

## **Central Bank of the United Arab Emirates**

Central Bank of the UAE was established, at the first stage, under the name of UAE Currency Board on 19<sup>th</sup> May 1973, per Union Law No. (2) of 1973, in order to issue a national currency to replace other currencies, which were in circulation during the period which followed the establishment of Union of Emirates in 1971. The currencies in use were the Bahraini dinar and the Qatari and Dubai riyal.

The UAE dirham was put in circulation for the first time on 19<sup>th</sup> May 1973. Following this, the Bahraini dinar and the Qatari/Dubai riyal were replaced within weeks, at the rate of one dirham for one riyal and ten dirhams for one dinar. A total of 12.9 million dinars and 131 million riyals were replaced by AED 260 million in circulation.

The Currency Board was not authorized to draw up the monetary policy of the country; its function was limited, per law, to issue the dirham and ensure full coverage in gold and foreign currencies. The value of the dirham in gold stood at 0.186621 gram and was pegged to the American dollar at a rate of 3.94737 per dollar, allowing for a narrow margin.

The Currency Board, despite its limited authorization, ensured the organization of banking in the country and the establishment of rules which govern the soundness of banking business. The Board, since its establishment and with the help of the International Monetary Fund, had succeeded in preparing, collecting and classifying of detailed monetary and banking statistics, regarding its business as well as that of banks operating in the country at that time. The Board used to issue an annual report, in addition to a bi-annual economic bulletin.

The Currency Board supported the country's escalating economic growth and helped in the establishment of a banking system and the development of its varied activities to cover all economic sectors in the country. The Board, furthermore, set up the first pillar of financial and economic stability on 10<sup>th</sup> December 1980, by issuing a new law - Union Law No. (10) of 1980, concerning the Central Bank, the monetary system and organization of banking, through which the Currency Board was changed into Central Bank of the UAE. Such change (in 1980) was extremely necessary, in view of the huge economic development, which coincided with the establishment of national banks (21 banks then) and with the currency in circulation reaching AED 2143 million as at 31<sup>st</sup> December 1980.

Union Law No. (10) of 1980 has given the Central Bank wide authorities, among which are: organization of the monetary, credit and banking policy and the supervision of its implementation. This has lent support to national economy and led to stability of currency. In order to achieve this, the Central Bank was authorized to : (1) issue currency per the provisions of the said law; (2) ensure support for currency and its stability inside and outside the country as well as its free convertibility into foreign currencies; (3) ensure a credit policy which helps in achieving balanced growth of national economy; (4) organize and develop banking as well as monitor the efficiency of the banking system, per the provisions of the law; (5) function as the Bank of the Government; (6) offer monetary and financial advice to the Government; (7) maintain government reserves in gold and other currencies; (8) act as bank of banks operating in the country; (9) act as financial agent of government at International Monetary Fund and World Bank as well as other institutions, and Arab/International Monetary Funds. The Central Bank is also authorized to handle all State transactions with such parties.

During the period from 11<sup>th</sup> December 1980, till date, the Central Bank, through the implementation of the provisions of the said law and the regulations, circulars and decisions issued by its Board, has established a strong and sound banking system which is among the best banking systems in the world.

The above has been achieved despite the fast growth of the country's economy which was reflected in the great expansion in the activities of the banks operating in the country. As such, cash in circulation increased from AED 2.1 billion in December, 1980 to AED 23.2 billion in June, 2007. Similarly, Money Supply (M1) increased from AED 7.3 billion to AED 150 billion and private domestic liquidity (M2) from AED 23.5 billion to AED 475.3 billion during the same dates.

Credit facilities granted to the private sector by banks operating in the country increased from AED 25.17 billion at the end of December, 1980, to AED 422.12 billion at the end of June 2007. Similarly, foreign assets increased from AED 19.41 billion to AED 237.76 billion, monetary deposits from AED 5.21 billion to AED 126.77 billion, quasi-monetary deposits from AED 16.17 billion to AED 325.33 billion, capital and reserves from AED 5.52 billion to AED 117.04 billion during the said dates. By the end of June 2007, total assets/liabilities of the balance sheet exceeded the Trillion dirham to reach AED 1002.57 billion.

On the other hand, the total assets/liabilities in the balance sheet of the Central Bank increased from AED 9.80 billion at the end of December 1980, to AED 163.11 billion at the end of June 2007 and Central Bank assets in foreign currencies and gold from AED 7.28 to AED 159.31 billion during the said dates.

Monetary and financial markets have matured and the level of performance became competitive to that in developed countries. In addition, the main cities in the country became centers of attraction to foreign investments and big international companies. Such unique performance of the banking and financial sector coincided with unprecedented growth in various economic sectors.