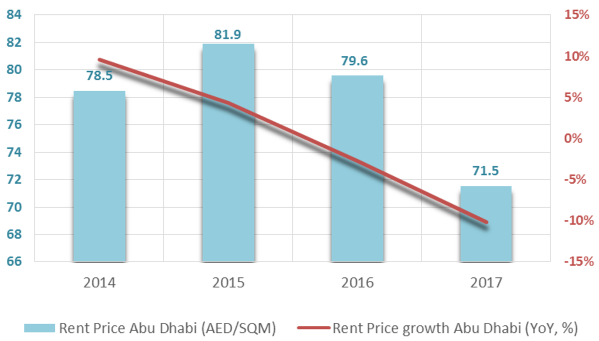
Figure 4: Abu Dhabi Residential Prices



Source: REIDIN, CBUAE

Concerning the rental market in Abu Dhabi, rent values declined by 10.2% in 2017, after a drop of 2.8% in the previous year, in consistency with the lagged effect on the job market and the outlook for the economy given continued fluctuations in the oil price (Figure 5).

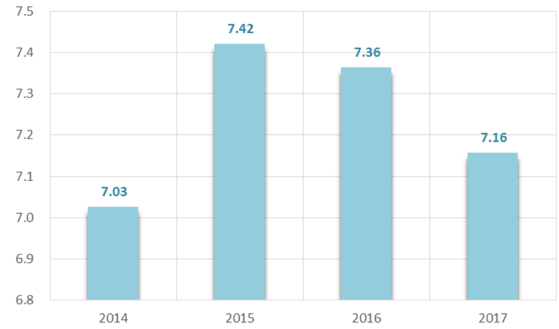
Figure 5: Abu Dhabi Residential Rent Prices



Source: REIDIN, CBUAE

In addition, the continued decline in prices relative to rents has led to an increase in rental yield from a low of 7.03% in 2014 to a high of 7.42% in 2015 (Figure 6). However, the relatively less pronounced drop in prices during 2016, combined with further decline in rents, have led the rental yield to contract, reaching 7.16% in 2017.

Figure 6: Abu Dhabi rental yield (%)

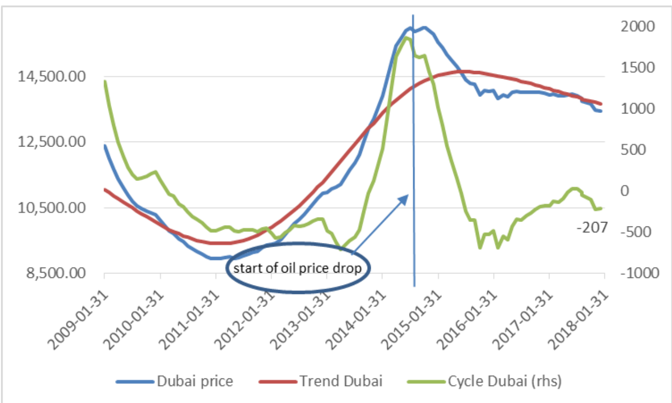


Source: REIDIN

Real Estate Prices, Trend and Cycle

Using a two-sided Hodrick-Prescott (HP) filter[8] applied on the Dubai property sale prices, the long-term trend and cycle have been extracted (Figure 7). From 2010 until late 2013, the gap (or cyclical component) was negligible oscillating around zero. From end of 2013 until mid-2014 the cycle moved into a positive territory, signaling overheating of the real estate market. Since mid-2014, along with the decline in the oil price, the real estate market started the slowdown, marking the beginning of the negative cycle by the end of 2015. Since then, along with the recovery in economic activity, the market started recovering with the cyclical downturn being negligible, but still negative as of September 2017. However, as of December 2017, the negative cycle widened again, indicating that the real estate market in Dubai is underperforming compared to its long term trend.

Figure 7: Dubai Sales Price, Trend and Cycle



Source: REIDIN, CBUAE

[8] A smoothing parameter of $\lambda = 14,400$ was used for the monthly series.

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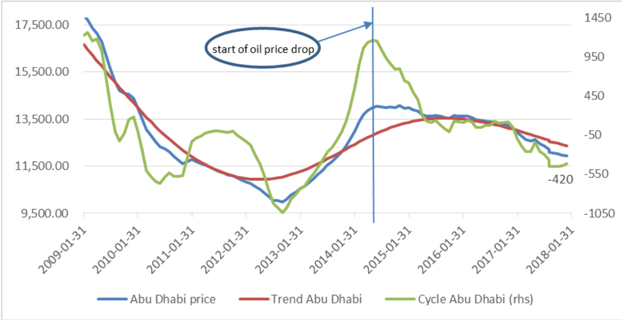
As for the Abu Dhabi real estate market (Figure 8), the positive cyclical component of the property price index declined gradually starting in 2009, moving to a negative territory in the middle of the year (during the Global Financial Crisis). There was a slight recovery thereafter, during 2011-12, going back to a new low in 2013. The real estate market started to recover to reach a peak, signaling overheating price compared to the long term trend in mid-2014. Since then, with the oil price decline and lesser government spending, a negative cycle developed, between the long-term trend and the actual lower market price, i.e., the market is underperforming relative to its historical trend.

Figure 8: Abu Dhabi Sales Price, Trend and Cycle



Source: REIDIN, CBUAE

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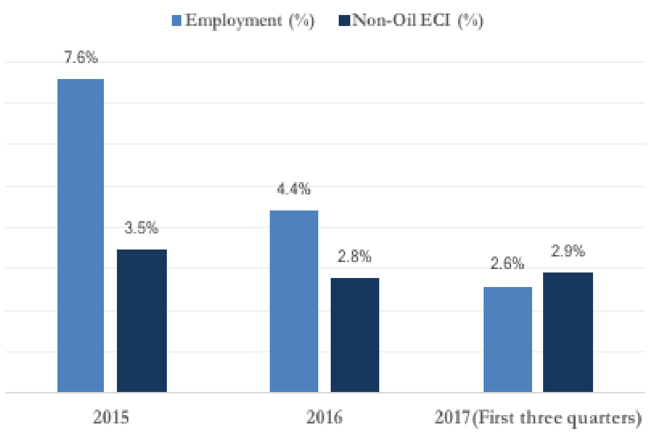
2.3 Employment and labor market dynamics

Despite the severe adverse oil price shock in 2014, the labor market in the UAE remained vibrant and showed a remarkable resiliency in 2017. The labor demand grew by 2.6% y-o-y in the first three quarters of the year after an increase by 4.4% in 2016 (see Figure 2.3.a). The average quarterly growth rate of employment reached 2.6% in the first three quarters of the year against 4.8% in 2016 and 8% in 2015.

The labor demand was boosted by the positive economic sentiment generated by the improvement of oil prices, the recovery of the global demand and resumption of expansionary fiscal policy by the government that target priority spending. All these developments supported the economic diversification of the non-oil sector and increased the labor market's capacity to cope with external exogenous shocks such as an oil price shock.

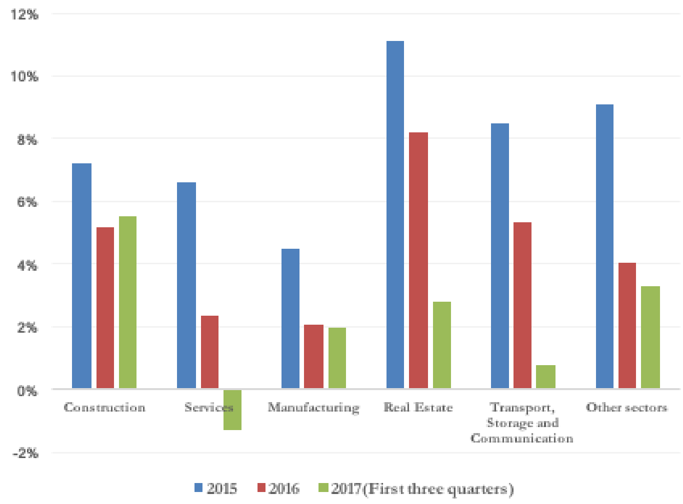
Figure 2.3.a. Employment growth and economic activity in the UAE



Source: CBUAE and Ministry of Human Resources and Emiratisation

The resiliency of the non-oil sector was depicted by the improvement of the Annual Non-Oil Economic Composite Indicator (ECI) which expanded on average by 2.9% in the first three quarters of 2017 (see Figure 2.3.a). Although at a slower pace, the expansion of the non-oil economic activity was accompanied by an expansion of the demand for labor in all economic sectors, except the Services sector (see Figure 2.3.b). This sector absorbed around 24% of the total labor demand during the first three quarters of 2017. The average labor allocated to the Services sector declined by 1.3% y-o-y in the first three quarters against an increase by 2.3% and 6.6% in 2016 and 2015, respectively. The Services sector was the most hit by the adverse oil price shock as it has the most labor flexibility.

Figure 2.3.b Employment growth by sector (%)



Source: Ministry of Human Resources and Emiratization

The labor demand displayed its highest growth in the Construction sector by 5.5% y-o-y in the first three quarters, slightly higher than the recorded growth in 2016 (5.2%). The Construction sector absorbed around 33% of total employment in the first three quarters of 2017.

The Real Estate sector increased its demand for labor in the first three quarters of 2017 by 2.8% y-o-y. The slowdown was remarkable compared to the performance in 2016 where the labor demand expanded by 8.2%, adding to 11% increase in 2015. The Real Estate sector constituted 11% of the total labor force in the private sector during the first three quarters of 2017.

The Manufacturing sector expanded also its average demand for labor by 2% y-o-y during the first three quarters in 2017, similar to the expansion observed in 2016, adding to a growth of 4.5% in 2015. The Manufacturing sector covers 10% of the total labor force according to the observations recorded during the first three quarters of 2017.

The surge of labor demand in the Construction and the Real Estate sectors was accompanied by a jump in domestic credit allocated to both sectors. The Construction and Real estate sectors altogether absorbed around 46% of the labor force in the UAE during the first three quarters of 2017. Employment in both sectors increased by 5% y-o-y in the first

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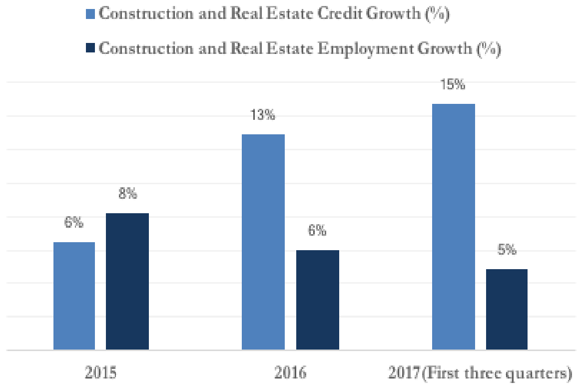
three quarters of 2017 against 6% in 2016. The domestic credit allocated to both sectors grew by 15% during the same period (See Figure 2.3.c). The increase of the domestic credit to the construction and real estate sectors is the highest since 2014.

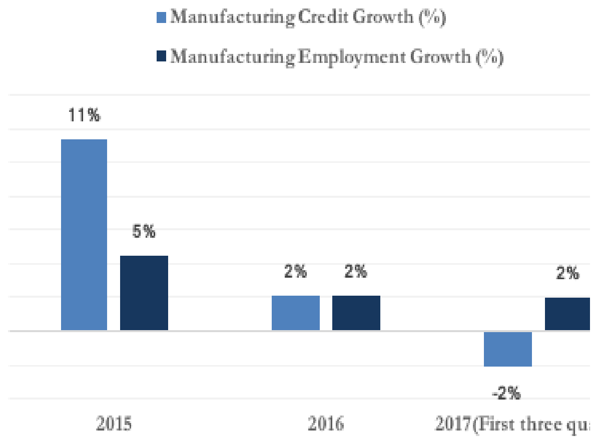
Figure 2.3.c Employment and Domestic Credit developments in the Construction and Real Estate sector



Source: Ministry of Human Resources and Emiratisation and CBUAE

In the Manufacturing sector, the sustainable employment growth since 2016 was not accompanied by a similar growth in the domestic credit allocated to the sector. The average domestic credit declined by 2% during the first three quarters of 2017 against an average increase by 2% in 2016 and 11% in 2015.

Figure 2.3.d Employment and Credit developments in the Manufacturing sector



Source: Ministry of Human Resources and Emiratisation and CBUAE

2.4 Exchange Rate Developments

In 2017, the Dirham displayed a slight appreciation on account of its gains at the beginning and towards the end of the year. It depreciated during the second and the third quarters of 2017, but these developments were transitory since they were totally offset by the appreciation towards the end of the year. The Dirham has already appreciated for a relatively long period of time since mid-2014 until the beginning of 2017. The annual weighted appreciation was 4.8% and 1.37% against the UAE's main import partners and 3.48% and 1.59% against main non-oil export partners in 2015 and 2016, respectively. In 2017, the Dirham exchange rate exhibited volatility and inter-monthly transitory depreciation.

On the import side, the performance of the Dirham against the currencies of its main import-partners was mixed. It appreciated against the Chinese Yuan, Japanese Yen, UK Pound and Turkish Lira. It depreciated against the Indian Rupee, the Euro and the South Korean Won. Globally, the weighted Dirham's appreciation was 0.4% in 2017, compared to the exchange rate of the previous year (see Table 2.3.a.).

On one hand, the Dirham appreciated by 1.6% in 2017 against the Chinese Yuan, the lowest appreciation rate since 2014 where the dirham appreciated by 0.2%. China is the first import partner, accounting for a share of 11.85% of the total imports to the UAE. The Dirham gained 3.1% in 2017 against the Japanese Yen after a significant loss in 2016 by 10%. The most important appreciation of the Dirham against the Yen was recorded in 2015 on account of a depreciation of the Yen against the US Dollar that started in the fourth quarter of 2014 until the fourth quarter of 2015. In addition, the Dirham has appreciated against the UK Pound by 4.9% where the United Kingdom accounts for 2.75% of the UAE's imports. The UK Pound lost 5.4% y-o-y as a quarterly average in 2017. The weakness of the UK Pound in 2017 can be explained by many factors: the persistent uncertainty surrounding the EU-UK relationship in the future, and the prospects of low growth and productivity that could accompany the transition to new trade arrangements.

The highest appreciation of the Dirham was against the Turkish Lira, where it gained 20.6% in 2017 after a series of gains starting from 2014. The weakness of the Turkish Lira in 2017 against the Dirham was due to concerns that dominated following the coup d'Etat attempt in 2016 and the monetary tightening in the US.

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On the other hand, the Dirham lost 3.1% against the Indian Rupee in 2017. It is the first loss since the last quarter of 2014. India is the second most important source of imports to the UAE, accounting for 9.9% of the total imports to the UAE. In addition, the Dirham depreciated by 1.9% against the Euro where Germany, Italy and France supply altogether more than 11.8% of the total imports to the UAE. Finally, the Dirham lost 2.6% against the South Korean Won.

Table 2.4.a. Dirham appreciation against currencies of top non-dollarized import partners

Currency	Share of UAE imports (%) 2016	% Change of Currencies per Dirham (2015 -2014	% Change of Currencies per Dirham (2016 -2015	% Change of Currencies per Dirham (2017 -2016
Chinese Yuan	11.85	2.0	5.7	1.6
Indian Rupee	9.92	5.1	4.7	-3.1
Germany (EUR)	6.66	19.5	0.3	-1.9
Japanese Yen	5.10	14.3	-10.1	3.1
Italy (EUR)	2.86	19.5	0.3	-1.9
UK Pound	2.75	7.7	13.2	4.9
South Korean Won	2.52	7.4	2.6	-2.6
Turkish Lira	2.46	24.5	11.0	20.6
France (EUR)	2.35	19.5	0.3	-1.9
Total	**46.48**			
Weighted Appreciation		**4.80**	**1.37**	**0.40**

Source: Data on Imports shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2016. Data for the exchange rates are the quarterly average observations, recorded and displayed by Bloomberg.

On the export side, the Dirham followed the same pattern against the currencies of the main non-oil export partners. It appreciated against all non-oil export partners, except for the Indian Rupee as the dirham depreciated by -3.1%. Appreciation against other currencies varied, most notably against the Iraqi Dinar (0.8%) and the Euro (1.9%), which account altogether for more than 16% of total non-oil exports.

The dirham's weighted appreciation against its top-nine non-dollarized non-oil export partners was 0.71% in 2017 (see Table 2.3.b). Although at a slower pace, the Dirham continued its appreciation against its main non-oil export partners after gaining 3.48% and 1.59% in 2015 and 2016, respectively. This pattern was driven by an appreciation of the Dirham against the Turkish Lira by 20.6% in 2017. This appreciation contributed to a large extent to the overall appreciation of the Dirham since Turkey receives around 5% of the UAE's non-oil exports. The average quarterly Dirham's appreciation against the Turkish Lira reached 16.4% y-o-y during the period starting from the second quarter of 2013 until the last quarter of 2017. The highest appreciation of the Dirham against the Turkish Lira was in the third quarter of 2015 by 32% y-o-y. In addition, The Dirham appreciated by 1.6%, 0.4% and 0.6% against the Chinese Yuan, Kuwaiti Dinar and Pakistani Rupee, respectively. They account together for 8.5% of total non-oil exports. The Dirham displayed the lowest appreciation against these currencies since 2014.

Table.2.4.b. Dirham appreciation against currencies of top non-dollarized partners for non-oil Exports

Currency	Share of UAE imports (%) 2016	% Change of Currencies per Dirham (2015 -2014	% Change of Currencies per Dirham (2016 -2015	% Change of Currencies per Dirham (2017 -2016
Swiss Franc	12.72	5.1	2.4	-0.1
Indian Rupee	9.96	5.1	4.7	-3.1
Turkish Lira	4.96	24.5	11.0	20.6
Singapore Dollar	4.39	8.5	0.5	0.0
Iraqi Dinar	4.37	2.3	-0.4	-0.8
Chinese Yuan	3.54	2.0	5.7	1.6
Kuwaiti Dinar	3.08	5.7	0.4	0.4
Pakistani Rupee	1.89	1.7	1.9	0.6
Netherlands (EUR)	1.79	19.5	0.3	-1.9
Total	**46.71**			
Weighted Appreciation		**3.48**	**1.59**	**0.71**

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.

When considering all trading partners for the UAE, the Nominal Effective Exchange Rate (NEER) shows a weaker appreciation of the Dirham during the course of 2017 than the rate of appreciation with respect to main trading partners for imports or non-oil exports. In fact, the average NEER declined by 0.3% in 2017, after a previous jump of 3% in 2016 (see Figure 2.4.a). The NEER averaged an annual appreciation of 4% from 2013 to 2016.

Similarly, the Real Effective Exchange Rate (REER) fell by around 0.7% in 2017 after a previous rebound by 3%. The depreciation of the REER in 2017 reflects nominal depreciation, reinforced by lower price-differential reflecting lower inflation in

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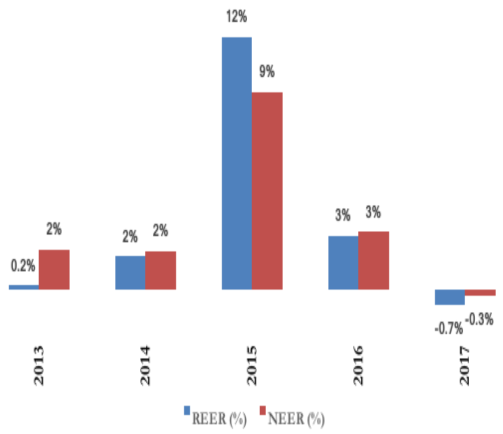
the UAE in contrast to the pickup of inflationary pressures in major trading partners in 2017 (see Figure 3.4.a). The REER averaged a 4.1% appreciation during the period 2013-2016.

Figure 2.4.a Nominal and Real Effective Exchange rates developments



Source: Bank for International Settlement (BIS)

The evolution of the Dirham over the last period and its recent depreciation in the last year reflect also the changes recorded in the outflows of personal remittances and the tourism activity in the UAE.

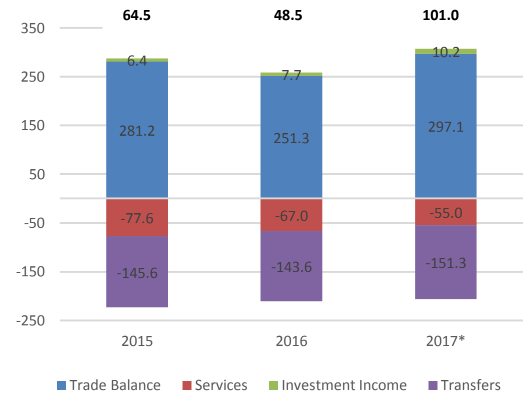
The personal outflows during 2017 increased by 3.6 billion Dirham corresponding to an increase by 2.2% on a year-on-year basis with decreased growth rate on account of the recent depreciation of the Dirham. India remains the main destination of remittances' outflows with a share of 35.2% during 2017 (see Box 3 for more details).

On the other hand, the fluctuations of the Dirham did not seem to have an adverse impact on the tourism sector, thanks to price flexibility to attract tourists despite their decreased spending. An improvement of the tourism activity has been recorded during 2017. During this period, compared to 2016, the number of international tourists increased by 6.9% showing a strong perspective in attracting international visitors. Simultaneously, the average daily rate and the revenue per available room decreased by 4.6% and 4.7%, respectively (weighted average prices of the Abu Dhabi, Dubai and Ras Al Khaimah) for the same period. Consequently, the occupied room nights increased by 6.3%. However, the average hotel occupancy rate decreased by 0.3% for 2017, compared to 2016 (see Box 4 for more details).

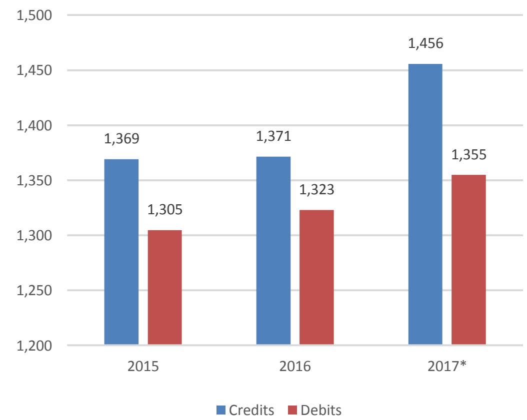
2.5. Developments in the Balance of Payments

The current account surplus is estimated to have increased from AED 48.5 billion (3.8% of GDP) in 2016 to AED 101 billion in 2017 (7.3% of GDP). The estimated increase of surplus in 2017 is attributed to the increase in the trade balance associated mainly with the oil price evolution and improvement in economic activity. The estimated increase in the trade balance surplus was accompanied with estimated increase in the surplus of the investment income and was complemented with estimated narrower deficit in the services balance despite the wider estimated net outflows of transfers. These evolutions reflect estimated expansion of inflows that outpaced the growth of outflows (debits).

Figure 2.5.1: Evolution of Current Account (2015-2017), a. by main accounts, b. Evolution of total Credits and Debits of the current account (2015-2017)



In billion AED



In billion AED

In 2017, the hydrocarbon exports increased by 25.1% (AED 42.9 billion) compared to 2016, due to the increase in the price of crude oil and other products. This increase was accompanied by a rise in non-hydrocarbon exports by 3% or AED 11.5 billion (figure 2). Additionally, an increase was recorded in re-exports in absolute number and as a

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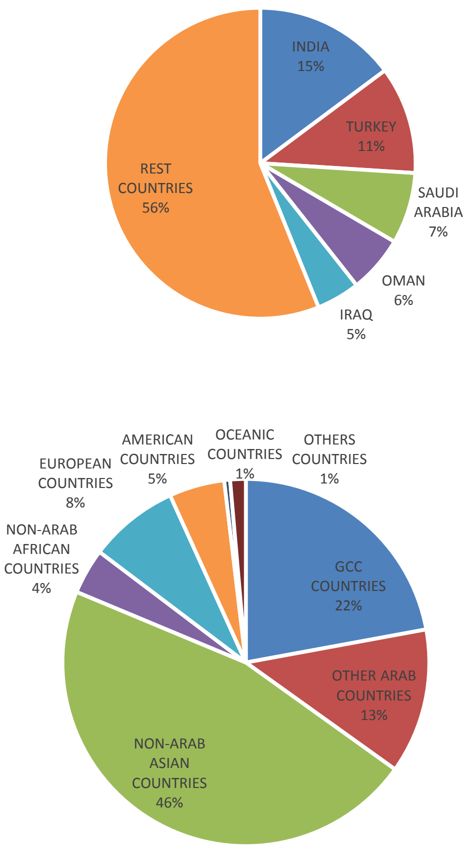
percent of imports. As a result, total exports (FOB, in free-on-board prices) increased by AED 68.1 billion or 6.3% (figure 5).

Figure 2.5.2: Non-oil exports of the UAE by value a. main exporting partners and b. by group of countries (first half of 2017)



Source: Federal Competitiveness and Statistics Authority

Meanwhile, total imports (CIF), i.e., including the cost of insurance and freight for the transport of the goods from the importing partners (figure 4), increased by AED 22.3 billion or 2.7% in 2017, mitigating the estimated increase in the trade balance. Nonetheless, the estimated surplus of the trade balance remains substantial, reaching 21.4% of GDP in FOB prices.

Figure 2.5.3: a. Current account as percentage of GDP and b. Current account main categories as percentage of GDP (2015-2017)

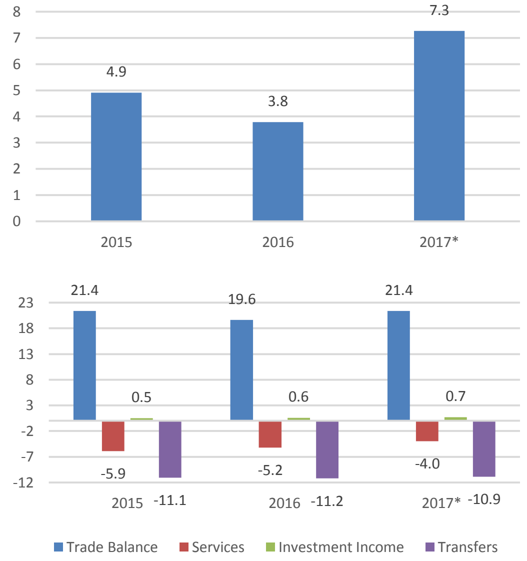
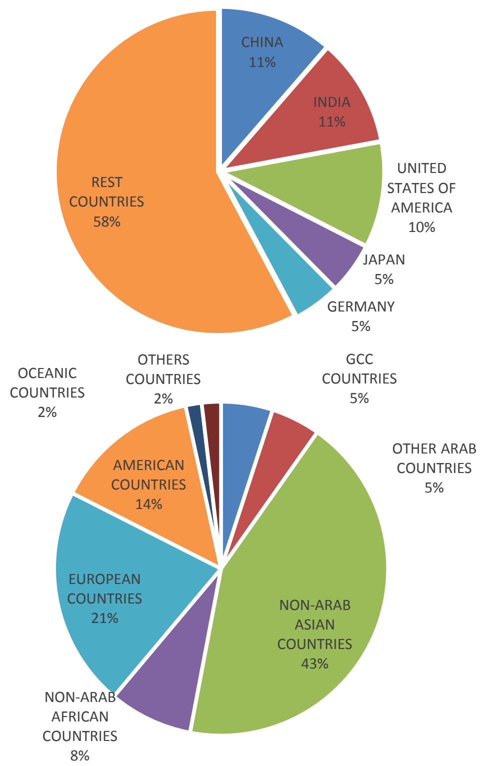


Figure 2.5.4: Imports of the UAE by value a. main importing partners and b. by group of countries (first half of 2017)



Source: Federal Competitiveness and Statistics Authority

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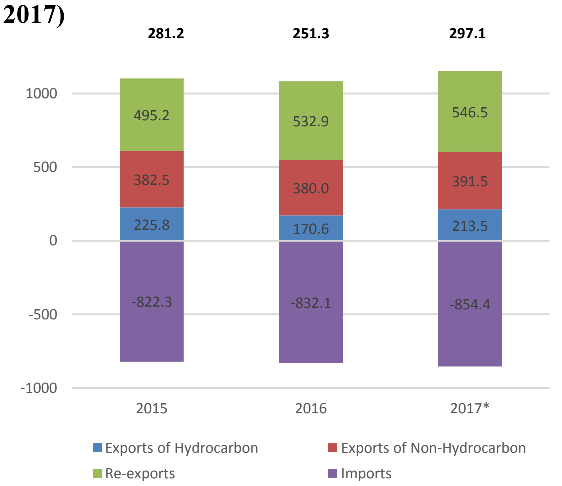
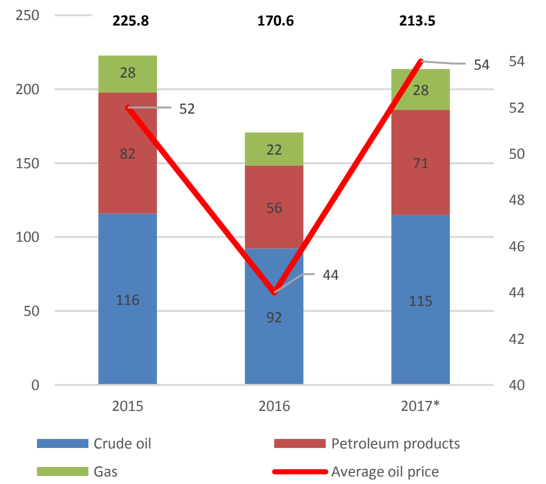
Figure 2.5.5: a. Trade Balance by its components and b. Hydrocarbon exports by category (2015-2017)



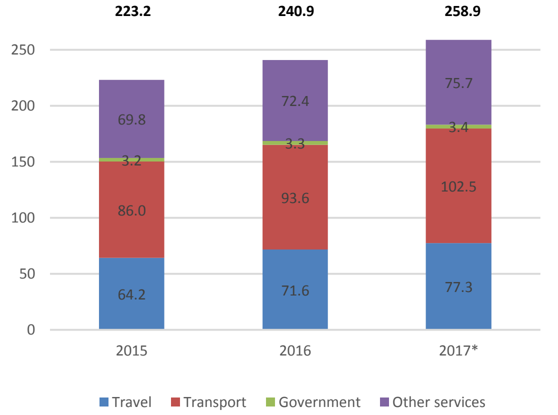
In billion AED



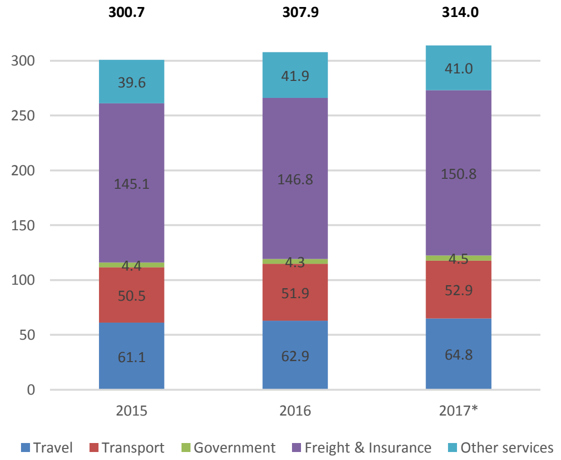
In billion AED

As regards to services, the surge of tourists and the improvement in economic activity led to the estimated increase in both the credit and debit sides of services, where the sub-accounts of travel and transport items represent 69% of credits and 37% of debits. Net travel recorded an inflow of AED 12.5 billion compared to a net inflow of AED 8.7 billion in 2016 and inbound tourism in the UAE strengthened, recording 8% increase. However, the growth rate decreased due to decreased spending per traveler (figure 6).

Figure 2.5.6: a. Credits of Services by main categories and b. Debits of Services by main categories (2015-2017)



In billion AED



In billion AED

Net investment income is estimated to have increased and recorded inflow of AED 10.2 billion in 2017, as a result of higher interest rates and higher oil price. Transfers, however, registered offsetting trends, where public transfers marginally decreased. In contrast, private transfers increased as outflows of workers' remittances expanded, widening the net outflow compared to 2016 by AED 7.9 billion (figure 7).

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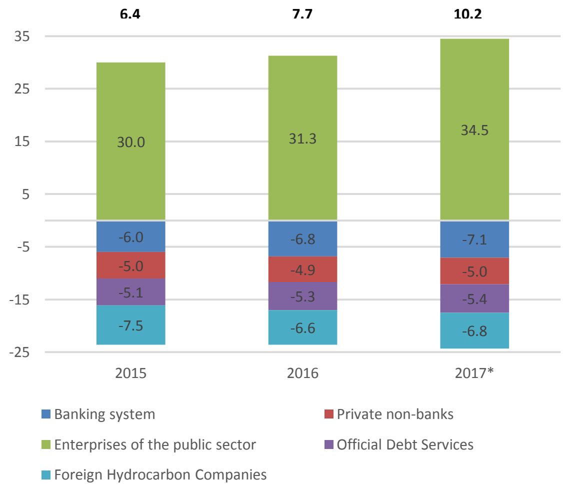
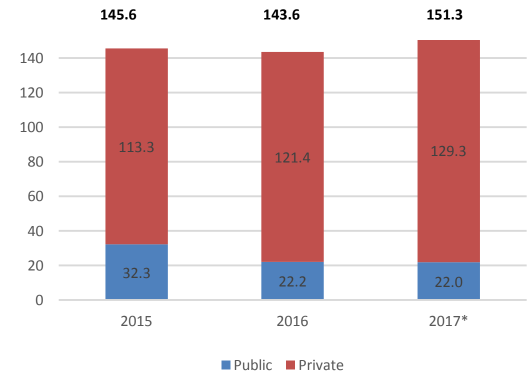
Figure 2.5.7: a. Investment Income by category and b. Transfers by category (2015-2017)



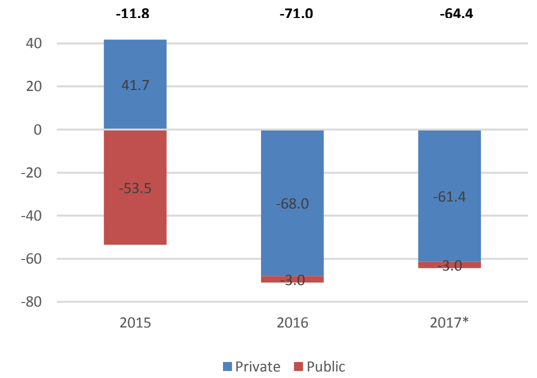
In billion AED



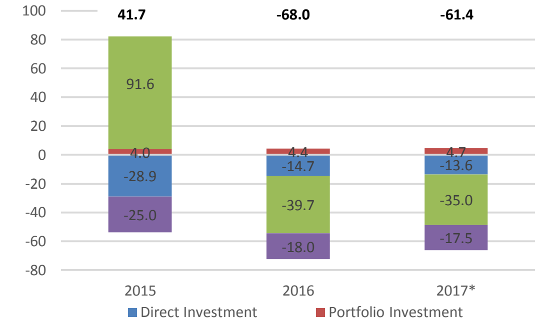
In billion AED

The deficit of the financial account is estimated to have narrowed by AED 6.6 billion compared to 2016, reaching AED 64.4 billion or 4.6% of GDP. The estimated change in 2017 was a combined effect of increased inward foreign direct investment (FDI) in view of continued increase in investment in preparation for the EXPO 2020. A marginal increase is estimated in the outward foreign direct investment by AED 1.6 billion in 2017 that was complemented by an estimated increase in inward foreign direct investment by AED 2.7 billion, reaching AED 38 billion. In addition, banks have reduced their investments abroad relative to their foreign borrowing in 2017. The financial outward flows by the public sector entities remain stable at AED 3 billion (figure 8).

Figure 2.5.8: a. Evolution of private and public capital of the financial account (2015-2017) and b. private capital by category (2015-2017)



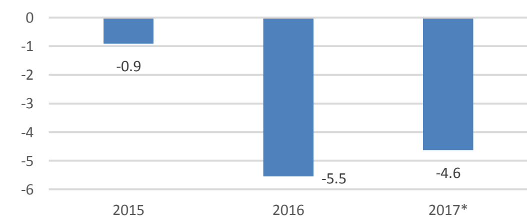
In billion AED

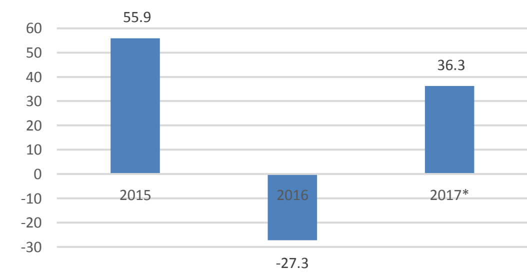


In billion AED

The combined effects of expansion in the current account surplus and a narrower deficit in the financial account resulted in surplus in the overall balance of payments that reached AED 36.4 billion in 2017 (2.6% of GDP). The net foreign assets of the Central Bank, including the reserves position with the IMF, increased during the same period by AED 36.3 billion (figure 9).

Figure 2.5.9: a. Financial account as a percentage of GDP (2015-2017) and b. Evolution of reserves (2015-2017)





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In billion AED

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Table 2.5. U.A.E Balance of Payments Statistics, Data for 2017 are estimates, subject to revisions

In billions of Dirhams

	2015[5]	2016[5]	% change	% GDP	2017*	% change	% GDP
Current Account Balance	**64.5**	**48.5**	**(24.8)**	**3.8**	**101.0**	**108.4**	**7.3**
Trade Balance (FOB)	**281.2**	**251.3**	**(10.6)**	**19.6**	**297.1**	**18.2**	**21.4**
Trade Balance (CIF)	**136.1**	**104.5**	**(23.2)**	**8.2**	**146.3**	**40.1**	**10.5**
Total Exports of Hydrocarbon	**225.8**	**170.6**	**(24.5)**	**13.3**	**213.5**	**25.1**	**15.4**
Crude Oil Exports	115.9	92.4	(20.3)	7.2	115.0	24.5	8.3
Petroleum Products Exports	81.8	56.1	(31.4)	4.4	71.0	26.6	5.1
Gas Exports	28.1	22.1	(21.4)	1.7	27.5	24.4	2.0
Total Exports of Non-Hydrocarbon	**382.5**	**380.0**	**(0.7)**	**29.7**	**391.5**	**3.0**	**28.2**
Free Zone Exports	221.3	211.4	(4.5)	16.5	225.5	6.7	16.2
Other Exports [1]	161.2	168.6	4.6	13.2	166.0	(1.5)	11.9
Re Exports [2]	**495.2**	**532.9**	**7.6**	**41.6**	**546.5**	**2.6**	**39.3**
Total Exports & Re Exports (FOB)	**1,103.5**	**1,083.5**	**(1.8)**	**84.6**	**1,151.5**	**6.3**	**82.8**
Total Imports (FOB)	**(822.3)**	**(832.1)**	**1.2**	**(65.0)**	**(854.4)**	**2.7**	**(61.5)**
Total Imports (CIF)	**(967.4)**	**(979.0)**	**1.2**	**(76.4)**	**(1,005.2)**	**2.7**	**(72.3)**
Other Imports [3]	(676.4)	(694.9)	2.7	(54.3)	(691.6)	(0.5)	(49.7)
Free Zone Imports	(275.9)	(274.0)	(0.7)	(21.4)	(302.1)	10.3	(21.7)
Imports (gas)	(15.1)	(10.1)	(33.1)	(0.8)	(11.5)	13.9	(0.8)
Services (NET)	**(77.6)**	**(67.0)**	**(13.7)**	**(5.2)**	**(55.0)**	**(17.8)**	**(4.0)**
Credits	**223.2**	**240.9**	**8.0**	**18.8**	**258.9**	**7.5**	**18.6**
Travel	64.2	71.6	11.5	5.6	77.3	8.0	5.6
Transport	86.0	93.6	8.9	7.3	102.5	9.5	7.4
Air & Ports	85.4	93.0	8.9	7.3	101.8	9.5	7.3
Postal	0.6	0.6	2.3	0.0	0.6	5.0	0.0
Government Services	3.2	3.3	3.3	0.3	3.4	2.8	0.2
Other services	69.8	72.4	3.8	5.7	75.7	4.6	5.4
Construction	9.0	9.2	2.2	0.7	9.6	4.0	0.7
Intellectual property	12.4	12.8	3.2	1.0	13.3	4.0	1.0
Information-Computer-	21.0	22.4	6.7	1.7	23.7	6.0	1.7
Information	0.2	0.2	0.0	0.0	0.2	4.0	0.0
Computer	16.0	16.7	4.4	1.3	17.4	4.0	1.2
Telecommunication	4.8	5.5	14.6	0.4	6.2	12.0	0.4
Other [6]	27.4	28.0	2.4	2.2	29.1	4.0	2.1
Debits	**(300.7)**	**(307.9)**	**2.4**	**(24.0)**	**(314.0)**	**2.0**	**(22.6)**
Travel	(61.1)	(62.9)	3.0	(4.9)	(64.8)	3.0	(4.7)
Transport	(50.5)	(51.9)	2.7	(4.0)	(52.9)	2.0	(3.8)
Air & Ports	(50.1)	(51.5)	2.7	(4.0)	(52.5)	2.0	(3.8)
Postal	(0.4)	(0.4)	2.7	(0.0)	(0.4)	3.0	(0.0)
Government Services	(4.4)	(4.3)	(2.3)	(0.3)	(4.5)	4.7	(0.3)
Freight & Insurance	(145.1)	(146.8)	1.2	(11.5)	(150.8)	2.7	(10.8)
Other services	(39.6)	(41.9)	5.9	(3.3)	(41.0)	(2.3)	(2.9)
Construction	(11.1)	(11.4)	3.0	(0.9)	(9.0)	(21.3)	(0.6)
Intellectual property	(8.7)	(9.1)	4.6	(0.7)	(9.5)	4.8	(0.7)
Information-Computer-	(10.1)	(11.4)	12.9	(0.9)	(11.9)	4.8	(0.9)
Information	(2.6)	(2.6)	0.0	(0.2)	(2.7)	4.8	(0.2)
Computer	(2.0)	(2.3)	15.0	(0.2)	(2.4)	4.8	(0.2)
Telecommunication	(5.5)	(6.5)	18.2	(0.5)	(6.8)	4.8	(0.5)
Other [6]	(9.7)	(10.0)	3.1	(0.8)	(10.5)	4.8	(0.8)
Investment Income (NET)	**6.4**	**7.7**	**20.3**	**0.6**	**10.2**	**32.5**	**0.7**
Banking System [4]	(6.0)	(6.8)	13.3	(0.5)	(7.1)	4.0	(0.5)
Private non-banks	(5.0)	(4.9)	(2.0)	(0.4)	(5.0)	2.5	(0.4)
Enterprises of Public Sector	30.0	31.3	4.3	2.4	34.5	10.2	2.5
Official Debt Services (Interest)	(5.1)	(5.3)	3.9	(0.4)	(5.4)	1.9	(0.4)
Foreign Hydrocarbon Companies in UAE	(7.5)	(6.6)	(12.0)	(0.5)	(6.8)	3.0	(0.5)

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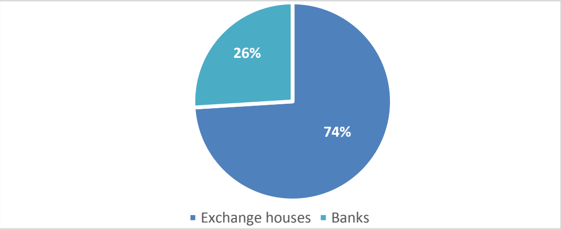
Table 2.5 : U.A.E. balance of payments estimates (continued)							
	2015[5]	2016[5]	% change	% GDP	2017*	% change	% GDP
Transfers (NET)	**(145.6)**	**(143.6)**	**(1.4)**	**(11.2)**	**(151.3)**	**5.4**	**(10.9)**
Public	(32.3)	(22.2)	(31.3)	(1.7)	(22.0)	(0.9)	(1.6)
Inflows	0.0	0.0	-	0.0	0.0	-	0.0
Outflows	(32.3)	(22.2)	(31.3)	(1.7)	(22.0)	(0.9)	(1.6)
Private	(113.3)	(121.4)	7.1	(9.5)	(129.3)	6.5	(9.3)
Inflows	36.2	39.4	8.8	3.1	35.1	(10.9)	2.5
Outflows	(149.5)	(160.8)	7.6	(12.6)	(164.4)	2.2	(11.8)
Financial Account	**(11.8)**	**(71.0)**	**501.5**	**(5.5)**	**(64.4)**	**(9.3)**	**(4.6)**
Capital Account							
Financial Account	(11.8)	(71.0)	501.5	(5.5)	(64.4)	(9.3)	(4.6)
a. Private capital	41.7	(68.0)	(263.0)	(5.3)	(61.4)	(9.7)	(4.4)
a-1 Direct Investment	(28.9)	(14.7)	(49.1)	(1.1)	(13.6)	(7.5)	(1.0)
a-1-1 Outward	(61.3)	(50.0)	(18.4)	(3.9)	(51.6)	3.2	(3.7)
a-1-2 Inward	32.4	35.3	9.0	2.8	38.0	7.6	2.7
a-2 Portfolio Investment	4.0	4.4	10.0	0.3	4.7	7.5	0.3
a-3 Banks	91.6	(39.7)	(143.3)	(3.1)	(35.0)	(11.8)	(2.5)
a-3-1 Securities	(12.4)	(11.7)	(5.6)	(0.9)	(15.0)	28.2	(1.1)
a-3-1 Other investment (loans, deposits)	104.0	(28.0)	(126.9)	(2.2)	(20.0)	(28.5)	(1.4)
a-4 Private nonbanks	(25.0)	(18.0)	(28.0)	(1.4)	(17.5)	(2.8)	(1.3)
b. Enterprises of Public Sector	(53.5)	(3.0)	(94.4)	(0.2)	(3.0)	0.0	(0.2)
Errors and omissions	3.6	(3.5)	(197.6)	(0.3)	(0.2)	(94.7)	(0.0)
Overall balance	**56.2**	**(26.0)**	**(146.2)**	**(2.0)**	**36.4**	**(240.2)**	**2.6**
Change in Reserves at the Central Bank **	(56.2)	26.0	(146.2)	2.0	(36.4)	(240.2)	(2.6)
Change in Reserve Position with IMF & SDR**	0.3	1.3	340.7	0.1	0.1	(88.7)	0.0
Total change in International Reserves **	**(55.9)**	**27.3**	**(148.8)**	**2.1**	**(36.3)**	**(233.0)**	**(2.6)**
UAE Central Bank							
Foreign Assets (including the IMF)	345.1	313.6	(9.1)	24.5	350.3	11.7	25.2
Foreign Assets of the Central Bank	341.1	310.9	(8.9)	24.3	347.7	11.8	25.0
Reserve Position with IMF & SDR	4.0	2.7	(32.1)	0.2	2.6	(5.4)	0.2
Reserve Position with IMF	1.3	2.0	59.2	0.2	2.0	(2.3)	0.1
SDR	2.8	0.7	(74.6)	0.1	0.6	(14.3)	0.0
Foreign Liabilities	8.9	4.7	(47.2)	0.4	5.1	8.3	0.4
Net Foreign Assets (including the IMF)	336.2	308.9	(8.1)	24.1	345.2	11.8	24.8
Net Foreign Assets at the Central Bank	332.1	306.2	(7.8)	23.9	342.6	11.9	24.6

(1) *Including Estimates of other Exports from all Emirates*
(2) *Including Re-exports of Non-Monetary Gold, the ratio of re-exports have been revised*
(3) *Including Estimates of Imports from all Emirates and Imports of Non-Monetary Gold*
(4) *Central Bank and all Banks*
(5) The data for Services account and Outward FDI have been revised following the results of surveys conducted with the consultancy firm Whiteshields partners
(6) Includes estimation for financial services, research and development services, professional and management consulting services, technical, trade-related and other business services and the rest of insurance services apart from cargo
** Preliminary Estimates Subject to Revision*
*** Negative value indicates an increase, positive value indicates a decrease*

Box 3: Outward Individual Remittances

This Box illustrates developments in the outward remittances by individuals (personal transfers) through UAE banks and exchange houses in 2017, in comparison to the previous year. It also analyzes outward remittances to the major destinations and the effect of the change in the exchange rates between the currencies of these countries and the UAE dirham on these remittances in 2017.

Figure 1: Share of Total Outward Individual Remittances by Banks & Exchange Houses (2017)



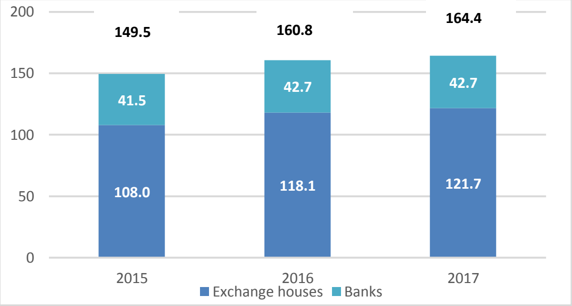
Source: CBUAE

Statistical data, captured by the Banking Supervision Department, show that in 2017 total remittances outflows by individuals from UAE banks and exchange houses combined stood at AED 164.4 billion. Of which, 74% of these remittance outflows were through the exchange houses (121.7 billion) and the remaining 26% were through banks (42.7 billion) (Figure 1).

The total outward money transfers by individuals via the UAE banks and exchange houses to their home countries have been growing consistently over the past three years. This is attributed to the rising population of the expatriate workers in the growing UAE economy (Figure 2).

Figure 3 exhibits the annual change in outward individual remittances in 2017 compared to 2016 and for the year 2016 compared to 2015. The total amount of outward individual remittances is growing on an annual basis, however, at a slower pace. Outward individual money transfers increased by 2.2% or AED 3.6 billion in 2017 compared to 2016, in contrast to an increase of 7.6% or AED 11.3 billion in 2016 compared to 2015. The increase in 2017 was recorded from transactions settled through exchange houses as the exchange houses' outflows recorded 3% or AED 3.6 billion increase in 2017, whereas the outflows settled through banks recorded 0.1% or AED 0.03 billion increase.

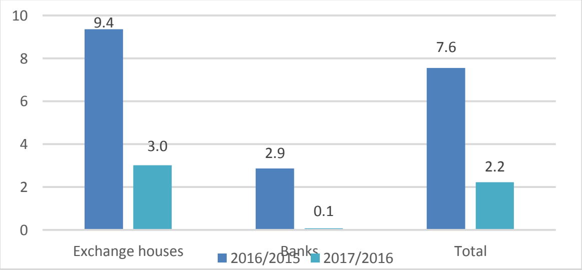
Figure 2: Evolution of Individual Remittances Outflows through Banks & Exchange Houses in the UAE (2015-2017)



Source: CBUAE

The total amount remitted through exchange houses in 2016 compared to 2015 increased by 9.4% or AED 10.1 billion, while the amounts remitted through banks recorded increase of 2.9% or AED 1.2 billion. The increase of the remittances settled through exchange houses increased at a slower pace in 2017, while the remittances settled through banks remained stable.

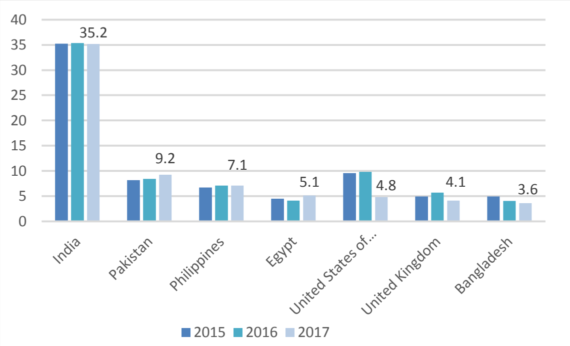
Figure 3: Annual Change in Outward Individual Remittances



Source: CBUAE

Figure 4 shows shares of outflows to top personal remittance-receiving countries, from the UAE via banks and exchange houses, in 2015, 2016 and 2017. In 2017, a combined 69% of individual remittances were transmitted from the UAE banks and exchange houses to only seven countries, with India being the primary destination, accounting for 35.2% of total outflows (AED 57.9 billion). This is consistent with the highest number of Indian expatriate workers in the UAE. Other countries that significantly contributed to the outflows of remittances are; Pakistan 9.4% (AED 15.2 billion), Philippines 7.1% (AED 11.6 billion), Egypt 5.1% (AED 8.4 billion), United States of America 4.8% (8 billion), United Kingdom 4.1% (AED 6.8 billion) and Bangladesh 3.6% (AED 5.9 billion) of the total outflows of remittances from the UAE.

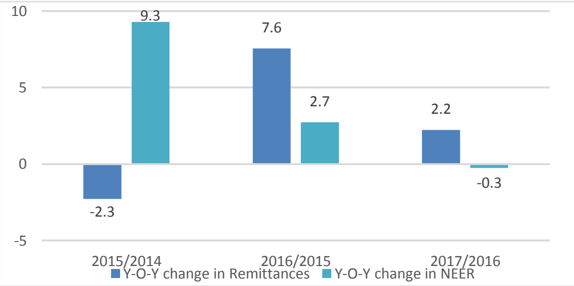
Figure 4: Shares of top seven destinations of personal remittances through banks & exchange houses



Source: CBUAE

These shares of remittances are directly proportional to the percentage of expatriate workforce in the UAE from each country.

Figure 5: Percentage change in total remittances versus the percentage change in nominal effective exchange rate 2014-2017



Source: CBUAE and BIS

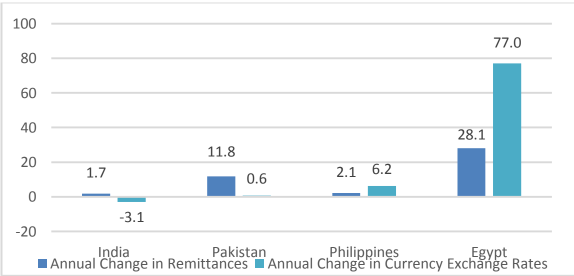
Furthermore, a distinct direct relation exists between the change in the average nominal effective exchange rate and the change in outward personal remittances through banks and exchange houses in the UAE. Based on the Bank of International Settlements data, the average nominal effective exchange rate index for 2017 was 117.7 when the corresponding total amount of personal outward remittances through banks and exchange houses was AED 164.4 billion (Figure 5). The remittances' outflows grew less in 2017, which corresponds to small depreciation of the dirham nominal effective exchange rate. This is in contrast to the dirham's appreciation in 2016, which corresponded to a larger growth of remittances outflows.

Figure 6 illustrates the relation between the annual change of outflows of individual remittances from the UAE banks and exchange houses to its top four destinations and the evolution of the bilateral exchange rate of the AE dirham relative to the currencies of those countries during 2017.

During 2017, the Egyptian Pound and the Philippine Piso depreciated by 77% and 6.2%, respectively, relative to the AE dirham, which increased the outward personal remittances to these countries by 28% and 2.1%, respectively. Similarly, the outward flow of individual remittances through banks and exchange houses to Pakistan increased by 11.8% whereas the Pakistani Rupee to AE dirham depreciated by 0.6%.

In contrast, the appreciation of the Indian rupee relative to the AE dirham (3.1% annual depreciation of the dirham relative to the Indian rupee) slowed the outflows of remittances to India to only 1.7% annual increase, compared to a larger increase of 8% in 2016 when there was a 4.7% annual depreciation of the Indian rupee relative to the dirham.

Figure 6: Annual change in outward personal remittances to top four countries versus the annual change in the bilateral exchange rates of their currencies in 2017



Source: CBUAE, BIS and Bloomberg

Outflow of remittances sent by individuals to the United States of America through the UAE banks and exchange houses decreased by 49.5% during 2017. However, the USA remains in the top five remittance-receiving countries, with AED 8 billion sent during 2017.

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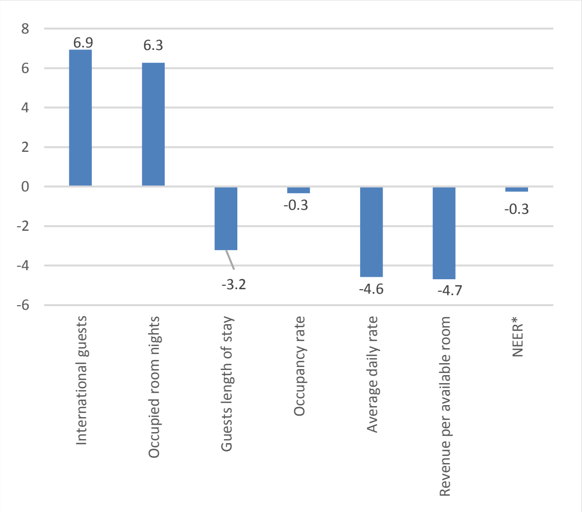
Box 4: The Impact of Exchange Rate Fluctuations on Tourism Activity in the UAE

This box focuses on the effect of the change of bilateral exchange rates of the AE dirham on tourists to the Emirates of Dubai, Abu Dhabi and Ras Al Khaiman (RAK), the three major tourist destinations in the UAE that contribute the largest shares of the total aggregates during 2017 compared to 2016.

The number of international tourists increased by 6.9% in 2017 compared to 2016 (figure 1), confirming an increasing trend in attracting international visitors. Simultaneously, the average daily rate and the revenue per available room decreased by 4.6% and 4.7%, respectively (weighted average prices of the three emirates) for the same period. These evolutions resulted in an increase in occupied room nights by 6.3%. In addition, the average hotel occupancy rate decreased by 0.3% in 2017, compared to the previous year.

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



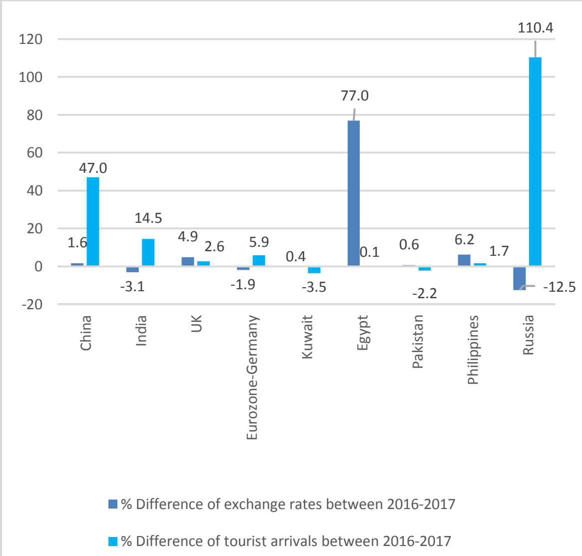
**nominal effective exchange rate*

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

Figure 2 shows the effect of the bilateral exchange rate movements on tourism between 2017 and 2016. Among the major countries, tourists from Russia doubled (110.4%) following the easing of visa rules along with moderate depreciation of the dirham relative to ruble. Moreover, China recorded large increase (47%), along with a small appreciation of its currency relative to the dirham. The incoming tourists from India increased by 14.5% following small depreciation of the dirham relative to the rupee.

The incoming tourists from the UK, however, recorded a smaller increase reflecting larger appreciation of the dirham relative to the British pound. Tourists from Egypt recorded small decrease due to the largest appreciation of the dirham relative to the Egyptian pound.

Figure 2. Guest arrivals and exchange rate on selected countries 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 6.2% in 2017 compared to 2016. However, the average daily rate and the revenue per available room decreased by 3.7% and 3.5%, respectively. This evolution resulted in an increase in occupied room nights by 4.3%. Simultaneously, the average hotel occupancy rate remain stable at 78% for 2017.

The guest arrivals in the Abu Dhabi emirate increased by 9.8% in 2017 compared to 2016. However, the reduction in the average room rate by 7.3% contributed to the decrease in total revenues by 9% in 2017 compared to 2016.

Available data for tourism in the emirate of Ras Al Khaimah show that the guest arrivals increased by 5.2% for 2017 in comparison to 2016. All other indicators, apart from the average room rate and the revenue per available room, for the emirate recorded an increasing trend.

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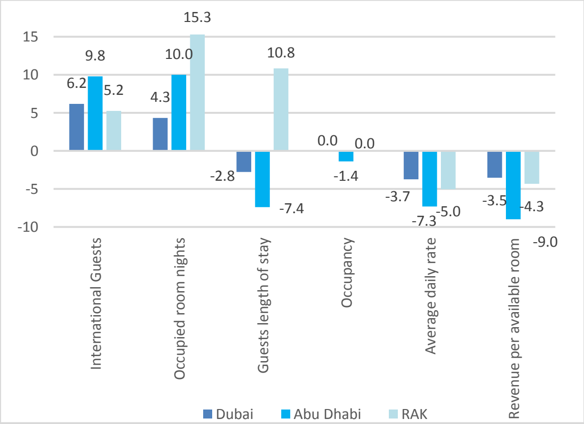
Figure 3: Major indicators of Dubai, Abu Dhabi & RAK inbound tourism 2017-16[9] (% difference)

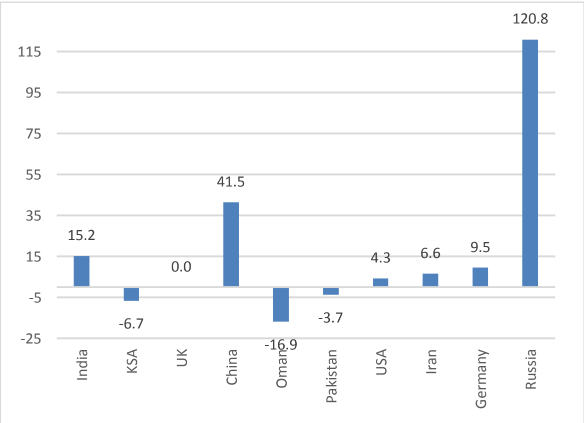


Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority, Ras Al Khaimah Tourism Development Authority

Most of the countries that are the major markets for inbound tourism to Dubai show increase in the arrivals of tourists with the highest increase recorded for Russia (120.8%) and China (41.5%). The vast majority of tourists to Dubai originate from GCC countries and the MENA region (19% and 11% 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. For the Abu Dhabi Emirate, most of the countries that are major markets of inbound tourism recorded increase in guest arrivals. The same trend was recorded for the emirate of Ras Al Khaimah.

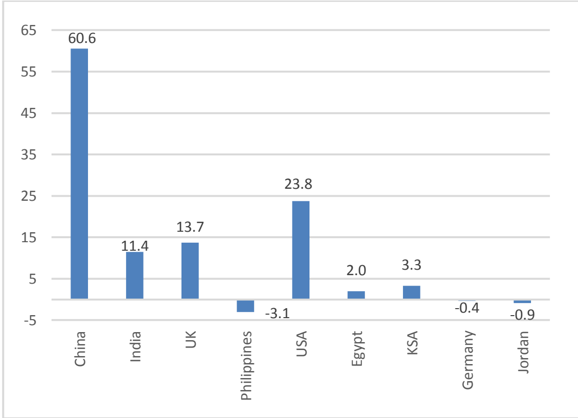
Figure 4. Major markets of inbound tourism 2017-16 (% difference)

a. Dubai



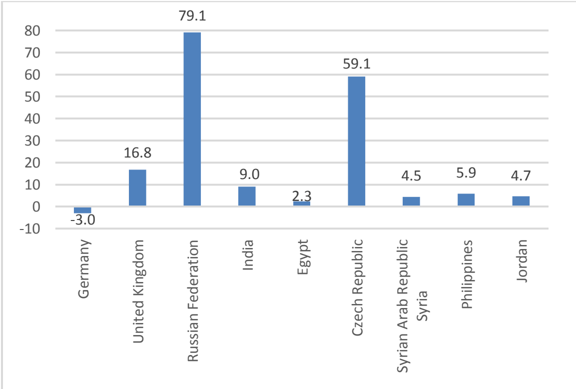
Source: Dubai Corporation of Tourism and Commerce Marketing

b. Abu Dhabi



Source: Abu Dhabi Tourism & Culture Authority

c. Ras Al Khaimah



Source: Ras Al Khaimah Tourism Development Authority

[9] Data are based on the official tourism authorities' publications. Dubai Tourism Authority publishes *International Guests* whereas Abu Dhabi Tourism & Culture 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. Estimates were used for data not available until the report publication.

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2.6 Consolidated Fiscal Stance

The fiscal consolidation initiated at the beginning of 2015 by the UAE in response to the oil price plunge came to an end in the fourth quarter of the same year and resulted in an annual decline of government spending by 10.7% in 2015 (see Table 2.6)[10].

In 2016, a fiscal expansion has restarted, leading to an annual increase of public spending by 19.3% driven by an increase of the capital spending by 59.4%. The highest quarterly increase was recorded in the third quarter of 2016 by 35% y-o-y. Capital spending climbed by 93% in the first quarter of 2016 compared to the same period of 2015. Similarly, government revenues increased by 42% in 2016, boosted by the jump of revenues by 109% in the fourth quarter of which tax revenues, including royalties on oil companies, have increased by 16.4%.

The recent rally of oil prices as well as the strategy of the government to adopt a growth-friendly fiscal policy reflected positively on the fiscal developments in the first nine months of 2017. In fact, total public spending increased by 23.3% during the first three quarters of the year compared to the same period of 2016. An important increase of public spending was recorded during the first two quarters, which was partially offset by the decline during the third quarter by 22%.

The fiscal tightening observed during the third quarter of 2017 was driven mainly by the decline of capital spending by 47.6% y-o-y, adding to a previous decline by 52.6% in the second quarter. Social benefits fell also by 27.2% in the third quarter compared to the same period of the previous year. In addition, Other Expenses which cover all of Abu Dhabi's transfers made on behalf of the Federal Government dropped by 48% in the third quarter, adding to a previous decline by around 14% during the second quarter of 2017.

The development of Official Grants, subsidies and Compensation of Employees in the third quarter represented a remarkable exception. Official grants awarded by the UAE Government increased significantly in the third quarter of 2017 by 62% compared to same period of 2016, after a persistent decline in 2015. Subsidies, which contain also the transfers to GREs, continued its increasing trend during the third quarter of 2017 and grew by 190% adding to 224.2% and 59.2% increases in the second and first quarters, respectively. Since the UAE implemented many reforms which intended to reduce the amount of subsidies, the developments in the Subsidies line is likely to be attributed to the increase of the Government's transfers to GREs.

The Compensation of employees rebounded by 12% y-o-y in the third quarter of 2017 adding to a previous increase by 47.7%. The highest increase was recorded in the first quarter of 2017, where the compensation for employees jumped by around 50% Y-o-Y.

On the Other hand, total revenues continued their improvement in the third quarter of 2017 confirming an increasing trend that started at the beginning of 2016. They displayed an important increase of 109% during the fourth quarter of 2016, on a year-on-year basis after an increase of 10.3% during the previous quarter, leading to an annual jump of 42% in 2016 against a decline of 26% in 2015. The same pattern was observed in the first three quarters of 2017. Total revenues jumped by 38.5% in the first nine months of 2017 to which the third quarter contributed by 13.2% y-o-y increase. The improvement in revenues was triggered by a 12% increase in tax revenues (royalties on oil companies), the fourth consecutive increase since the third quarter of 2016, 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 13.8% after a previous decline by 12%. These revenues do not include neither profit transfers from the national oil company to the sovereign wealth funds, nor the government's investment income.

Social contributions displayed their first increase since the last quarter of 2016. They expanded by 8.3% in the third quarter of 2017 against an average decline of 5.6% during the first two quarters of the year.

[10] The analysis is based on new fiscal data released by the Ministry of Finance in September 2017. The data were revised based on new available fiscal sectoral and local inflow of information from Emirates.

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Table. 2.6. Consolidated Government Finances

	2015	Change (%, Y-o-Y)					2016					Change (%, Y-o-Y)					2017				Change (%, Y-o-Y)			
		2015Q1	2015Q2	2015Q3	2015Q4	2015	Q1	Q2	Q3	Q4	2016	2016Q1	2016Q2	2016Q3	2016Q4	2016	Q1	Q2	Q3	First 9 Months	2017Q1	2017Q2	2017Q3	First 9 Months 2017
Revenues (a)	**281.3**	**-34.0**	**-14.2**	**-18.6**	**-38.1**	**-26.1**	**85.7**	**102.7**	**84.9**	**126.5**	**399.8**	**43.9**	**21.9**	**10.3**	**109.0**	**42.1**	**170.9**	**111.6**	**96.1**	**378.6**	**99.5**	**8.7**	**13.2**	**38.5**
Taxes	160.0	-42.1	-25.4	-44.5	-59.0	-42.8	21.1	26.0	28.9	32.7	108.8	-46.5	-48.5	-30.9	16.4	-32.0	70.7	44.1	32.5	147.2	234.8	69.4	12.1	93.5
Social contributions	4.3	14.0	-27.8	172.0	-55.9	-18.9	1.5	1.2	1.2	0.9	4.7	37.5	3.4	15.0	-15.3	10.1	1.3	1.2	1.3	3.8	-10.2	-1.1	8.3	-1.7
Other revenues	116.9	-10.4	13.2	82.6	16.6	22.5	63.1	75.5	54.8	92.9	286.3	232.2	132.2	61.0	196.0	144.8	98.9	66.4	62.4	227.6	56.8	-12.1	13.8	17.7
Expenditure (b)	**370.4**	**-13.3**	**0.1**	**-3.7**	**-22.2**	**-10.7**	**98.3**	**107.0**	**119.6**	**117.1**	**442.1**	**10.1**	**9.5**	**35.1**	**23.5**	**19.3**	**183.8**	**123.4**	**93.4**	**400.6**	**86.9**	**15.3**	**-21.9**	**23.3**
Compensation of employees	63.0	45.6	46.5	35.8	9.0	32.6	15.5	15.8	15.8	18.2	65.2	0.8	-5.7	1.9	17.9	3.5	23.3	23.0	17.7	63.9	49.8	45.7	12.1	35.8
Use of goods and services	59.8	43.1	29.6	-6.1	25.4	20.8	10.4	14.8	19.9	17.1	62.3	-17.9	-5.8	53.9	-7.3	4.1	15.2	20.2	18.1	53.5	46.2	36.4	-9.5	18.4
Consumption of fixed capital	4.6	6.0	54.7	-10.1	42.1	21.9	1.1	1.5	1.2	2.1	5.9	25.0	32.4	24.9	32.4	29.4	1.3	1.6	1.6	4.5	17.9	3.2	33.0	16.6
Interest	2.8	-52.4	-49.1	-38.3	6.9	-31.5	0.2	0.4	0.3	1.0	2.0	-49.0	-16.0	-45.5	-18.8	-28.7	0.8	0.9	0.3	1.9	216.5	98.1	-5.5	95.4
Subsidies	12.3	10.2	-22.8	17.9	6.0	1.7	2.1	4.1	1.6	1.0	8.8	-25.0	50.1	-61.6	-62.5	-28.4	6.7	6.6	4.5	17.8	224.2	59.2	190.1	129.5
Grants	8.8	-86.3	-54.9	-55.1	507.3	-60.0	0.5	0.5	6.9	8.0	15.9	-66.0	-81.3	179.9	276.4	81.6	10.3	17.4	11.2	38.9	2142.3	3196.0	62.1	390.9
Social benefits	42.6	-18.8	-9.7	-32.5	-52.5	-30.7	9.3	8.4	8.5	9.0	35.3	-9.0	-32.5	-22.3	0.8	-17.2	8.3	6.1	6.2	20.6	-11.4	-27.3	-27.2	-21.6
Other expenses	141.5	-24.3	-1.8	7.1	-37.9	-18.9	46.3	47.8	50.1	46.6	190.8	19.4	38.9	54.7	29.7	34.8	83.2	41.2	25.9	150.2	79.6	-13.8	-48.3	4.2
Net acquisition of non-financial assets	35.1	21.2	-18.5	-7.0	-24.9	-12.1	12.8	13.6	15.4	14.1	55.9	93.0	21.6	74.2	67.4	59.4	34.7	6.4	8.1	49.3	171.0	-52.6	-47.6	17.8

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.

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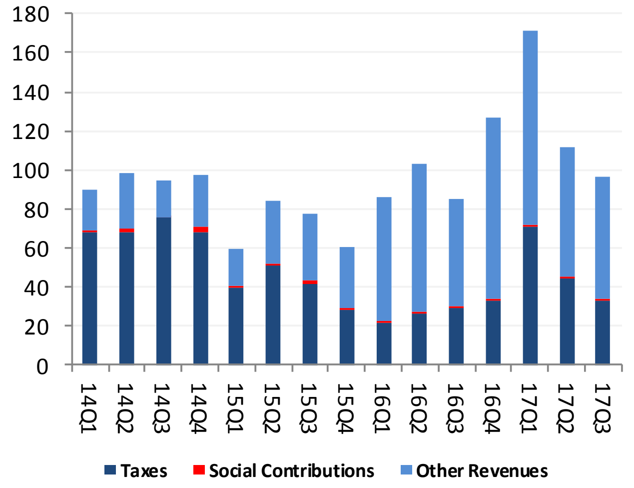
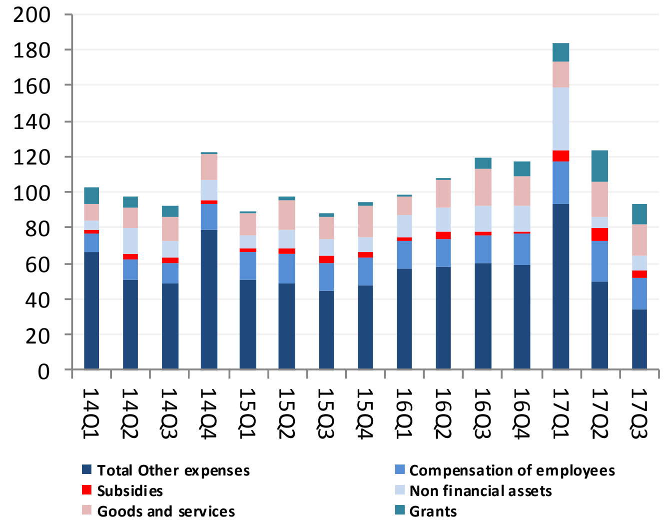
Government Finances

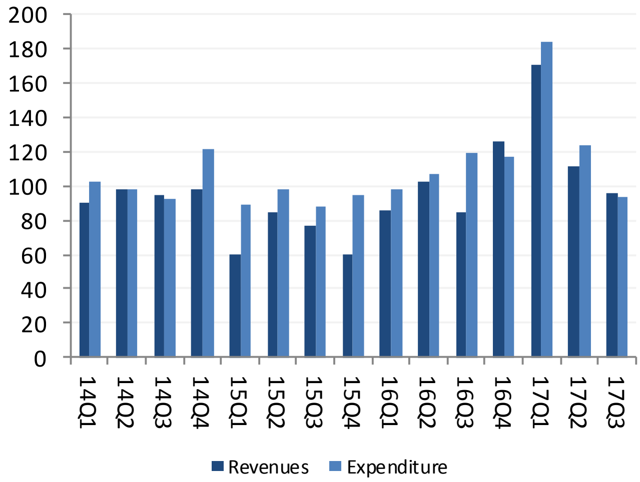
2.6. a. General government revenues
(Billions of Dirhams)



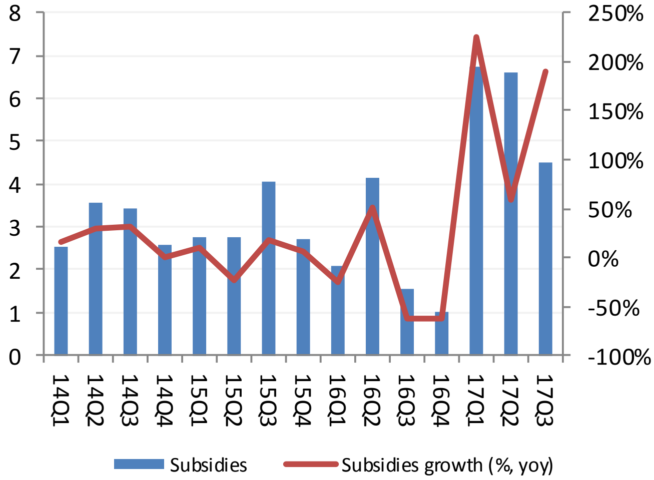
2.6.b. General government expenditures
(Billions of Dirhams)



2.6.c. Fiscal stance
(Billions of Dirhams)



2.6.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.

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Chapter 3. Banking and Financial Developments

Government deposits increased in 2017 with the recovery of oil prices and continued fiscal reforms. Banks were able to increase credit, albeit at a moderate pace, providing the non-energy sectors of the economy with the needed financing. Overall, the banking sector in the UAE remains well capitalized, highly liquid, sound and stable, providing necessary foundations for Financial Stability in the country.

3.1 Banking Structure

The number of locally-incorporated banks declined to 22 in 2017 from 23 during the previous year, due to the merger of the National Bank of Abu Dhabi and First Gulf Bank, resulting in the establishment of the First Abu Dhabi Bank. During the period of high oil price and booming oil and non-oil sectors of the economy, the number of branches had been rising reaching its peak in 2015 of 874, as banks were expanding their business and looking to increase their market share. However, more recently the number of branches decreased to 846 in 2016 and 771 as at the end of 2017 due to the ongoing consolidation and the drive for higher efficiency. The number of foreign banks increased during the last year to 27 with the branches declining by three to 82 at the end of 2017. At the same time, the number of bank employees has declined for both, national and foreign banks, from 29,532 and 7,439, respectively at the end of 2016 to 29,056 and 7,311, respectively in December 2017, mainly due to consolidation in banking activity and cost efficiency. (See Table 3.1)

Table 3.1.Banks in the UAE and their branches

		Dec-14	Dec-15	Dec-16	Dec-17*
National	# Banks	23	23	23	22
	# Branches	869	874	846	771
	# Employees	31,152	32,352	29,532	29,056
Foreign	# Banks	26	26	26	27
	# Branches	86	86	85	82
	# Employees	7,899	7,807	7,439	7,311

Source: CBUAE

***:** Preliminary figures subject to revision.

3.2.1 Banks' Deposits

Total Customer Deposits at banks increased in 2017 by 4.1%, due to the increase in Resident Deposits by 5.3%, which were partially offset by a decline in Non-Resident Deposits by 3.7%. The figures of the three indicators for growth in 2017, remain close to the CAGR[11] for the last three years, except for Non-Resident Deposits where for the last three years on average there was growth, but they declined last year. This level of growth in deposits provides a healthy environment for liquidity in the banking system, which improved relative to 2015 (Table 3.2.a and Table 3.2.b).

Table 3.2.a.Deposits at UAE Banks

	2015 Dec	2016 Dec	2017 Dec*
Bank Deposits	**1,471.6**	**1,562.9**	**1,627.7**
(Y-o-Y change %)	3.5	6.2	4.1
Resident Deposits	**1,300.1**	**1,363.9**	**1,435.7**
(Y-o-Y change %)	2.6	4.9	5.3
Government Sector	**157.4**	**186.8**	**212.0**
(Y-o-Y change %)	-16.6	18.7	13.5
GREs	**190.8**	**168.2**	**191.9**
(Y-o-Y change %)	10.1	-11.8	14.0
Private Sector	**923.8**	**980.7**	**1,000.7**
(Y-o-Y change %)	6.3	6.2	2.1
NBFIs	**28.1**	**28.2**	**31.1**
(Y-o-Y change %)	-22.8	0.4	10.3
Non-Resident Deposits	**171.5**	**199.0**	**191.6**
(Y-o-Y change %)	11.4	16.0	-3.7

Source: CBUAE

Note: All data indicate the end of period values in billions of AED.

***:** Preliminary figures subject to revision.

Table 3.2.b.CAGR of Deposits at UAE Banks

Deposits CAGR 2014-17*						
Total	Resident	Government	GREs	Private Sector	NBFIs	Non-Resident
4.6%	4.2%	3.9%	3.5%	4.8%	-5.1%	7.6%

Source: CBUAE

***:** Preliminary figures subject to revision.

The increase in Resident Deposits in 2017 is essentially due to the substantial growth in the Government sector deposits in commercial banks by 13.5%, mainly explained by progressive fiscal

[11] The CAGR is the mean annual growth rate (geometric mean) over a specified period of time longer than one year. It is a more precise measure for average growth than the arithmetic mean.

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consolidation supported by the recovery in oil price. The increase in Private Sector deposits by 2.1%, could be justified by the good level of growth in some of the non-oil sectors of the economy. During the same period, GREs' deposits rose by 14%. The Non-resident deposits marked a decline of AED 7.4bn or 3.7% in 2017.

Islamic banks account for 23.6% of total banks' deposits. Looking at the split between Conventional and Islamic banks, Islamic banks over-performed the Conventional banks' deposits growth in 2017. Islamic banks in 2017 grew a little below the past three years CAGR (10.1% vs. 10.5%), similarly the Conventional banks' growth in 2017 was lower than the 3 years CAGR (2.4% vs. 3%) (Table 3.2.d).

All the subsectors of the Resident Deposits for Islamic banks grew in 2017 at a higher rate than those of the Conventional banks (Table 3.2.c).

	Conventional		Islamic	
	2016 Dec	2017 Dec*	2016 Dec	2017 Dec*
Bank Deposits	**1,214**	**1,244**	**349**	**384**
(Y-o-Y change %)	6.6	2.4	5.0	10.1
Share of Total, %	77.7	76.4	22.3	23.6
Resident Deposits	**1,024**	**1,065**	**339**	**371**
(Y-o-Y change %)	5.1	3.9	4.2	9.4
Share of Total, %	75.1	74.2	24.9	25.8
Government Sector	**143**	**159**	**44**	**53**
(Y-o-Y change %)	33.9	11.1	-13.5	21.3
Share of Total, %	76.6	75.0	23.4	25.0
GREs	**120**	**133**	**48**	**59**
(Y-o-Y change %)	-11.7	11.0	-12.2	21.3
Share of Total, %	71.2	69.4	28.8	30.6
Private Sector	**738**	**749**	**243**	**252**
(Y-o-Y change %)	4.0	1.6	13.2	3.5
Share of Total, %	75.2	74.9	24.8	25.1
NBFIs	**24**	**23**	**4**	**8**
(Y-o-Y change %)	5.3	-2.9	-20.4	85.7
Share of Total, %	84.8	74.9	15.2	25.1
Non-Resident Deposits	**190**	**179**	**10**	**13**
(Y-o-Y change %)	15.0	-5.7	40.3	36.2
Share of Total, %	95.3	93.3	4.7	6.7

Table 3.2.c.Deposits at Conventional/Islamic Banks

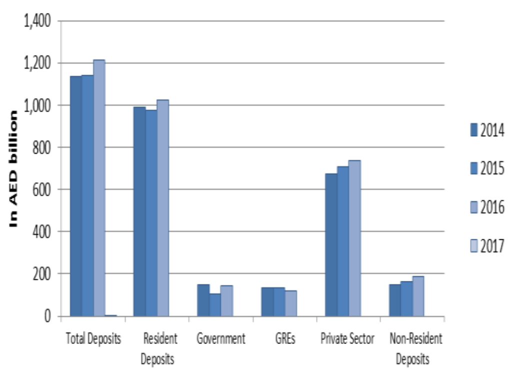
Source: CBUAE
Note: All data indicate the end of period values in billions of AED.
***:** Preliminary figures subject to revision.

Table 3.2.d.CAGR of Deposits at Conventional/Islamic Banks

	Deposits CAGR 2014-17*						
	Total	Resident	Government	GREs	Private Sector	NBFIs	Non-Resident
Conventional	3.0%	2.5%	2.2%	-0.4%	3.5%	-8.0%	6.7%
Islamic	10.5%	10.1%	10.0%	15.0%	9.2%	6.3%	22.9%

S **Source:** CBUAE
***:** Preliminary figures subject to revision.

Figure 3.1.a.Banking System Deposits: Conventional Banks



Source: CBUAE

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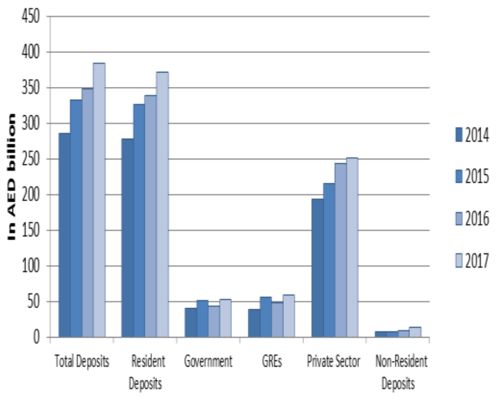
Figure 3.1.b.Banking System Deposits: Islamic Banks



Source: CBUAE

National banks represent 87.3% of the total Bank Deposits. The breakdown of National and Foreign banks in Figures 3.2.a and 3.2.b provides a clear trend that deposits in National banks grew in the last three years up to 2017, while the Foreign banks exhibited a decline since 2014. National banks' deposits grew at a higher rate on both Y-o-Y and CAGR, at the end of 2017, by 5% and 6.2% respectively, compared to Foreign banks which declined by 1.8% on Y-o-Y and their CAGR was -4.1% (Tables 3.2.e and 3.2.f).

The sectors growing the most for the deposits in National banks in 2017 were the NBFIs and GREs, growing by 16.6% and 13.5%, respectively, while for the CAGR Non-resident deposits grew the fastest by 13.4%.

For Foreign banks, all sectors grew in 2017, except for the NBFIs and Non-resident deposits. On a CAGR basis, all sectors had a negative value, except for the Government sector, which grew by 1.8% on average for the last three years.

	National		Foreign	
	2016 Dec	2017 Dec*	2016 Dec	2017 Dec*
Bank Deposits	**1,352**	**1,420**	**211**	**207**
(Y-o-Y change %)	8.1	5.0	-4.6	-1.8
Share of Total, %	86.5	87.3	13.5	12.7
Resident Deposits	**1,192**	**1,261**	**172**	**174**
(Y-o-Y change %)	6.2	5.9	-3.4	1.2
Share of Total, %	87.4	87.9	12.6	12.1
Government Sector	**186**	**210**	**1**	**2**
(Y-o-Y change %)	19.2	13.3	-27.8	46.2
Share of Total, %	99.3	99.1	0.7	0.9
GREs	**161**	**183**	**7**	**9**
(Y-o-Y change %)	-11.4	13.5	-20.4	24.3
Share of Total, %	95.6	95.2	4.4	4.8
Private Sector	**823**	**843**	**156**	**158**
(Y-o-Y change %)	8.2	2.4	-3.2	0.3
Share of Total, %	83.9	84.2	16.1	15.8
NBFIs	**22**	**26**	**6**	**5**
(Y-o-Y change %)	-5.9	16.6	34.1	-13.6
Share of Total, %	79.1	83.6	20.9	16.4
Non-Resident	**160**	**159**	**39**	**33**
(Y-o-Y change %)	24.5	-1.0	-9.3	-14.9
Share of Total, %	80.5	82.7	19.5	17.3

Table 3.2.e.Deposits at UAE National/Foreign Banks

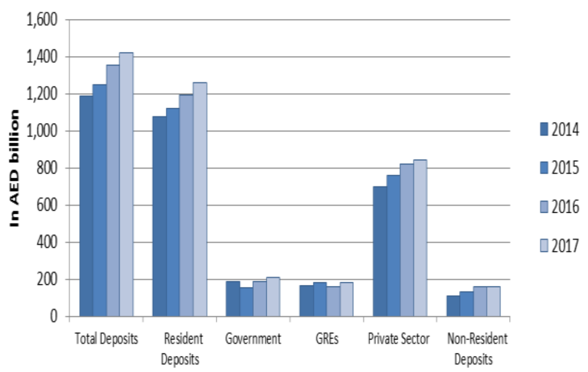
Source: CBUAE
Note: All data indicate the end of period values in billions of AED.
***:** Preliminary figures subject to revision.

Table 3.2.f. CAGR of Deposits at National/Foreign Banks

Deposits CAGR 2014-17*	Total	Resident	Government	GREs	Private Sector	NBFIs	Non-Resident
National	6.2%	5.4%	4.0%	4.0%	6.5%	-4.8%	13.4%
Foreign	-4.1%	-2.8%	1.8%	-5.8%	-2.5%	-6.8%	-10.0%

Source: CBUAE
***:** Preliminary figures subject to revision.

Figure 3.2.a.Banking System Deposits: National Banks



Source: CBUAE

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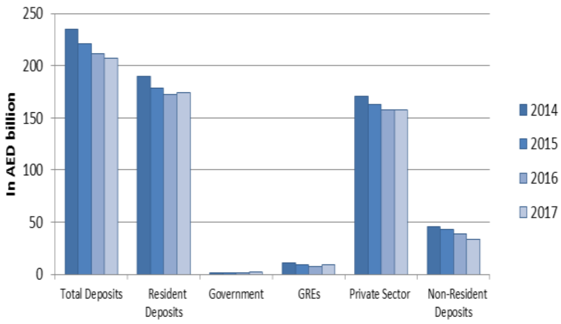
Figure 3.2.b.Banking System Deposits: Foreign Banks



Source: CBUAE

3.2.2 Banks' Credit

Domestic Bank Credit increased in 2017 by AED 20bn, registering a growth rate of 1.4% (CAGR 4.9%). Underlying domestic credit increase is the increase in credit to the Government, Private sector and Foreign credit, both, during the year and on a CAGR basis (Tables 3.3.a and 3.3.b). However GREs and NBFIs were deleveraging during the same period. Meanwhile credit to Government grew in 2017 less than the three year average (1.7% vs. 4.6%), mainly due to the deleveraging in some quarters of the year, thanks to continued fiscal reforms and the government's drive to diversify sources of financing. Credit to non-residents also grew substantially by 5.8% Y-o-Y and by a CAGR of 8.3%.

	2015 Dec	**2016 Dec**	**2017 Dec***
Total Assets	**2,459**	**2,593**	**2,695**
(Y-o-Y change %)	**7.5**	**5.4**	**4.0**
Gross Credit	**1,466**	**1,554**	**1,581**
(Y-o-Y change %)	7.7	6.0	1.7
Domestic Credit	1,362	1,433	1,453
(Y-o-Y change %)	8.0	5.2	1.4
Government	167	172	175
(Y-o-Y change %)	8.8	3.5	1.7
Public Sector (GREs)	171	187	174
(Y-o-Y change %)	3.1	9.3	-7.0
Private Sector	999	1,055	1,085
(Y-o-Y change %)	8.4	5.5	2.9
Business & Industrial Sector Credit	688	728	748
(Y-o-Y change %)	7.6	5.9	2.6
Individual	311	326	338
(Y-o-Y change %)	10.2	4.7	3.5
NBFIs	25	19	19
(Y-o-Y change %)	27.3	-23.1	-2.1
Foreign Credit	104	120	127
(Y-o-Y change %)	3.5	15.9	5.8

Table 3.3.a.Assets and Credit at UAE Banks

Source: CBUAE
Note: All data indicate the end of period values in billions of AED
***:** Preliminary figures subject to revision.

Table 3.3.b. CAGR of Assets and Credit at UAE Banks

Assets and Loans CAGR 2014-17							
Assets	Gross Credit	Domestic Credit	Government	GREs	Private Sector	NBFIs	Foreign Credit
5.6	5.1	4.9	4.6	1.6	5.6	-1.4	8.3

Source: CBUAE
***:** Preliminary figures subject to revision.

Islamic banks represent 22.4% of the system's credit. The split between Conventional and Islamic banks in Figures 3.3.a and 3.3.b and the data in Tables 3.3.c and 3.3.d indicate that the growth in Islamic financing is much steeper than that for the Conventional banks' loans. On a Y-o-Y basis in 2017 and on a CAGR basis, Gross credit is growing by 5.6% and 10.2% respectively for Islamic banks vs. 0.7% and 3.8% for Conventional banks respectively.

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Table 3.3.c.Assets and Credit at UAE

	Conventional		Islamic	
	2016	**2017**	**2016**	**2017**
	Dec	**Dec***	**Dec**	**Dec***
Total Assets	**2,087**	**2,145**	**506**	**550**
(Y-o-Y change %)	**4.6**	**2.8**	**8.9**	**8.8**
Share of Total, %	**80.5**	**79.6**	**19.5**	**20.4**
Gross Credit	**1,219**	**1,227**	**335**	**354**
(Y-o-Y change %)	5.1	0.7	9.4	5.6
Share of Total, %	78.4	77.6	21.6	22.4
Domestic Credit	1,115	1,124	318	330
(Y-o-Y change %)	4.4	0.8	8.2	3.6
Share of Total, %	77.8	77.3	22.2	22.7
Government	163	163	9	12
(Y-o-Y change %)	4.0	0.2	-4.1	29.0
Share of Total, %	94.6	93.2	5.4	6.8
Public Sector (GREs)	154	141	34	33
(Y-o-Y change %)	7.6	-8.2	18.1	-1.8
Share of Total, %	81.9	80.9	18.1	19.1
Private Sector	783	805	272	281
(Y-o-Y change %)	4.7	2.8	8.1	3.2
Share of Total, %	74.2	74.2	25.8	25.8
Business & Industrial Sector Credit	581	596	148	152
(Y-o-Y change %)	5.8	2.6	6.3	2.7
Share of Total, %	79.7	79.7	20.3	20.3
Individual	202	209	124	129
(Y-o-Y change %)	1.6	3.4	10.3	3.7
Share of Total, %	61.9	61.9	38.1	38.1
NBFIs	16	15	3	4
(Y-o-Y change %)	-22.4	-7.5	-26.2	25.8
Share of Total, %	83.7	79.0	16.3	21.0
Foreign Credit	103	103	17	24
(Y-o-Y change %)	12.8	-0.4	39.3	43.5
Share of Total, %	85.9	80.8	14.1	19.2

Conventional/Islamic Banks

Note: All data indicate the end of period values in billions of AED.

***:** Preliminary figures subject to revision

Source: CBUAE

Table 3.3.d.CAGR of Assets and Credit at UAE Conventional/Islamic Banks

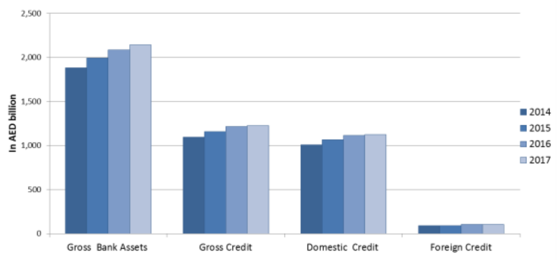
	Assets and Loans CAGR 2014-17*							
	Assets	Gross Credit	Domestic Credit	GOVT	GREs	Private Sector	NBFIs	Foreign Credit
Conventional	4.4%	3.8%	3.7%	4.4%	0.0%	4.2%	4.5%	5.0%
Islamic	10.9%	10.2%	9.2%	7.4%	9.4%	9.9%	-15.7%	28.5%

Source: CBUAE

***:** Preliminary figures subject to revision

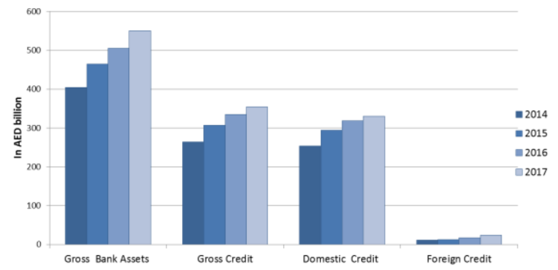
The main driver for Conventional banks' loan growth is credit to the private sector in 2017, which grew by 2.8% and 4.2% Y-o-Y and CAGR, respectively. Growth of the Islamic banks in the same sector was of 3.2% Y-o-Y vs. 9.9% for the CAGR. In addition, the share of Islamic banks in the overall Assets and the different loan categories increased compared to 2016 in 2017, with exception of the Private sector category, where it remained unchanged.

Figure 3.3.a.Banking System Assets and Credit: Conventional Banks



Source: CBUAE

Figure 3.3.b.Banking System Assets and Financing: Islamic Banks



Source: CBUAE

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Table 3.3.e.Assets and Credit at UAE National/Foreign Banks

	National		Foreign	
	2016 Dec	2017 Dec	2016 Dec	2017 Dec
Total Assets	**2,217**	**2,334**	**375**	**361**
(Y-o-Y change %)	**7.1**	**5.3**	**-3.6**	**-3.8**
Share of Total, %	**85.5**	**86.6**	**14.5**	**13.4**
Gross Credit	**1,358**	**1,392**	**196**	**189**
(Y-o-Y change %)	8.0	2.5	-6.3	-3.6
Share of Total, %	87.4	88.0	12.6	12.0
Domestic Credit	1,260	1,290	173	163
(Y-o-Y change %)	7.4	2.4	-8.1	-5.7
Share of Total, %	87.9	88.8	12.1	11.2
Government	166	170	6	5
(Y-o-Y change %)	4.7	2.2	-22.1	-11.7
Share of Total, %	96.5	97.0	3.5	3.0
Public Sector (GREs)	160	155	28	20
(Y-o-Y change %)	14.3	-3.2	-12.6	-29.1
Share of Total, %	85.2	88.7	14.8	11.3
Private Sector	917	947	138	138
(Y-o-Y change %)	7.8	3.3	-7.2	0.2
Share of Total, %	87.0	87.3	13.0	12.7
Business & Industrial Sector Credit	624	642	105	105
(Y-o-Y change %)	8.4	3.0	-7.1	0.7
Share of Total, %	85.6	85.9	14.4	14.1
Individual	293	305	33	33
(Y-o-Y change %)	6.3	4.1	-7.6	-1.2
Share of Total, %	89.9	90.4	10.1	9.6
NBFIs	17	18	2	1
(Y-o-Y change %)	-28.5	5.3	137.5	-68.4
Share of Total, %	90.0	96.8	10.0	3.2
Foreign Credit	97	102	23	26
(Y-o-Y change %)	17.3	4.3	10.0	12.2
Share of Total, %	80.9	79.7	19.1	20.3

Source: CBUAE
Note: All data indicate the end of period values in billions of AED.
*: Preliminary figures subject to revision

Table 3.3.f.CAGR of Assets and Credit at UAE National/Foreign Banks

	Assets and Loans CAGR 2014-17*							
	Assets	Gross Credit	Domestic Credit	Government	GREs	Private Sector	NBFIs	Foreign Credit
National	7.6%	6.7%	6.4%	5.3%	5.5%	6.9%	0.2%	10.7%
Foreign	-4.4%	-4.3%	-5.0%	-10.5%	-17.0%	-2.1%	-26.3%	0.4%

Source: CBUAE
*: Preliminary figures subject to revision

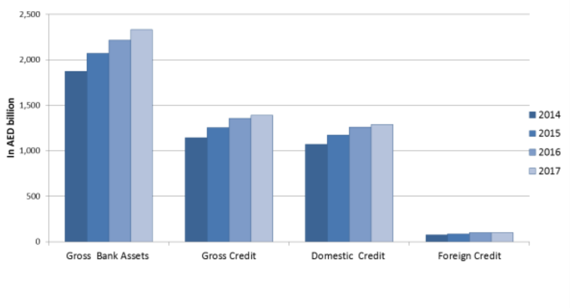
The breakdown of the assets and credit by national and foreign banks in Figures 3.4.a and 3.4.b, and Tables 3.3.e and 3.3.f show that national banks were growing, while for the foreign banks the levels were declining, for both assets and gross credit in 2017, as well for the last three years. However, as of December 2017 Foreign banks' gross credit represents only 12% of the total banks' lending.

For the whole year 2017, National banks registered an increase by 5.3% and 2.5% for banks' assets and gross credit respectively, while for Foreign banks they were both declining by 3.8% and 3.6% respectively. The same trend is evident for CAGR (7.6% and 6.7% respectively for the National banks vs. -4.4% and -4.3% respectively for the Foreign banks).

The share of National banks' credit has been also growing in 2017 compared to 2016, with exception of the Foreign credit category, where the total exposure of the banking sector is AED 127.4bn.

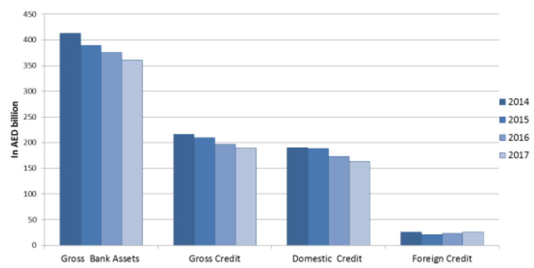
The main drivers of growth for the National banks in 2017 were Private sector (3.3%), Government sector (2.2%), NBFIs (5.3%) and Foreign credit (4.3%), while the highest growth observed for the foreign banks was in the Foreign credit and Private sectors, which grew by 12.2% and 0.2% in 2017 respectively.

Figure 3.5.a.Banking System Assets and Financing: National Banks



Source: CBUAE

Figure 3.5.b.Banking System Assets and Financing: Foreign Banks



Source: CBUAE

Banks' lending by economic activity (Tables 3.3.g and 3.3.h) shows an increase in 2017 Y-o-Y by 54.8%, 8.6%, 12.6% and 10.4% in Agriculture, Manufacturing, Construction and Real Estate and

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All other categories respectively. Mining and Quarrying, Electricity, Gas and Water, Trade, Transport, Storage and Communication and Financial Services (Excluding Banks) show a decline in their exposure by 10.7%, 9.3%, 1.7%, 13.5% and 12.4% respectively.

On a CAGR basis, Construction and Real Estate and Mining and Quarrying show the fastest growth of 12% and 9.6% respectively. The growth in 2017 and on a CAGR basis, shows a revival of the Real estate developers businesses, driven by a higher demand, as prices of real estate have declined. At the same time, the sanctions against Qatar, decreased the credit disbursed to companies operating in the Transport, Storage and Communication sector. The progressive waiver of subsidies on water and electricity have pushed the sector to deleverage in 2016 and posted a CAGR of credit growth of -4% for the last three years.

Table 3.3.g.Banks' credit to residents by economic activity

(End of Period , In Billions of AED)

	2015	2016	2017
Economic Activity	Dec	Dec	Dec*
Agriculture	1.6	1.4	2.1
(Y-o-Y change %)	-42.2	-11.9	54.8
Mining and Quarrying	11.9	13.6	12.1
(Y-o-Y change %)	29.9	13.7	-10.7
Manufacturing	69.1	69.3	75.3
(Y-o-Y change %)	6.1	0.3	8.6
Electricity, Gas and Water	20.5	18.5	16.7
(Y-o-Y change %)	8.2	-9.9	-9.3
Construction and Real Estate	235.0	264.8	298.2
(Y-o-Y change %)	10.6	12.7	12.6
Trade	161.7	155.8	153.1
(Y-o-Y change %)	3.8	-3.6	-1.7
Transport, Storage and Communication	59.2	63.5	55.0
(Y-o-Y change %)	4.7	7.4	-13.5
Financial Institutions (Excluding Banks)	135.6	145.6	127.5
(Y-o-Y change %)	2.9	7.3	-12.4
All Others	112.7	125.3	138.4
(Y-o-Y change %)	17.1	11.3	10.4

Source: CBUAE
***:** Preliminary figures subject to revision

Table 3.3.h.CAGR of Banks credit to residents by Economic activity

Credit by Economic Activity CAGR 2014-17*

Mining & Quarrying	Manufacturing	Electricity, Gas & Water	Construction & Real Estate	Trade	Transport, Storage & Communications	Fin. Institute. (Non-banks)	All Others
9.6%	4.9%	-4.0%	12.0%	-0.6%	-0.9%	-1.1%	12.9%

Source: CBUAE
***:** Preliminary figures subject to revision

3.3 Financial Soundness Indicators

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

Banks operating in the UAE remain highly capitalized, with the capital adequacy ratio (CAR) and Tier 1 capital of banks reaching a peak for the last three years of 18.9% for CAR (17.4% for Tier1 capital) at the end of 2017, which is well above the regulatory requirements set by the Central Bank.

Conventional banks are better capitalized compared to the Islamic ones (CAR of 19.4% vs. 17.2% and Tier 1 capital 17.6% vs. 16.6% respectively). Foreign banks remain better capitalized than the National banks (21% vs. 18.7% for CAR with Tier 1 capital at 18.8% vs. 17.2% respectively).

To capture the composite effects of changes in loans and deposits, two key ratios related to the funding of banks are considered: the Loan-to-Deposit (L/D) ratio and the Lending to the Stable Resources Ratio (LSRR[12]).

L/D ratio for the overall banking system has moved from 99.4% at the end of 2016 to 97.1% at the end of 2017, which is mainly due to the stronger growth in Deposits compared to Loans, with Government contributing to the decline in loan to deposits ratio by low borrowing growth and increasing deposit growth in parallel. Looking at the breakdown between Conventional and Islamic banks, the L/D ratio is respectively 98.6% and 92.3% at the end of 2017, marking a decrease from December 2016 for the two types of banks. National banks had L/D ratio of 98% at the end of 2017 (down from 100.4% a year ago), while the ratio for foreign banks was 91.2%.

Meanwhile, liquid assets, which include reserve requirements mandated by the Central Bank, certificates of deposits held by banks at the Central Bank, excess reserves 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 16.2% at the end of 2016 to 18.2% at the end of 2017. The level of total liquid assets at banks at the end of 2017 remains at AED 397.9bn, AED 56.7bn higher, registering an increase of 16.6% than in December 2016, which is one of the reasons for the higher Liquid Assets Ratio

[12] Net Lending + Net Financial Guarantees+ Stand-by Letters of Credit+ Interbank Placements (3 months and more)/ (Net Free Capital Funds+ Other Stable Resources).

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(LAR), significantly above the regulatory threshold of 10%.

Table 3.4.a.Financial Soundness Indicators in the UAE (in %, unless otherwise indicated)

	2014 Dec	2015 Dec	2016 Dec	2017 Dec*
Lending to Stable Resources Ratio	85.4	85.9	86.2	84.6
The Liquid Assets Ratio (LAR)	16.8	17.1	16.2	18.2
Capital Adequacy Ratio (CAR)	18.6	18.5	18.9	18.9
Tier 1 Capital	16.9	16.9	17.3	17.4

Source: CBUAE
Note: All data indicate the end-of-quarter values
***:** Preliminary figures subject to revision.

Table 3.4.b.Financial Soundness Indicators in the UAE for Conventional Banks (in %, unless otherwise indicated)

	2014 Dec	2015 Dec	2016 Dec	2017 Dec*
Lending to Stable Resources Ratio	85.1	87.3	86.1	85.0
The Liquid Assets Ratio (LAR)	15.4	17.5	16.0	17.7
Capital Adequacy Ratio (CAR)	18.6	18.9	19.3	19.4
Tier 1 Capital	16.5	16.9	17.4	17.6

Source: CBUAE
Note: All data indicate the end-of-quarter values
***:** Preliminary figures subject to revision.

Table 3.4.c.Financial Soundness Indicators in the UAE for Islamic Banks (in %, unless otherwise indicated)

	2014 Dec	2015 Dec	2016 Dec	2017 Dec*
Lending to Stable Resources Ratio	85.8	86.1	86.7	83.1
The Liquid Assets Ratio (LAR)	17.0	17.0	16.8	20.0
Capital Adequacy Ratio (CAR)	15.8	15.6	17.1	17.2
Tier 1 Capital	15.0	14.9	16.5	16.6

Source: CBUAE
Note: All data indicate the end-of-quarter values.
***:** Preliminary figures subject to revision.

Table 3.4.d.Financial Soundness Indicators in the UAE for National Banks (in %, unless otherwise indicated)

	2014 Dec	2015 Dec	2016 Dec	2017 Dec*
Lending to Stable Resources Ratio	86.5	88.6	86.6	86.1
The Liquid Assets Ratio (LAR)	14.3	16.5	16.2	17.1
Capital Adequacy Ratio (CAR)	18.1	18.0	19.0	18.7
Tier 1 Capital	16.4	16.5	17.3	17.2

Source: CBUAE
Note: All data indicate the end-of-quarter values.
***:** Preliminary figures subject to revision.

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Table 3.4.e. Financial Soundness Indicators (FSIs) in the UAE for Foreign banks (in %, unless otherwise indicated)

	2014 Dec	2015 Dec	2016 Dec	2017 Dec*
Lending to Stable Resources Ratio	78.8	78.6	74.8	74.8
The Liquid Assets Ratio (LAR)	21.6	22.2	24.2	26.2
Capital Adequacy Ratio (CAR)	18.0	20.2	21.5	21.0
Tier 1 Capital	15.1	17.1	18.6	18.8

Source: CBUAE
Note: All data indicate the end-of-quarter values.
***:** Preliminary figures subject to revision.

3.4 Financial developments

3.4.1. Share Price Movement

As a whole, optimism was observed during 2017 as evident by the increase of share price indices on the Abu Dhabi and Dubai securities markets. Market capitalization on Dubai Financial Market (DFM) and Abu Dhabi Securities Exchange (ADX) also increased.

On the ADX, the average Share Price Index rose by 1% in 2017 after a fall of 2.7% in the previous year. The market capitalization growth moved from 4.6% in 2016 to 3.7 in 2017 (see Table 3.5.a.).

The rise of the securities market in Dubai was also noticeable. The average Share Price Index improved by 4.3% in 2017. The market capitalization also rose by 15.3% in 2017 against a decline of 5.4% in the previous year.

Table 3.5.a. UAE – Securities Markets

		2014	2015	2016	2017
Abu Dhabi	**Change of Share Price Index Y-o-Y (%)**	37.2	-7.6	-2.7	1.0
	Change of Market Capitalization Y-o-Y (%)	19.2	-7.9	4.6	3.7
Dubai	**Change of Share Price Index Y-o-Y (%)**	83.4	-17.6	-9.3	4.3
	Change of Market Capitalization Y-o-Y (%)	44.6	2.8	-5.4	15.3

Source: Abu Dhabi Securities Exchange and Dubai Financial Market
Note: Changes computation (Y-o-Y) is based on annual average of end-of-month values for the share price index and market capitalization

3.4.2. Credit Default Swaps Premiums

In 2017, the default risk premium for the Emirate of Abu Dhabi remains at a very low level, having increased marginally, while in the Emirate of Dubai it improved (see Table 3.5.b).

Table 3.5.b. UAE - Credit Default Swaps (CDS) for the end of period

	2014	2015	2016	2017
	Dec	**Dec**	**Dec**	**Dec**
Emirate of Abu Dhabi	63.5	92..6	61.5	61.7
Emirate of Dubai	226.6	233.7	149.8	122.4

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

Specifically, at the end of 2017, the CDS of Sovereigns increased marginally by 0.2 basis points (bps) in Abu Dhabi after the previous year decline by 31.1 (bps) at the end of 2016. In Dubai, the CDS declined by 27.4 bps. The reduced risks reflect recent firming up of oil prices and the speed of fiscal reforms.

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Chapter 4. Monetary Developments and the Central Bank's Financial Position

*The Central Bank balance sheet exhibited an increase in 2017, reflecting higher liquidity in the banking system. As a result, Total Assets increased owing mainly to rising Central Bank's Cash and Bank Balances as well as Deposits at Banks abroad and other Advances. Meanwhile, interest rates in the UAE continued their upward trend in line with the Fed's decision announced in September 2017 to start winding down its Balance Sheet and its decision in December to further increase the Federal Fund Rate. However, both the **spread** of the Dirham LIBOR and the swap relative to the US dollar declined in 2017, due to improved risk premium for the UAE.*

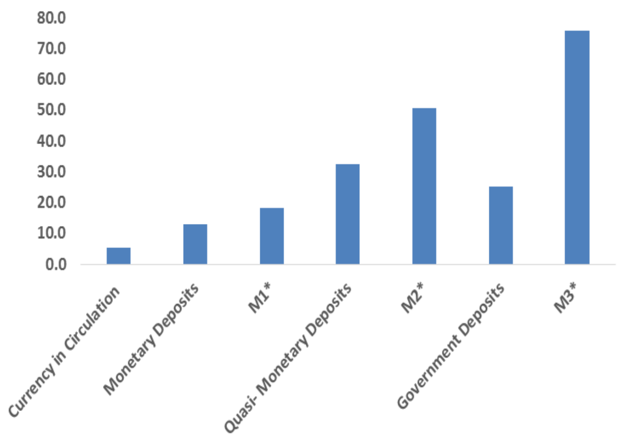
4.1 Monetary Aggregates

Money Supply M1 continued an upward trend during the recent years, albeit at a lower pace. In 2017, M1 increased by 3.9% to reach AED 492.4 billion, owing to an increase in Currency in Circulation by 8.7% to reach AED 67.7 billion and an increase in Monetary Deposits by 3.1% to reach 424.7 billion.

Money Supply M2 increased by 4.1% during 2017 to reach AED 1,276.2 billion due to 4.3% increase in Quazi- Monetary Deposits, which reached AED 783.8 billion. Meanwhile, Money Supply M3 increased by 5.4% to reach AED 1,487.1 billion, owing to an increase in government deposits by 13.4% to reach AED 210.9 billion. The latter signals a reversal of previous downward trend, in support of bank liquidity.

Figure 4.1 Change in Monetary aggregates in 2017

In billions of Dirhams



Source: CBUAE

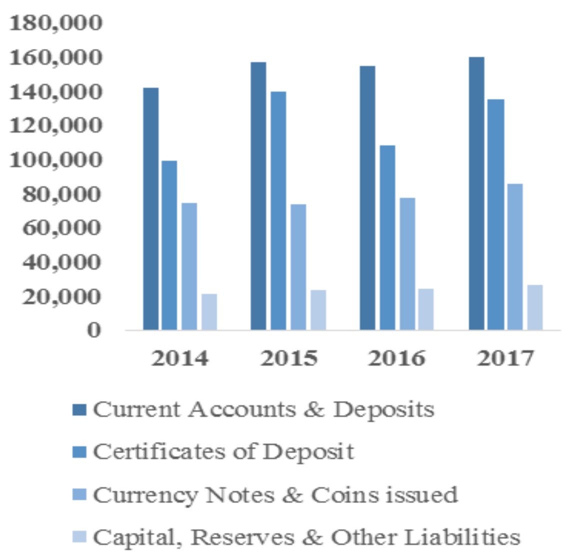
4.2. Central Bank Balance Sheet

Changes in the Central Bank balance sheet are triggered by changes in the liquidity in the banking system, reflecting higher oil prices and more capital inflows. This is in tandem with development of assets in commercial banks. The balance sheet of the Central Bank expanded in 2017, reversing previous contraction in 2016.

The uptick is 2017 is in line with the recovery in economic activity and improved liquidity in the banking system. Total liabilities increased in 2017 by 11.5% owing to an increase in banks' Current Accounts and Deposits at the Central Bank by 3.2%, an increase in banks' investments in Certificates of Deposit by 24.8%, as well as an increase in Currency Notes and Coins issued by 10.1%. These positive developments are testament of sufficient liquidity at banks operating in the UAE during the year.

Figure 4.2 Central Bank Liabilities

In millions of Dirhams



Source: CBUAE

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Table 4.1 Central Bank Balance Sheet

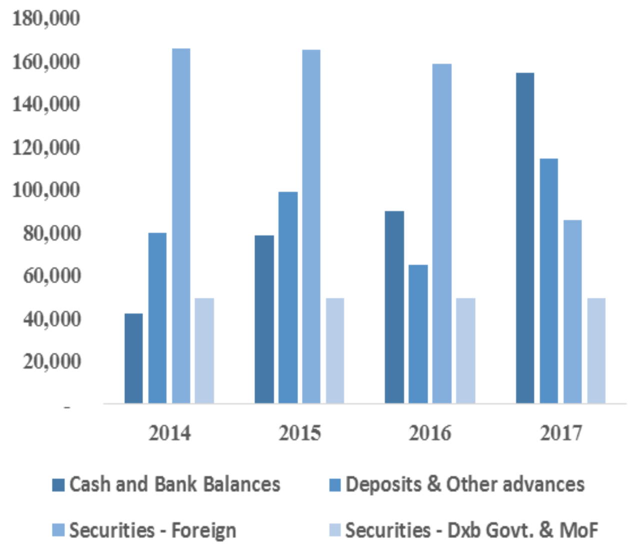
In billions of Dirhams

	2014	2015	2016	2017
Total Assets	**337,388.2**	**393,654.7**	**364,453.2**	**406,373.4**
Cash and Bank Balances	42,001.4	78,611.4	90,149.2	154,229.6
Deposits & Other advances	79,737.8	99,089.9	64,897.7	114,476.4
Securities - Foreign	165,660.9	165,258.4	158,516.4	85,903.4
Securities - Dxb Govt. & MoF	49,443.1	49,230.6	49,165.2	49,165.2
Gold Bullion		940.0	1,014.8	1,152.2
Others	545.1	524.3	709.8	1,446.5
Total Capital & Liabilities	**337,388.2**	**393,654.7**	**364,453.2**	**406,373.4**
Current Accounts & Deposits	142,168.0	157,030.6	154,775.2	159,790.8
Certificates of Deposit	99,534.0	139,773.1	108,192.8	135,051.0
Currency Notes & Coins issued	74,472.3	73,522.1	77,551.5	85,386.2
Capital, Reserves & Other Liabilities	21,213.9	23,328.8	23,933.7	26,145.3

Source: CBUAE

Figure 4.3 Central Bank Assets

In millions of Dirhams



Source: CBUAE

During 2017, there was an increase in funding from abroad as evident in the aggregated balance sheet of commercial banks under "Banks' foreign liabilities" This entry comprises "Due to Headquarters and/or Branches Abroad" which is basically foreign banks getting short-term liquidity from the mother company abroad, which increased by AED 13.1 billion to reach AED 63.9 billion. The second component is Capital Market Funding" which is medium-term funding for UAE banks from overseas which increased by AED 35.5 billion to reach AED 123.1 billion. The last component "Due to Other Banks Abroad" , which includes borrowing in US dollars, including Money at Call and Short – Notice, Nostro Balances, Bills and Lending under Repurchase Agreement, and Term Placements and Loans, decreased by AED 17.8 billion to reach AED 109.1 billion.

As a result of the above-indicated net increase in overall banks' foreign funding, coupled with increased foreign income receipts in the economy, banks' dollar receipts were transferred to the Central Bank in return for dirham liquidity. Against this backdrop, the increase in total assets of the Central Bank took the form of an increase in Cash and Bank Balances by 71.1% (AED 64 billion) to reach AED 154.2, billion and an increase in Deposits at Banks Abroad and Other Advances which increased by 76.4% (AED 49.6 billion.) to reach AED 114.5 billion. Meanwhile, held-to-maturity foreign securities decreased, as the proceeds from maturing securities were not re-invested in the same instruments.

4.3 Central Bank Foreign Assets

The balance of foreign assets held at the Central Bank increased from AED 310.9 billion at end of 2016 to AED 347.7 billion at end of 2017 owing to an increase by AED 108.7 billion in Current Account Balances and Deposits with Banks abroad, while Held – to – Maturity Foreign Securities declined.

Table 4.2 Central Bank's Foreign Assets

In billions of Dirhams

	2016	2017			
	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Total Foreign Assets*	310.9	325.0	338.3	344.1	347.7
Held-To-Maturity Foreign Securities	149.3	140.5	104.3	94.3	84.5
Current Account Balances & Deposit with Banks Abroad	147.9	178.8	227.6	241.5	256.6
Other Foreign Assets	13.7	5.7	6.4	8.3	6.6

Source: Central Bank of the UAE, end of quarter data
*Excluding IMF Reserve Position and SDR Holdings

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The credibility of the fixed peg arrangement requires Central Bank holding of sufficient foreign currency reserves as per Article 75 of Union Law No. 10 of 1980 concerning the Central Bank, The Monetary System and Organization of Banking, mandates the Central Bank to maintain a "Currency Cover Ratio" where "internationally recognized reserve assets" correspond to at least 70% of the Currency in Circulation and Demand Deposits.

Table 4.3 reports the International Reserve Position, which includes the IMF reserve positions and SDR holdings of the UAE, in the amount of AED 2.6 billion, thereby reaching AED 350.3 billion at the end of 2017. As a ratio of the monetary base, the International Reserve balance remained at 92.8%, i.e. the same level as of the end of 2016. This gives credence to the ability of the Central Bank to meet banks' need in foreign currency and boosts confidence in the Central Bank's credibility to maintain its continued commitment towards a fixed exchange rate peg arrangement.

Table 4.3 International Reserve position

In billions of Dirhams

	2014	2015	2016	2017
1. International Reserve Position	**288.3**	**345.2**	**313.6**	**350.3**
2. Monetary Base	**309.2**	**365.2**	**338.1**	**377.4**
Ratio (1/2)	**93.2%**	**94.5%**	**92.8%**	**92.8%**

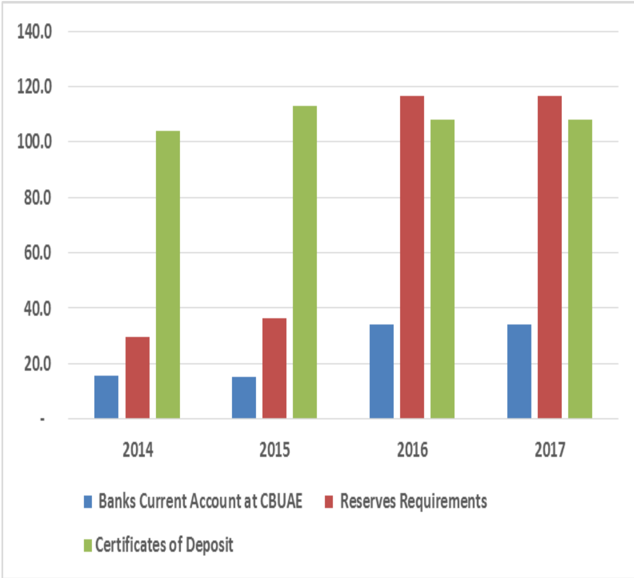
Source: CBUAE, end of quarter data
* Gross International Reserves including IMF Reserve Position and SDR Holdings

4.5. Developments in Banks' Liquidity at the CBUAE

Banks' liquid assets at the Central Bank are composed mainly of their current account at the Central Bank, reserve requirements, and investments in certificates of deposits. After a decline in 2016 mainly due to a decrease in banks' Current Accounts at the Central Bank and a decrease in their holdings of Certificates of Deposit, total liquid assets of banks operating in the UAE at the CBUAE increased by 16.6% in 2017 to reach 397.9 billion. Underlying this increase was the above indicated rise in Certificates of Deposits. As liquidity improved, a few banks tapped the Central Bank facilities to mobilize funds during this period.

Figure 4.4 Liquid Assets of Banks at CBUAE

In billions of Dirhams



Source: CBUAE

4.6. Interest Rates

The fixed peg of the exchange rate of the Dirham to the US dollar means that the CBUAE has to align its policy rate to the direction of the interest rate policy in the U.S. Therefore, the Central Bank of the UAE announced in March, June, and again in December 2017 an increase in interest rates applied to its Certificates of Deposit, in line with the Fed's decision that brought the target Federal Fund rate to the 1.25–1.50% range. Similarly, the Repo Rate applicable to banks' borrowing of short-term liquidity from the Central Bank against their holding of CDs, has increased from 1.5% to 1.75%.

4.6.a. Short-term interest rates

The 3-month Emirates Interbank Offer Rate (EIBOR) comprises the daily quotes of the largest banks operating in the country, and published by the Central Bank of the UAE. Since end of 2015, EIBOR rose in line with USD LIBOR on the back of expected interest rate increases in the US which materialized in December 2015, December 2016, and March, June and December 2017, following announcements by the Federal Reserve Board in the United States to increase the target Federal Funds rate by 25 basis points.

Figure 4.5.a shows an increasing trend of EIBOR 3-month from 1% at the end of 2015 to 1.4% at the end of

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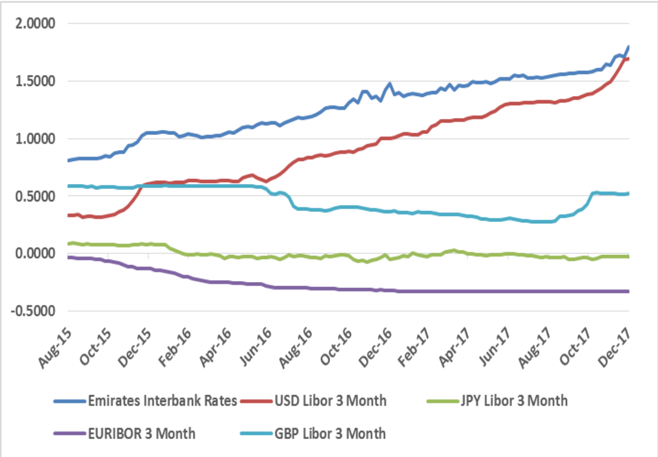
2016 and further to 1.6% in October 2017 to reach 1.8% at the end of December. Meanwhile, the GBP LIBOR 3 – month fluctuated due to uncertainties related to Brexit before an increase was observed at the end of the year.

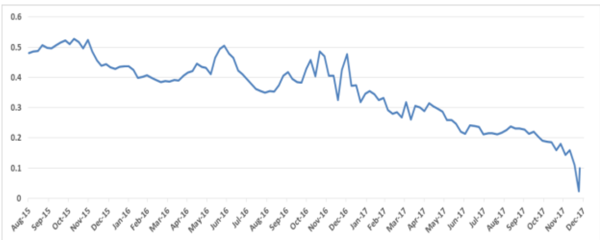
Figure 4,5. a LIBOR rates (3-month) for the Dirham and key other currencies (%)



Source: Bloomberg

It should be noted, nonetheless, that the ***spread*** between EIBOR 3 – month and the USD LIBOR of similar maturity, following some increase in 2015-16 , the trend reversed in 2017 (Figure 4.5.b). The steep decline from 48 basis points in early January to 10 basis points at the end of the year, reflects improved risk premium for the UAE, during the recent period.

Figure 4.5.b Dirham Spread, EIBOR vs. USD LIBOR (3-month, %)

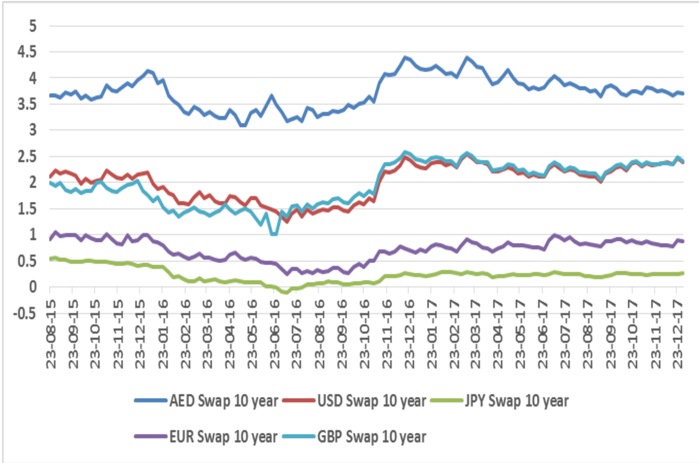


Source: Bloomberg

4.6. b. Long-term swap rates

As shown in Figure 4.6.a, the swap rates for the Dirham increased in 2016. In 2017, however, the swap rate for the Dirham[13] decreased as perceived risk declined thanks to recovering oil prices, improved fiscal outlook and good credit ratings for UAE Sovereigns as well as banking institutions.

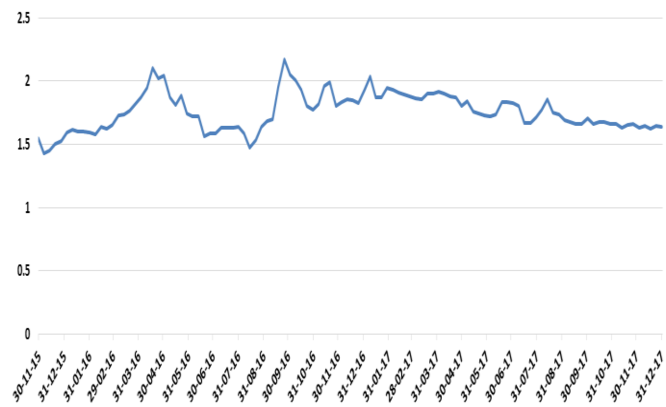
Figure 4.6.a 10-year swap rates (%)



Source: Bloomberg

As regards to the spread between the AED 10-year swap rate and the US dollar swap for similar maturity, Figure 4.6.b shows a **decline** starting mid-2016 which continued during 2017, a testament to the above-indicated less perceived risk premium for the UAE and abundant liquidity in the banking system.

Figure 4.6.b Spread 10-year swap Dirham/USD (%)



Source: Bloomberg

[13] Given the absence of 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).

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Part Two: Central Bank Achievements

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Chapter 5. Central Bank Strategy

CBUAE 2017-2021 Strategy was developed based on the Central Bank's vision, mandate and commitment towards achieving the "UAE Vision 2021" and meeting the expectations of all relevant stakeholders. The strategy was aligned with the outcomes of the Ministerial Retreat held at the end of January 2016 in the presence of H.H. Sheikh Muhammad Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and H.H. Sheikh Muhammad Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces. The vision of the Central Bank of the UAE is "Promoting monetary and financial stability towards sustainable economic growth", which will be achieved through enhancing monetary and financial stability through effective supervision, prudent reserve management, and robust financial infrastructure in line with international best practices and standards. The 2017-2021 strategic objectives focus on the Central Bank's role in enhancing financial stability in the UAE, strengthening the monetary & reserve management, enhancing the regulatory and supervisory framework for banks and other financial institutions, outlining the Central Bank's role in the national economy and UAE's competitiveness, improving banking operations services and ensuring safe, sound and efficient clearing and settlement systems within UAE; in addition to, promoting a culture of innovation in line with the National Innovation Strategy.

2017 was the first of a five-year strategy; hence, despite some key achievements, it was mainly a foundation year for objectives to be achieved in the upcoming years. In 2017, CBUAE leadership focused on setting the stepping-stones for the upcoming years in relation to the enhancement of the legislative and regulatory system for banks and financial institutions. A detailed discussion took place with the SME National Council and the relevant stakeholders regarding the regulations needed to support and encourage the banking sector to finance small and medium enterprises. In addition, the Sharia Board was established to act as a critical enabler for a competitive Islamic Banking and Finance environment in the UAE. CBUAE issued guidelines, set rules, and increased awareness regarding the new system targeting "Quality Emiratization of the banking sector" to ensure the effective implementation of the national Emiratization strategy. Moreover, developing a new Macro-Prudential policy framework and a framework for the clearing process of RMB in the UAE were amongst some other important achievements of 2017.

CBUAE was proactive toward achieving the National Agenda through developing action plans that were the output of a forum it hosed in the middle of 2017 and attended by all National Agenda Executive Teams, Prime Minister's Office and the leadership of all relevant organizations.

During 2017, CBUAE led the efforts of the financial sector and all relevant stakeholders in finalizing a Financial Sector Master Plan that supports UAE's global competitiveness and its role in shaping the future.

Internally, the Central Bank's strategy focused on enhancing the work environment in line with the National Programme for happiness and Positivity. Plans were set to promote the right behaviors towards living the Central Bank's values of Transparency, Proactivity and Talent Centricity. The strategy also attached great importance to attracting and retaining qualified talent with focus on Emiratization, coupled with the right training and development programs. CBUAE developed systems and policies to ensure a performance-based organizational culture. Furthermore, a new organizational structure was created based on best practice in order to be aligned with the new strategic direction, and conducted a capability assessment exercise across the different management levels in order to identify gaps. The human resources policies were improved as well. CBUAE has recruited 82 staff members and a number of the senior management team with the aim of accelerating its transformation journey.

Going forward, a list of focus areas was identified as part of the 2018 operational plan revision exercise, which was conducted by the Strategy and Shaping the Future department in coordination with all internal stakeholders. Those following areas will be CBUAE focus for 2018:

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For the business:

- Adopting risk based supervision model to ensure compliance with FSAP.
- Developing critical regulations related to FSAP, financial institutions governance and digital payments.
- Implementing Basel III standardized approach (Capital Requirements-Pillar 1 - second phase, Pillar 2, Pillar 3, and Leverage Ratio).
- Assuring the readiness for FATF/MENAFATF Mutual Evaluation.
- Transforming financial intelligence working model to risk-based and implementing the best electronic solutions to support that.
- Preparing a comprehensive National Strategy for Payment in UAE.
- Promoting an appropriate regulatory environment for Islamic Finance development in the UAE including the activation of the sharia board, secretariat and related strategy.
- Developing a new licensing structure in terms of categories/sub-categories and conduct business process re-engineering project.
- Improving external sector statistics in order to support the National Agenda.
- Enhancing the capability of UAE banks to perform the stress test according to Central Bank modelling standard.
- Issuing the consumer protection mandate & regulation.
- Developing an enhanced reserve management policy as per the latest international best practices.

Internally and the support functions:

- Mapping CBUAE employees to the approved organization structure & compensation scheme.
- Continuing attracting talent based on work-force plan.
- Improving the development and implementation of effective training plans.
- Re-engineering all CBUAE’s process in accordance with the international quality management standards.
- Developing of IT infrastructure to meet 2018 business needs.
- Developing and implementing an external & internal communication strategy.
- Integrating HR, finance and administration systems as part of the continuous efforts to n order to continuously improve the quality of support services.
- Implementing a business continuity management system in compliance with NCEMA, SIA & ISO 22301 standards.
- Complying with SIA (Signal Intelligence Agency) requirements related to the Information Security.
- Revamping workspace in line with international standards.

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Chapter 6. Regulatory Development and Banking Supervision

Banking Supervision's objective is to maintain the safety and soundness of banks and other financial institutions that the Central Bank licenses.The Strategic Objective for 2017 -2021 is to enhance the regulatory and supervisory framework for licensed financial institutions. The Banking Supervision Department has four main functions:

1. Licensing: Ensures that those institutions that undertake activities prescribed by the law are suitable and subject to Central Bank oversight.
2. Regulatory Development: The Bank's policy arm as regards the oversight of the institutions that it licenses..
3. Supervision: The application of those policies and the implementation of standards such as Basel capital and liquidity requirements
4. Enforcement: Escalates non-compliance with regulatory and licensing standards in line with both Central Bank policy as well as the law..

A. Regulatory Development

The Regulatory Development Division's mandate in the Central Bank is to develop the regulatory framework for the financial institutions licensed by the Central Bank in line with best international practice with the objective to:
a) Foster sound and robust financial institutions; b) protect consumers; and
c) Enable the financial sector to develop prudently.

Regulatory development is a key strategic focus for the Central Bank. The Central Bank's 2017 to 2021 Strategic Plan contains several priority regulatory development initiatives, which will continue to support this objective.

The Central Bank is fully committed to the adoption of internationally agreed regulatory standards, including those issued by the Basel Committee on Banking Supervision, the Financial Stability Board and the Organization for Economic Cooperation and Development, among others.

In developing its regulatory framework, the Central Bank continues to work closely with relevant stakeholders to ensure transparency and consistency in shaping the regulatory environment for financial institutions licensed by the Central Bank. To this end, a comprehensive consultation with the banks and domestic authorities of the UAE is firmly embedded in the development process for each regulation.

In 2017, the major regulatory developments from the Central Bank were as follows:

1. Corporate Governance

During 2017, the Regulatory Development Division of the Central Bank developed new draft Corporate Governance regulations and standards that aim to strengthen board oversight in banks and assist in the on-going development of good governance infrastructure and robust risk control frameworks in the banking sector.

These regulations and standards establish an overarching prudential framework for corporate governance for banks in the UAE by defining the Central Bank's comprehensive requirements on the banks boards' composition, qualifications, responsibilities, functioning of their committees, duties of their senior management and bank-wide requirements on compensation and disclosures.

Commensurate with their significance, the Central Bank developed the complementary regulatory requirements for risk management, internal control, compliance and internal audit, financial reporting and external audit, and outsourcing in separate regulations and standards. Further to the issuance of a set of 5 Risk Management regulations and standards (covering Risk Management, Market Risk, Internal Rate risk in the Banking Book, Operational Risk as well as Country and Transfer

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Risk) the Central Bank developed in 2017 regulations and standards on:

2. **Internal Controls, Compliance and Internal Audit**

These regulations and standards require that the banks' board-approved risk governance and internal control frameworks incorporate the "three lines of defence" approach, the duties and reporting lines of the compliance and internal audit functions, inducing their critical obligation of informing violations to the Central Bank and set safeguards for their independence.

The Central Bank intention is to place greater prominence on the compliance and internal audit functions in the new regulatory framework.

3. **Financial Reporting and External Audit**

The regulations and standards require banks to maintain appropriate records, prepare financial statements in accordance with the International Financial Reporting Standards (IFRS) and/or the instructions of the Central Bank and publish annually financial statements bearing the opinion of an acceptable external auditor. They also communicate the supervisory expectations and recommendations for the external auditors of banks in the UAE, including their critical obligation of informing violations to the Central Bank, and set a period of required rotation.

4. **Outsourcing**

Banks in the UAE outsource a range of activities. The Central Bank has developed regulations and standards to require that any outsourcing arrangements entered into by banks be subject to appropriate due diligence and ongoing monitoring. The outsourcing of material activities will require Central Bank approval. The regulations also contain provisions to assist in the safeguarding of confidential data in the banking system by placing specific restrictions on banks sending such data outside the UAE. The regulations and standards will allow banks to meet their requirements based on their own risk profile, business complexity and structure, while entailing that ultimately accountability for outsourced activities remains with the banks' boards.

5. **Dormant Accounts**

The Central Bank has finalized a regulation on the handling of dormant accounts and unclaimed balances at banks. The purpose is to establish a general framework for the control and protection of dormant accounts in banks and enable customers (or legal owners) to receive the available balances on current, deposit and investment accounts and safe deposit boxes. Under the regulations, unclaimed balances must be retained in the banks' 'dormant account ledgers' and, if unclaimed for more than seven years, transferred to the Central Bank.

6. **Supervisory cooperation and coordination**

During 2017, the Regulatory Development Division of the Central Bank commenced work on enhancing its framework for supervisory cooperation and coordination, which constitutes a vital part of its supervisory reform program. To this end, a new policy on Cooperation and Coordination for Domestic and International Regulatory Colleges aims to support further the Central Bank's effective supervision of cross-border banking groups, by fostering cooperation among supervisors and involvement in crisis management groups for global systemically important financial institutions.

7. **Financing of Micro, Small and Medium-sized Enterprises**

The Central Bank is seeking to promote the further development of the micro, small and medium-sized (SME) business in the UAE to support the UAE economy. The Central Bank has developed draft regulations to encourage financial institutions to play their role in the development of this sector and is working with the wider UAE authorities to assist in creating a viable eco-system for SME development.

8. **Loan-based crowdfunding**

The Central Bank has also developed regulations with the objective to safeguard the financial system and consumers in respect of loan-based crowdfunding activities.

9. **Islamic Finance**

The UAE cabinet approved the launch of a new Higher Shari'ah Authority (HAS) in 2016. The HSA will be the highest authority for the ascertainment of Shari'ah with regard to Islamic financial services and activities in the UAE. It will review and provide specific Shari'ah judgments on regulations produced by the Central Bank concerning Islamic finance as well as assist in standardizing products and contracts in the market. Its first meeting is planned in Q1 2018.

During the year the Central Bank's Banking Supervision department also provided feedback to the IFSB's working papers on "Recovery, Resolution and Insolvency for Institutions offering Islamic Financial Services and also participated in the IFSB's surveys on:
(1) 2017 IFSB Standards Implementation; and
(2) Technical Notes on Financial Inclusion and Islamic Finance.

In developing the Islamic Bank's regulation framework, the Central Bank engaged with the UAE Banks Federation's Islamic Finance Committee to draft regulations relating to the:
(a) Early Settlement of Islamic Finance;
(b) Minimum Standards and Practices for Islamic Banking Window in Conventional Banks; and
(c) Islamic Banking Returns Forms (IBRFS).

In October 2017, the Central Bank held a very successful 3 day summit in UAE in coordination with the Islamic Financial Services Board (IFSB) on the topic "Reinvigorating the momentum of Islamic Finance: Solidifying Resilience and Sustaining Growth".

10. Capital

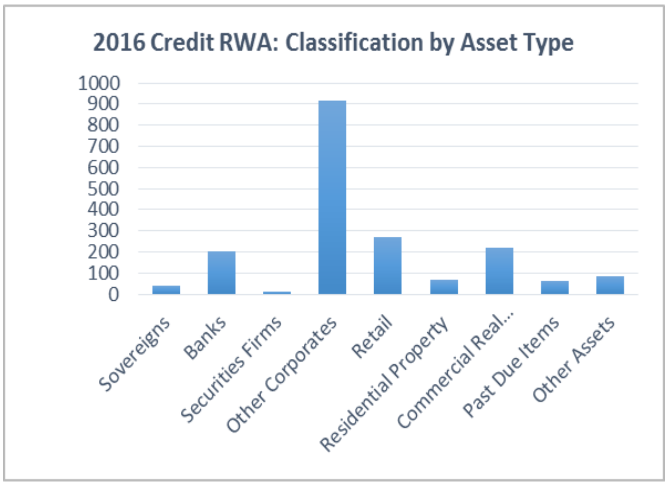
I. Ensuring Capital Adequacy of Banks

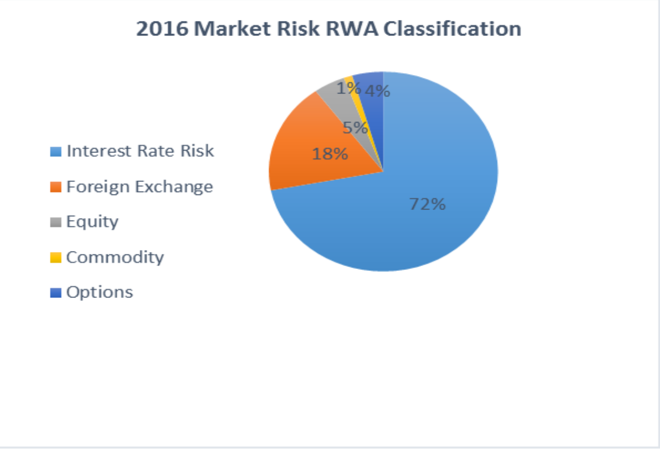
Capital Adequacy is a key pillar for ensuring the safety and soundness of banks. The Central Bank requires all banks operating in the UAE to comply with the Basel III Standardized approach when assessing their regulatory capital adequacy. This includes a thorough review of the Central Bank's Pillar 2 responsibilities concerning the ICAAP (Internal Capital Adequacy Assessment Process). Basel III capital requirements including a framework for Domestic Systemically Important Banks were introduced in early 2017. This improved banks' quality of capital as well as concentrating supervisory resources on those institutions designated as systemically important.

II. Methodologies: The Calculation of Capital Adequacy (Pillar1) for Credit Risk

In the UAE regulatory framework, banks use the standardized approach for regulatory capital. From a Credit Risk Weighted Asset (CRWA) perspective, the largest asset class is Claims on Corporates and GREs, which accounts for approximately 53% of total credit RWAs. The second highest is Retail (13%) followed Claims on Commercial Real Estate (11%).

As of 2017, there has been no significant change in the collective distribution of RWAs amongst banks in the UAE.





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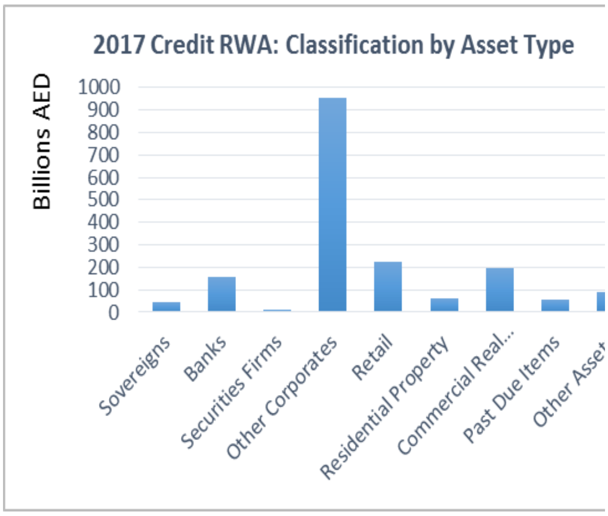

The Calculation of Capital Adequacy (Pillar 1) for Market Risk

Banks in the UAE have traditionally had limited exposure to Market Risk due to the lack of large proprietary books as well as a policy of customer driven matched deals or fully hedged positions. However, this is gradually changing for some banks. Under the Central Bank's regulatory framework, banks use the standardized approach in assessing market risk under Pillar 1.

Market risk is categorized as follows and is subject to a capital charge based on a RWA equivalent:

- Interest Rate Risk,
- Foreign Exchange Risk,
- Equity Exposure Risk,
- Commodity Risk, and
- Options Risk

The largest type of market risk is interest rate risk, which accounts for 67% of total market risk equivalent weighted assets, followed by foreign exchange risk at 21%.

III. The Calculation of Capital Adequacy (Pillar 1) for Operational Risk

Any event that disrupts business activity and causes a financial loss is an operational risk. Operational risk from fines, miss-selling, penalties, employee errors, systems failures and cyber threats could disrupt the efficient operation of banks. Although losses attributable to most of those risks have decreased over recent years through the application of new technologies and improved processes, those technologies and processes themselves have created the potential for even more complex types of operational risk.

Based on the regulatory framework employed in the UAE, banks implement the following approaches to calculate the equivalent risk weighted assets relating to operational risk:

1. Basic Indicator Approach (BIA)
2. Standardized Approach

The number of banks using these approaches is shown in the figure below:

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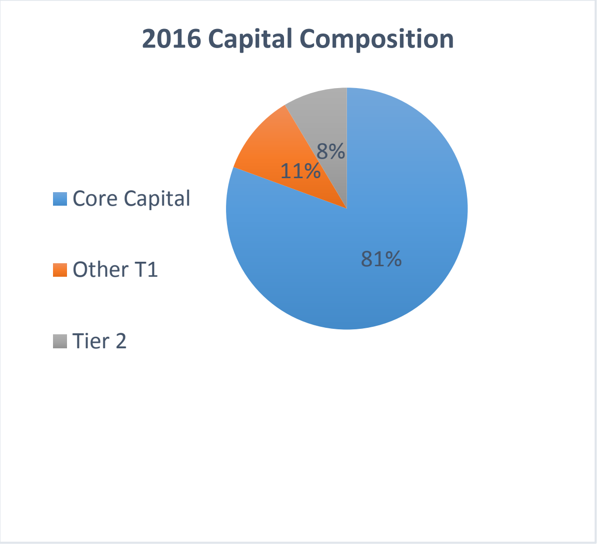
IV. *Composition of Capital*

Overall, during 2016, the capital composition in the UAE banking system was comprised of 81% Core Capital, 11% Other Tier 1 capital with Tier 2 capital only accounting for 8% of total capital. The composition for 2017 was 81% CET1, 11% AT1 and 8% Tier 2 capital.



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Box 1. Basel III implementation in the UAE

The implementation of the Basel III Capital Framework is an important pillar in the Central Bank's new regulatory framework. The Central Bank intends to achieve full implementation of the Basel III Capital Framework in the UAE the end of 2018. The timelines are detailed below and are in line with the timelines of the Basel III standards issued by the Basel Committee.

During 2017 the Capital Adequacy Regulations were published by the CBUAE. These regulations strengthen the quality of capital in line with the Basel Committee's Basel III framework. The framework introduces Common Equity Tier 1 (CET1) as the capital component of the highest quality. The Basel III framework also introduces capital buffers, which are required to be fulfilled using CET1. It is expected that banks and branches operate well above the buffer requirements. Any breach of this buffer due to market and/or idiosyncratic stress will result in certain supervisory actions being taken. The minimum capital and capital buffer requirements of the UAE are:

Minimum Capital requirements:		**Capital buffer requirements:**	
CET1:	7.0%	Capital Conservation Buffer (CCB):	2.5%
Tier 1:	8.5%	Countercyclical Buffer (CCyB)	0% - 2.5%
CAR:	10.5%	Domestic Systemically Important Bank Buffer (D-SIB)	

While the Capital Conservation Buffer (CCB) applies to all banks, the Countercyclical Buffer (CCyB) will be imposed by the Central Bank based on cyclical economic risk. The D-SIB Buffer is imposed on banks that are of a systemic importance for the domestic financial market. D-SIB institutions are obliged to hold more capital to ensure not only their soundness and stability but also to help safeguard the UAE financial system.

To give the banking sector in the UAE time to adjust to the new capital requirements, the Central Bank has introduced a transition period. The buffer requirements will be phased and fully implemented by 2019.

The Central Bank continues to implement the Basel III framework in the UAE. The Basel III Capital Project will implement the following standards during 2018

11. Going Forward

In 2018, the Central Bank will continue to develop the new regulatory framework. Plans include developing further regulations and standards on capital, major acquisitions and significant ownership transfer.

The Central Bank will also continue to focus part of its regulatory development agenda to providing timely responses to new developments in the financial services industry relating to Fintech.

In 2018, the Central Bank will be undertaking a study on Islamic Finance in the UAE with the aim of accelerating the growth of the sector in a competitive and progressive manner. The study will seek to provide implementation solutions for the Central Bank and wider domestic authorities in line with the UAE vision to become a leading international hub for the industry. It will focus on key topics such as liquidity, profit-sharing investment accounts and Shari'ah governance as well as determine the regulatory changes and updates requisite to promote the further development of the Islamic finance sector along with maintaining financial resilience and prudent risk management.

B. Supervision

The strategic initiative for the department 2017-2021 is to enhance the Regulatory and Supervision Framework for licensed Financial Institutions. To achieve this objective, supervision department has initiated steps to move towards a Risk Based Supervision (RBS) approach. Supervision Approach that is risk-based, forward looking, proportionate (full-scope/limited/thematic reviews), assesses the extent of reliance on third parties, communication strategy centered on greater cooperation among teams.

The pillars for the new Banking Supervision framework will comprise:

- Enhanced regulatory framework, which will help develop a longer term supervisory roadmap;

- Improving the efficiency and effectiveness of the overall supervisory framework in accordance with international standards and best practices.
- Full Compliance with BCBS's Core Principles and align its supervisory practices to leading regulator standards.

The Supervisory Methodology

During 2017, supervisory risk 'Dashboard' and "Passport" (a micro-prudential tool) were the key tools apart from automated CAMEL and examination reports, to update the regulatory concerns to the FI and the senior management of the Central Bank. During the last year, Offsite Supervision Unit developed new regulatory returns for additional types of licenses such as Islamic banks/windows, Finance companies and Exchange Houses to capature the risks..

The supervision Unit also started automation of its "Fast Track Examination" process, enhanced the Fit and Proper Approval process, which will enhance the overall supervisory approval framework.

Supervision Unit successfully implemented the Target Points systems as per the Cabinet Resolution regarding Emiratization Strategy in Banks during the first year of Strategic Plan 2017-2018. The division conducted a series of workshop and meetings to create awareness amongst the banks to implement the new system to enhance the Emiratization ratio.

In 2018, the supervision division plan to adopt the new Risk Based Supervision methodology, which will further enhance supervision by introducing additional regulatory returns to capture the emerging risks, develop the enforcement models regarding the Emiratization target points, and will set specialized teams for targeted examinations. The supervision unit also proposes enhance onsite examination by automating the examination process, and operationalizing the electronic document management system.

The supervisory methodology in 2018 will focus on off-site surveillance via the continuous collection of financial and non-financial data for offsite analysis. Going forward the regular onsite examinations will focus on evaluating the financial institutions' (FI) risk and control environment, targeted reviews will evaluate the impact of systemic risks on the FI and the manner in which they are addressed by the FI. The new methodology also rely on the FI's audit and compliance functions to provide transactional assurance and resources to high-risk areas. The methodology also engage with the senior management of the FI with a view to ensure good corporate governance, transparency and accuracy of information.

Licensing

The division process Banks and other Non-bank financial institutions requests for new licenses, renewals and follow-ups. The licensing responsibilities of Financial Investment Companies and Monetary Intermediaries; will be transferred to the Securities and Commodities Authority (SCA) from Central Bank.

	Total as of 2017	Total as of 2016
Bank	61	62
Representative Office	103	114
Finance Company	27	27
Investment Company	21	25
Monetary Intermediaries	11	11
Exchange House	131	140
Total	**354**	**379**

In 2018, the Licensing division will enhance process and procedure regarding the following:

- New license
- License modification
- License renewal (non-applicable for banks)
- Branches licenses and approvals (Opening/ relocation/ closure)
- Electronic Banking Service Units licenses and approvals (Opening/ relocation/ closure)
- Pay Offices licenses and approvals (Opening/ relocation/ closure)
- ATMs installation
- Capital/ shareholding structure amendments
- Receive resolutions issued from courts and forward them to banks and other financial institutions for their action.

Enforcement Division

The enforcement division's objective is aimed at ensuring compliance with regulation and promoting ethical practice in licensed entities. The unit will take appropriate action when regulated entities fall short of expected standards of behavior in line with both Central Bank policy as well as the law. The Enforcement division liaises closely with the supervisory unit and advises on appropriate outcomes such as enforcement action, where required.

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Chapter 7. Consumer Protection Department

1. Consumer Protection

CBUAE pays a great attention to the protection of the consumers of financial services, especially in light of current challenges and great developments witnessed in this field. Consumer protection has become an integral part of the established mechanism followed for ensuring financial stability and enhancing consumer confidence in the market.

In light of those rapid changes, it is essential to ensure consumer protection and prevent any damage that might be incurred while using services offered by the financial sector.

In this regard, CBUAE has focused in 2017 on enhancing the financial consumer protection system by taking the following measures:

On the organizational level, CBUAE Board of Directors approved, in early 2017, the new organization structure of the Central Bank as per Decision No. 13/1/2017; where Consumer Protection has become an independent Department containing 3 major Units: Complaints Management, Consumer Education and Regulatory & Guidelines .

To ensure that banks and finance companies treat their customers fairly and their grievances are addressed properly, CBUAE issued, in December 2017, Circular No. 383/2017 requiring banks and finance companies to set up a complaint unit. The unit to be reporting directly to the CEO/GM and with following responsibilities:

- Receive complaints from customers and acknowledge receipt by issuing a reference number for "service request".
- The Customer Service Charter, which will be displayed in all branches, in the website, and on ATM's, will define a timeframe for resolving complaints.
- Provide the complainant with a written response about the action taken regarding his/her complaint, and the reached solution.
- Send regular reports to CBUAE- CPD regarding the received/closed/outstanding "service requests" on a quarterly basis.
- CPD will conduct regular meetings with Heads of Complaints Units to discuss major challenges and ways to solve them.

Thus, this mechanism will raise the level of banks' response and interaction in finding best solutions for customer complaints.

With regard to financial education and awareness, CPD has doubled the efforts to enhance financial awareness by doing the following:

- Participating in the ***National Show for Society Awareness and Humanitarian Services*** (**Taweya 2017**).
- Issuing awareness brochure for 2017 titled "Credit History" which aims to educate the consumers of financial services about the importance of establishing and maintaining a good credit history to be able to avail of the services provided by financial sector at reasonable costs.
- Promoting financial culture by welcoming visits made by schools and universities to the Central Bank.
- Conducting field visits to schools, universities, and government entities.
- Displaying video clips on CBUAE website that tell real stories about the risks of credit cards and rules related to personal loans.

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Chapter 8. Financial Market infrastructures and payments

Financial Market infrastructures are the backbone of financial markets as they enable the safe flow of funds and financial assets in the economy. Their smooth operation is crucial to maintaining confidence in the currency and supporting monetary policy operations and the stability of the financial system as a whole.

The Central Bank of the UAE plays a central role in the field. It provides payment and settlement services, oversees financial market infrastructures and payment instruments, and works with market stakeholders to achieve financial market integration. Cooperation and dialogue with other financial institutions and regulatory authorities on policy aspects relating to regional and global developments in the field of market infrastructure and payments are also of a highest importance for the Central Bank.

The public policy objectives of the CBUAE in the area of market infrastructure are targeting the limitation of systemic risk and fostering transparency and financial stability. These objectives are promoted by monitoring existing and planned systems, assessing them against the objectives and, where necessary, inducing change.

Current Status

The UAE payment services ecosystem pursued its development and diversification during the year 2017, confirming hence the progressive trend witnessed during the past ten years with the major reforms undergone under the leadership of the Central Bank of the UAE to bring payment systems into line with best practices in other developed economies, with particular focus on managing the overall risk effectively, promoting the use of electronic payment means (cashless), and increasing efficiency of the settlement arrangements for all type of payment transactions.

At the national level, the CBUAE has actively supported the implementation of the new regulation on digital payments field that entered into force in January 2017 with the objective of enhancing the regulatory framework for stored values and electronic payment systems, as well as establishing the enabling infrastructure to support the interoperability of e-payments between all financial institutions in the UAE. The core objective of this regulatory framework is to facilitate a robust adoption of digital payments across the UAE in a secure manner and enabling Fintech development whilst promoting the highest levels of consumer protection and financial stability.

Moreover, CBUAE provided its full support towards enabling the active participation of federal ministries and other government agencies in the UAE Funds Transfer System (UAEFTS) to directly process their payment orders through the system; the objective being the electronic transformation of services proposed by these institutions and improving the efficiency in the processing. In 2017, nearly the entire payment flows from all the Ministries has been directed to the UAEFTS.

Similarly, a large discussion was engaged in 2017 with the various federal and local courts in the UAE to examine the possibility of establishing a link between the courts and the CBUAE in order to allow a better transmission, processing and monitoring of court orders and decisions that are currently time-consuming and require an extensive manual processing. These efforts were concluded with the signing in 2017 of 4 Memorandum of Understanding with Ras Al Khaimah Courts, Dubai Courts, Abu Dhabi Judicial Department and Ministry of Justice. As of December 2017, the Court Cases Management System project was in an advanced stage of development and implementation. User Acceptance Testing (UAT) were in progress and the expected go-live is scheduled for the end of first Quarter of 2018.

From a regional perspective, the CBUAE continued in 2017 its involvement in the GCC-RTGS project aiming at enabling real-time processing of cross-border payments among GCC countries by using their domestic currencies. The utmost objective of this project is to increase the integration of domestic payment systems across GCC countries and enhance the efficiency of the existing settlement mechanisms. The project is now at the implementation phase with the solution provider selected and all the major requirements identified.

On the same front, the CBUAE pursued playing a key role towards supporting the UAE's integration in the Arab regional payment ecosystem. To this effect, the CBUAE participated actively in the Arab Regional Payment System project that envisages integrating the clearing and settlement of cross-border payments in the Arab region by enabling the establishment of a system for clearing and settlement of intra-regional cross-border payments. After completing all the feasibility studies, the project is expected to move to the implementation phase, subject to the approval of the relevant AMF's committee.

Main achievements in 2017

During 2017, many actions and initiatives have been undertaken toward enhancing the various payment and settlement systems operated by the CBUAE, increasing efficiency of the Non-cash Government payments, and providing the infrastructure to support innovation and diversity in the different payment channels. The most important realizations accomplished in 2017 are as follows:

- **The CBUAE has provided its support to key market players towards ensuring compliance with the new regulatory framework for stored values and electronic payment systems effective since 1st of January 2017.** The engagement with these players was done according to an established agenda in order for them to complete the requirements before getting their license from CBUAE based on the nature of their solutions and the type of services offered to the public. The CBUAE has conducted this process in a progressive manner with the objective to ensure the digital payments market comes under a well-established regulatory framework.

- **The CBUAE has worked intensively during 2017 to ensure the onboarding of the concerned participants (merchants & banks) in the UAE Payment Gateway System** that allows the processing of E-commerce transactions at merchants level by using current and saving account held at any bank in the UAE without the need for bilateral agreements between the two sides.

- **The CBUAE has supported the implementation phase of the GCC-RTGS system that will link the payment systems in GCC countries**. The CBUAE worked towards achieving the milestones set in the regional project. The solution provider has been selected and the project kicked-off.

- **The CBUAE has ensured that all payment systems can be operated from the Disaster Recovery site (DR)**, in a preliminary step towards completing the finalization of the Business Continuity Plan (BCP) for all the payment systems operated by CBUAE.

- The CBUAE has taken a proactive step in preventing potential frauds due to double swiping of payment cards by merchants in the UAE. As a first step in this direction, during 2017, the CBUAE mandated all the merchant acquirers in the UAE to educate & ensure that all the merchants on-boarded by them have tweaked their till systems so that payment cards are swiped only once in the POS machines and secondary swiping of cards into their till machines (for accounting and loyalty point purposes) is totally avoided. The progress in this regard has been significant. The merchant acquirers have reported that almost 99.4% of the merchants have already complied with the requirement. The Central Bank will continue monitoring compliance and ensure 100% compliance during 2018.

- The progress achieved by the Central Bank in EMV compliance of cards by the payment card issuers has been significant. There has been almost 100% compliance of EMV in debit cards issued by banks in the UAE whereas close to 98% compliance achieved in the credit card segment. The progress in EMV compliance on the pre-paid card segment has been around 50% and the CBUAE is keenly following up with the issuers for 100% compliance before end of 2018.

- Central Bank issued a notice to all the banks in the UAE in 2015 to upgrade their ATM security and mandated certain requirements and started following up the implementation consistently. As of 2017 end, there has been a 99.75% compliance with regard to fixing PIN pad shield in all ATMs to prevent recording customers' PIN by installing pinhole cameras and capturing the PINs recorded. Similarly, there has been 99.75% achievement in installing Anti-skimming devices to prevent the magnetic stripe data read by the skimmers. Banks were instructed to withdraw from service any compromised ATM forthwith. On the same lines, there has been 99.48% achievement in installing sensors to detect the presence of skimming devices so as to send instant alerts to the banks. Banks were instructed to immediately shut down those ATMs wherever alerts are received. In line with the requirements of the police authorities of different emirates, the Central Bank instructed all the ATM operators to upgrade their security cameras from analog to digital in order to enhance image resolution. So far there has been 58.72% compliance and the Central Bank is actively following up for 100% compliance before end of 2018.
- As part of Central Bank strategy, all the payment systems operated by the Central Bank were assessed in 2017 for compliance with PFMI principles issued by the BIS in the year 2012. The assessments carried out in 2017, being the third consecutive assessment represent the strength of CBUAE operated payment systems in terms of safety, efficiency and security. The Central Bank is committed to carry out assessments on an annual basis in order to identify gaps if any in compliance with the PFMI principles and to take remedial measures for 100% compliance.

Priorities for the coming year 2018:

The CBUAE's priorities in payment systems field for the year ahead build on work undertaken in previous years, and comply with the UAE smart government strategies. Among these priorities, the following remain the major ones:

- **Finalize the important work done during the year 2017 towards having a contingency planning to encompass the management of operational risk more broadly, including, importantly, cyber risk.** The emphasis on operational risk and the appropriate framework through which it can be evaluated will continue to be a priority for CBUAE during 2018, particularly with the finalization of the Business Continuity Plan (BCP) for all the payment systems operated by CBUAE.

- **Continue providing support to the Payment Services Providers** towards ensuring the implementation of the new regulatory framework for stored values and electronic payment systems effective since 1 January 2017.

- **Pursue the effort towards strengthening the position of the UAE in the regional payment ecosystem.** The CBUAE will work during 2018 towards achieving the milestones set in the two regional projects at the GCC level and at the Arab regional level.

- **Enhance the integration of the various payment processes in the UAE.** The focus during 2018 will be on the integration of the cash leg of the securities settlement in the UAEFTS being the RTGS system of the country.

- **Launch the Phase 2 of the UAE Payment Gateway System** that would allow the use of debit card as a source of funding for E-commerce transactions.

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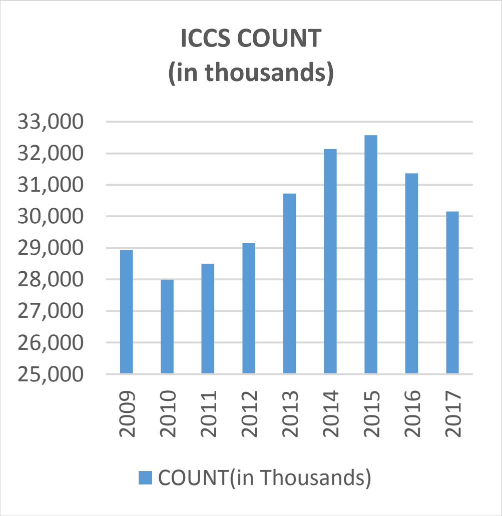
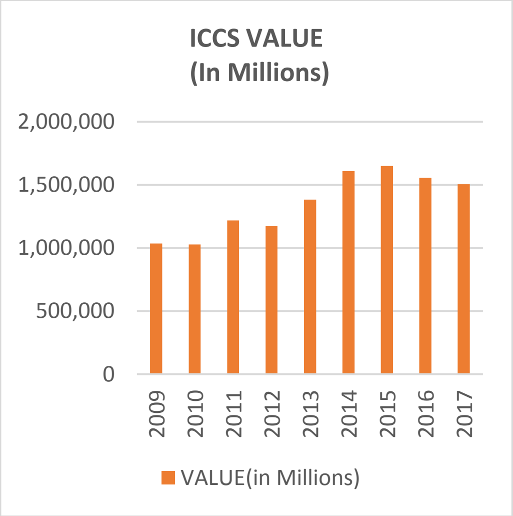
Information on the systems operated by the CBUAE

ICCS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	28,939	1,035,517
2010	27,990	1,026,957
2011	28,500	1,219,004
2012	29,148	1,173,429
2013	30,724	1,382,302
2014	32,140	1,608,412
2015	32,570	1,649,654
2016	31,365	1,555,464
2017	30,152	1,505,912





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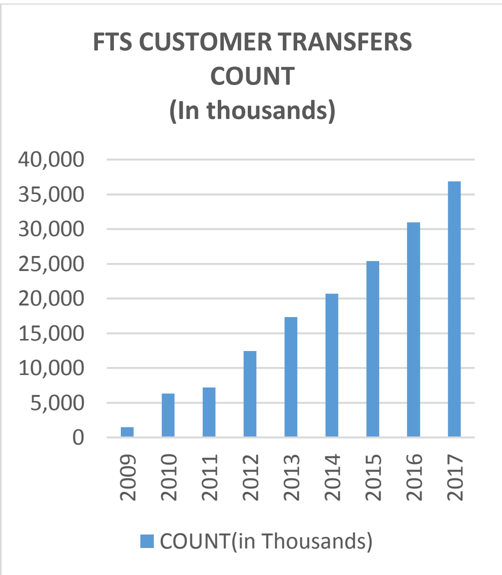
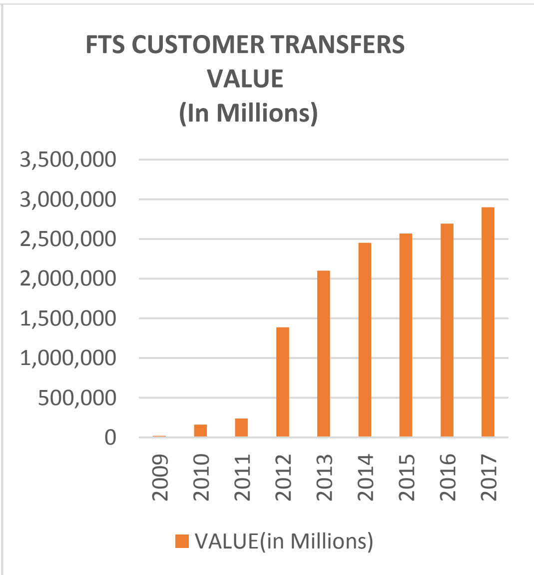
UAEFTS CUSTOMER TRANSFERS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	1,481	22,466
2010	6,324	163,634
2011	7,187	240,050
2012	12,435	1,386,489
2013	17,336	2,100,953
2014	20,688	2,453,013
2015	25,407	2,570,712
2016	30,970	2,693,086
2017	36,866	2,897,804





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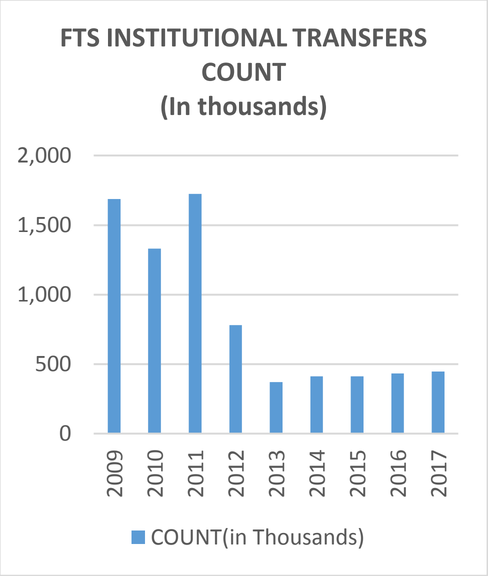
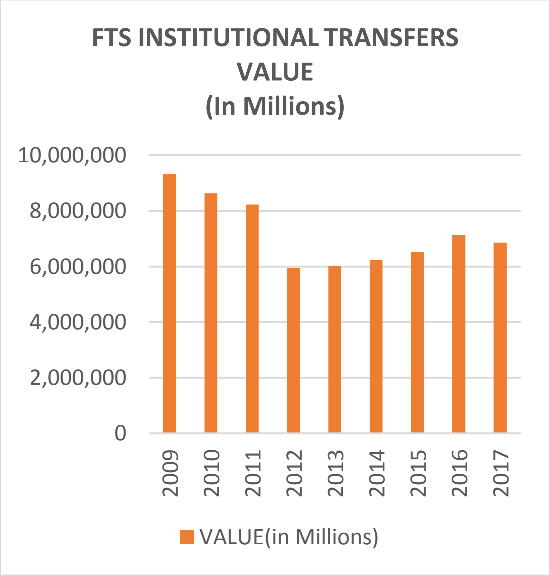
UAEFTS INSTITUTIONAL TRANSFERS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	1,687	9,337,134
2010	1,330	8,631,116
2011	1,725	8,226,410
2012	780	5,953,779
2013	371	6,024,287
2014	411	6,242,099
2015	413	6,518,087
2016	433	7,137,118
2017	447	6,857,108





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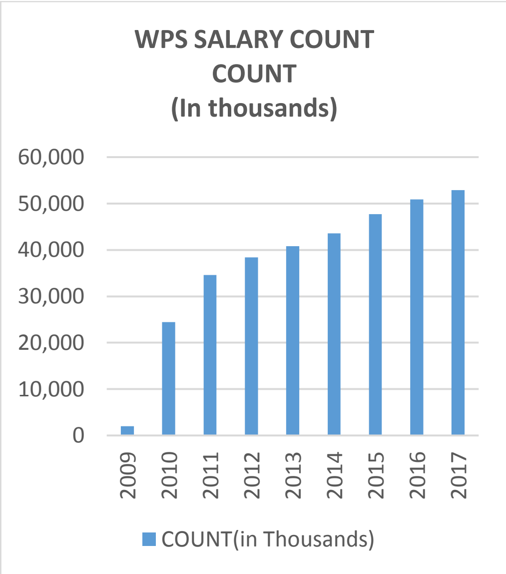
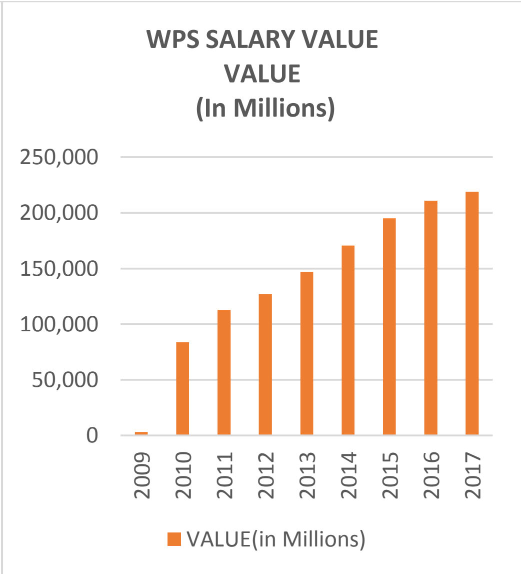
WPS SALARIES		
YEAR	COUNT(in Thousands)	VALUE(in Millions)
2009	1,974	3,039
2010	24,423	83,664
2011	34,597	112,677
2012	38,402	126,791
2013	40,806	146,905
2014	43,572	170,671
2015	47,754	195,254
2016	50,898	210,895
2017	52,939	218,987





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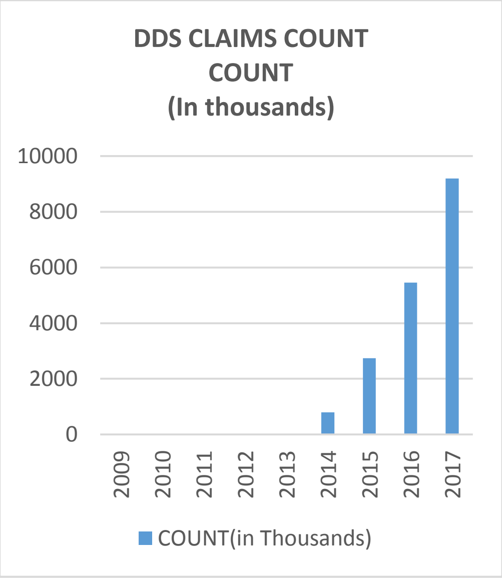
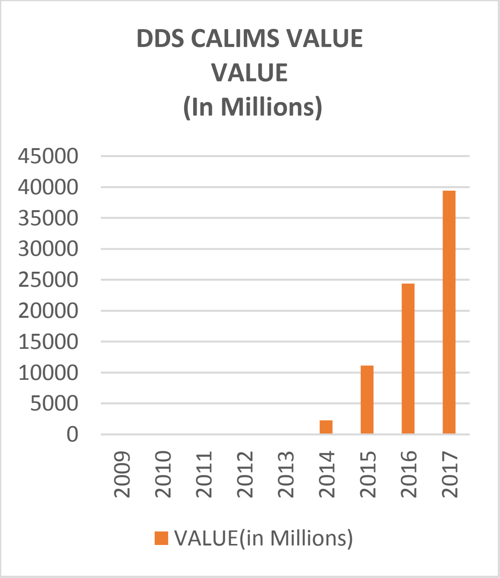
UAE DDS CLAIMS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	-	-
2010	-	-
2011	-	-
2012	-	-
2013	9	26
2014	795	2,286
2015	2,740	11,137
2016	5,462	24,411
2017	9,197	39,407





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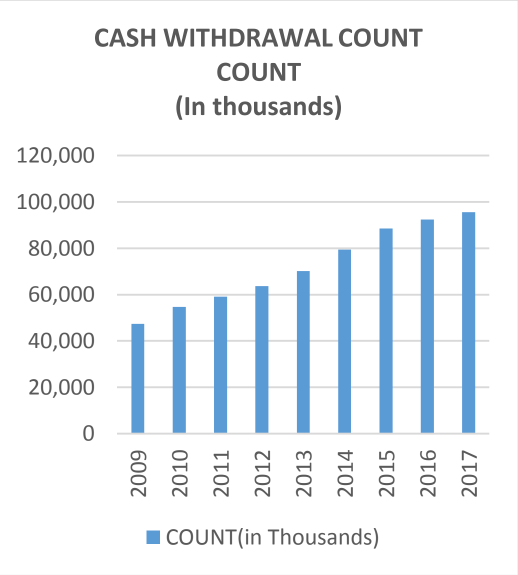
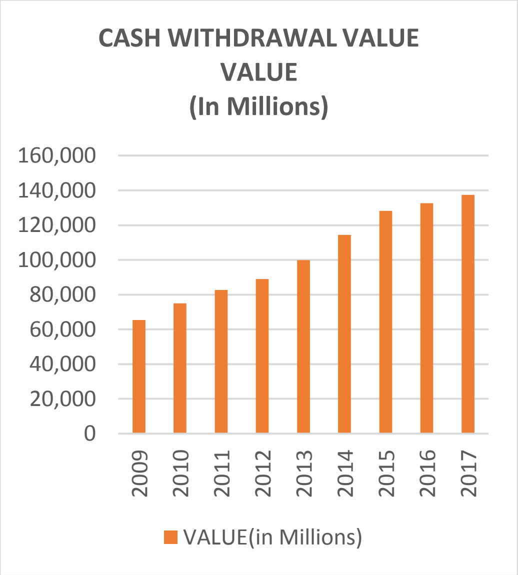
UAE SWITCH CASH WITHDRAWAL DOMESTIC		
YEAR	COUNT(in Thousands)	VALUE(in Millions)
2009	47,361	65,335
2010	54,676	74,993
2011	59,168	82,708
2012	63,698	88,930
2013	70,227	99,867
2014	79,430	114,460
2015	88,532	128,150
2016	92,402	132,629
2017	95,611	137,425





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Chapter 9. Risk Management and Information Security

Risk Management and Compliance

The management of risks in the Central Bank is coordinated by the Risks Identification and Monitoring Committee, chaired by His Excellency the Governor of the Central Bank and having as members Senior Managers from all relevant business areas. The Committee is assisted in its work by the Risk Management and Compliance Department, reporting directly to His Excellency the Governor and, in parallel, to the Risks Identification and Monitoring Committee. The Department includes specialists in Financial Risk, Operational Risk, Business Continuity, Compliance as well as Information Security.

In pursuit of its mission to promote monetary and financial stability, the Central Bank is exposed to financial risks in two lines of activity. The first is the use of monetary management tools to manage the supply and demand of liquidity in the UAE banking system. The second is the management of the foreign exchange reserves. The financial risks faced include market, credit and liquidity risks, and are prudently managed through restrictions imposed by the Central Bank's policies as well as the use of appropriate risk mitigation measures.

The main sources of market risk in foreign reserves management are interest rate risk and currency risk. In order to measure market risk in the reserves' portfolio, the Central Bank uses a number of sensitivity measures as well as established statistical risk measures such as Value at Risk. Additionally, stress tests are used for measuring the effect of specific scenarios, historical or hypothetical, to the reserves portfolio. Currency risks incurred by holding fixed-income instruments denominated in currencies other than the US dollar are constrained by the use of hedging techniques.

To control counterparty risk, the Central Bank transacts only with highly creditworthy financial institutions and the associated exposures towards these counterparties are managed against established limits. Money market exposures are distributed among a large number of highly rated counterparties so that the Gini coefficient[14] of concentration of the exposures was equal to G=0.4012 at the end of 2017 compared to 0.4003 at the end of 2016 indicating a stable distribution of counterparty exposures. Finally, the Central Bank contains liquidity risk by investing a large part of the reserve management portfolio in highly liquid instruments.

Liquidity providing operations also expose the Central Bank to counterparty risk. However, this risk is relatively small since, as a rule, all lending to the UAE banking system is collateralized. The eligibility criteria and the risk control measures applied to the assets accepted by the Central Bank as collateral are regularly reviewed to guarantee both the protection of the Central Bank from financial loss as well as the availability of sufficient eligible collateral on the balance sheet of domestic banks.

The Central Bank is also exposed to operational risk, defined by the Basel Committee for Banking Supervision as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks identified by the Risk Management and Compliance Department, in close cooperation with Risk Coordinators in the relevant business areas, are evaluated by the Risks Identification and Monitoring Committee. Depending on the likelihood and potential impact of such risks, appropriate controls are introduced and the level of the residual risk, after the implementation of the controls, is monitored over time.

In 2017, the Business Continuity team was strengthened further and continued work on the

[14] The Gini coefficient is a measure of concentration/dispersion of a variable among a number of entities that ranges from 0 (equal distribution among all entities) to 1 (concentration on one entity).

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Central Bank's Business Continuity Management (BCM) Program. The ultimate goal of the BCM Program is to prepare the Central Bank to handle a range of events that could cause major disruption in the CBUAE services. The Business Continuity team established a network of Business Continuity Coordinators across CBUAE departments and developed a Business Continuity Training and Awareness Annual Plan. Several awareness sessions and workshops were conducted in 2017 to make sure that all stakeholders are aware of the BCM Program and their responsibilities in its development. The program is being developed in accordance with the standards set by the National Emergency and Crisis and Disasters Management Authority (NCEMA) with which the Central Bank is in close cooperation.

The Business Continuity Team, in close cooperation with the Information Technology Department, supervised the successful testing of the readiness of a number of key applications and the infrastructure associated with them to operate under a disaster recovery scenario. The applications tested were the ones assessed as critical according to the previously conducted Business Impact Analysis.

Finally, in 2017 the Central Bank set up a compliance function as part of the Risk Management and Compliance Department. The compliance function is managing compliance risk in the Central Bank, defined as the risk of adverse consequences for the Central Bank or for the UAE as a result of the Bank's failure to comply with laws, regulations, rules, applicable international conventions, adopted internal organizational standards, or the Bank's code of conduct.

Information Security

The recent cyberattacks on financial institutions across the globe have presented a wakeup call for the financial community. The various stakeholders realized that it is imperative to work together in order to lay the foundations for effective control and sound risk management frameworks that would enhance cybersecurity defenses among the financial industry participants.

Realizing that cyber-risk goes hand in hand with the digitalization of financial services, the Central Bank has continued its collaboration with the banking sector and different government entities in 2017. The aim has been to tackle cyber security incidents by promoting sharing of information security technical advisories with licensed entities and by providing clarifications on UAE Information Assurance Standards issued by the UAE government.

Several Internal and External awareness sessions and workshops were conducted in 2017 to make sure that all stakeholders are aware of the Information Security program, and how to identify and respond to specific attack and fraud attempts that targets the banking sectors.

Special Workshop was organized with the licensed entities tackling specifically SWIFT Payment System Consumers Security Program mandatory requirements.

The Central Bank has also worked to enhance its internal processes and capabilities to tackle cyber security risk by acquiring top talent and adopting industry security best practices.

Central Bank of UAE continues to enhance its defenses and minimize the risk of cyber-attacks on its main functions and in particular the payment systems

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Chapter 10. Financial Intelligence Department

Introduction:

The Financial Intelligence Department (FID) at the Central Bank of the UAE is the Financial Intelligence Unit (FIU) of the UAE and the sole national center for receiving, analyzing and disseminating suspicious transaction reports filed by banks, other financial institutions and designated non-financial businesses and professions (DNFBPs) to the Law Enforcement Authorities as per the AML/CFT Law, Federal Law No. (9) of 2014 regarding Encountering money laundering crimes and combating terrorist financing and its Executive By-Law No. (38) of 2014. It has access to all relevant authorities in the UAE under the aegis of the National Anti-Money Laundering & Combating Financing of Terrorism Committee (NAMLCFTC) and appropriate mechanisms are in place to ensure adequate cooperation and information sharing among different government agencies involved in combating ML/TF and related crimes. It links the private and the public sectors in combating money laundering, terrorist financing and proliferation.

FID is empowered to exchange information on suspicious transactions with its counterpart FIUs and provides training, technical assistance and guidance on evolving standards and best practices to all stakeholders for strengthening the AML/CFT framework in the country.

Preparation for the 2nd round of Mutual Evaluation of UAE of its AML/CFT:

Progress made in 2017:

- NAMLCFTC has engaged international AML/CFT Experts Team to assist the three Sub-Committees (Sub-committee of National Risk Assessment, Sub-Committee for reviewing AML/CFT laws and regulations and Sub-Committee for evaluating AML/CFT framework in the financial and commercial free zones) and other concerned UAE Authorities.

- Conducted a survey to all main stakeholders regarding the alignment of the current regulations of the AML/CFT in UAE with the International Standards.

- FID has communicated with 19 Supervisory and Regulatory Authorities in the UAE in October 2017 and provided them with revised AML/CFT Regulation for the entities supervised and regulated by them. FID has further requested the said authorities to consult with the international AML/CFT Experts Team for any clarification or guidance in this regard and issue the revised regulation accordingly to be in compliance with the FATF standards

- Prepared Preliminary Diagnostic report and work plan for Mutual Evaluation Preparation

I. Main achievements in 2017:

- 7,546 STRs received from banks and other financial, commercial & economic entities that includes 823 reports on fraudulent activities, a decrease of 4% from last year.
- Of which, 3,631 STRs (48%) were reviewed and analyzed during the year, on a risk based basis.
- 79% of STRs were filed by banks, whereas in 2016 it was 73%.
- 1,388 STRs were referred to law enforcement authorities in the UAE, for further investigation.
- 182 search and/or freeze requests received from law enforcement, public prosecution and other domestic authorities.
- Instructed financial institutions to repatriate unauthorised transfers amounting to AED 668.42 million related to 52 cases.
- Initiated a total of 727 Enhanced Customer Due Diligence (ECDD) and Fraud alerts to Financial Institutions based on STRs.
- Initiated 120 instructions for heightened monitoring of accounts in financial institutions based on Payment Platforms.
- Conducted 355 Due Diligence procedures for pre licencing /renewal of licence of Exchange Houses.
- Conducted 19 Database checks based on request from Domestic Stakeholders (Note: FID does conduct database checks for analysis purposes in general).
- Attended 11 sessions as expert witness for the Public Prosecution in relation to financial crimes.
- FID staff attended 9 meetings of Bilateral Committees established by public prosecutions in different emirates for investigating money laundering and other financial crimes related to STRs received by FID from different reporting entities and other investigative matters.

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- Reviewed details of 21 non-resident customers renting Safe Deposit Lockers from Banks.
- Initiated 5 special examinations of banks & moneychangers on AML/CFT compliance issues and related matters.
- Conducted 64 reviews of nominations to the Board of Directors of domestic and foreign banks.
- Due Diligence for 377 Nostro Account applications of exchange companies.
- Processed 371 requests for senior management positions in banks.
- Received 666 Requests for Information (including spontaneous disclosures) from 92 counterpart FIUs, which were analyzed and responded in timely manner.
- Initiated 123 outward requests for information including spontaneous disclosures) to 47 counterpart FIUs regarding natural and juridical persons.
- Provided 125 consent for dissemination requests from counterpart FIUs for dissemination of information to the concerned LEA authorities for intelligence purposes.
- Responded to 7 special requests (including Biennial Census report) received from counterpart FIUs and Egmont Group of FIUs.
- Conducted meetings and other AML/CFT outreach programmes which benefited representatives of public and private sector entities in the UAE, including foreign stakeholders.
- Participated in various international (Egmont, FATF, MENAFATF, etc.), regional and domestic training programmes and other events to build capacity.
- Total number of 14 staff completed Certified Anti Money Laundering Specialist (CAMS) Review Program Workshop
- Implemented four requests related to United Nations Security Council Resolutions relating to the prevention and suppression of terrorism and terrorist financing and prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing.
- Total Number of 4 UAE Ministerial decisions regarding Terrorists and Terrorists Organizations been implemented
- National Anti-Money Laundering and Combatting Financing of Terrorism Committee approved FID's initiative of opening dialogue with government universities/colleges the importance of developing AML/CFT curriculum, which will help the country in Emiratization.

II. FID Outreach Efforts:

FID has an on-going programme to create more awareness on AML/CFT among all stakeholders, as follows:

1) Three workshops organized by the FID in March & April 2017 in Dubai and Abu Dhabi for NAMLCFTC members and other stakeholders regarding the UAE AML/CFT Strategy as part of the preparation for the 2nd Round of Mutual Evaluation of UAE.

2) Presentation to CEOs of banks regarding compliance with AML/CFT laws and regulations in Abu Dhabi in May 2017.

3) AML/CFT training for Law Enforcement officials in Abu Dhabi in May 2017.

4) Workshop on UAE AML/CFT strategy for UAE Stakeholders in Abu Dhabi in August 2017.

5) Presentation on AML/CFT to ADGM representatives in Abu Dhabi in August 2017.

6) Two workshops were organized by the FID in November 2017 in Abu Dhabi and Dubai for NAMLCFTC members and other stakeholders regarding filling up the Technical Compliance and Effectiveness Compliance FATF Templates and other related matters as part of the preparation for the 2nd Round of Mutual Evaluation of UAE. The workshops were attended by more than 100 Officials reflecting the importance given by UAE Stakeholders to the mutual evaluation preparation.

7) AML/CFT awareness training given to students of Zayed University in November 2017 at the FID office in Abu Dhabi, UAE

i. Providing Technical Assistance:

Presentation given by FID on UAE AML/CFT framework and other related topics to the visiting delegations from the FIUs of Egypt and Namibia in January 2017 and July 2017

ii. Signing MOUs with Counterpart FIUs:

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The FID signed an MOU with Egyptian Money Laundering and Terrorist Financing Combating Unit for facilitating exchange of information, enhancing co-operation on AML/CFT, training and sharing of best practices, in Abu Dhabi in January 2017.

With the signing of this MOU, the total number of MOUs signed with counterpart FIUs stands at 45.

Priorities for the coming year 2018:

1) Preparation for the 2nd round of Mutual Evaluation of UAE of its AML/CFT Framework scheduled to take place in 2019:

i) The International AML/CFT Experts team held face-to-face meetings with all concerned UAE Stakeholders (in the public and private sectors) in September, October and in December 2017, and will hold more such meetings in 2018, for the above.

ii) The three NAMLCFTC Sub-Committees have started their work in consultation with the international AML/CFT Experts Team and the National Risk Assessment (NRA) exercise is in progress and expected to be completed by June 2018.

i. Capacity Building at FID:IT Infrastructure:

The FID's requirements in terms of technical architecture are being carried out to automate all the processes including linking the remaining reporting entities to the STR on-line reporting system. In addition, the FID is in the process of installing new software for analysis and reporting of suspicious transactions which is in line with international best practices and would lead to better exploitation of STR data. This would strengthen the AML/CFT framework of the UAE.

ii. FID Transformation:

The FID is in the process of reviewing and revising its policies, procedures, processes and systems to enhance its operational effectiveness in order to be well prepared for the Second Round of Mutual Evaluation as well as meet the coming ML/FT challenges.

Conclusion:

FID will continue to focus on capacity building, systems development, and domestic coordination, regional and international cooperation to ensure and maintain financial integrity and counter reputational risks as well as prepare for the next round of mutual evaluation of UAE's AML/CFT Framework.

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Appendix

Selected Macroeconomic Indicators 2011-2019

- January 2018 Edition -

	2011	2012	2013	2014	2015	2016	2017 (e)	2018 (P)	2019 (P)
Oil Price ($/Bl)*	110.9	112.0	108.9	98.9	52.4	44.0	54.4	65.9	63.8
Oil production ADNOC (Million Barrels/day)	2.5	2.6	2.8	2.8	2.9	3.0	2.9	2.9	2.9
In Billions of AED									
Real GDP	1,132	1,190	1,259	1,300	1,350	1,391	1,412	1,447	1,487
Real Non Oil GDP	765	808	865	905	933	959	987	1,022	1,062
Real Oil GDP	367	382	394	395	417	433	426	425	425
Nominal GDP	1,289	1,377	1,434	1,481	1,315	1,281	1,390	1,508	1,569
Nominal Non Oil GDP	786	838	904	975	1,027	1,067	1,131	1,194	1,265
Nominal Oil GDP	503	538	530	506	287	213	260	314	304
Annual percent change (%)									
Real GDP	6.4	5.1	5.8	3.3	3.8	3.0	1.5	2.5	2.8
Real Non Oil GDP	4.4	5.6	7.0	4.6	3.2	2.7	2.9	3.6	3.9
Real Oil GDP	10.7	4.0	3.1	0.4	5.4	3.8	-1.5	-0.2	0.1
Nominal GDP	21.1	6.8	4.2	3.3	-11.2	-2.6	8.6	8.5	4.1
Nominal Non Oil GDP	7.3	6.6	7.8	7.8	5.4	3.9	5.9	5.6	6.0
Nominal Oil GDP	51.5	7.1	-1.6	-4.5	-43.2	-25.8	21.7	20.9	-3.1
CPI	96	97	98	100	104	106	108	112	114
CPI Inflation (%)	0.9	0.7	1.1	2.3	4.1	1.8	1.8	3.5	2.5

Source: FCSA, Ministry of Finance, IMF & Central Bank of UAE

*: For Oil price prjections, we assumed the annual average prices of oil futures on January 15, 2018

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