



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

Quarterly Economic Review

2022 Q1

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List of Abbreviations

ADX	<i>Abu Dhabi Securities Exchange</i>
AED	<i>United Arab Emirates Dirham</i>
BIS	<i>Bank for International Settlements</i>
CAR	<i>Capital Adequacy Ratio</i>
CBUAE	<i>Central Bank of the UAE</i>
CDs	<i>Certificates of Deposit</i>
CPI	<i>Consumer Price Index</i>
DFM	<i>Dubai Financial Market</i>
DONIA	<i>Dirham Overnight Index Average</i>
EBITDA	<i>Earnings before Interest, Taxes, Depreciation, and Amortization</i>
ECB	<i>European Central Bank</i>
EIBOR	<i>Emirates Inter-Bank Offer Rate</i>
EMDEs	<i>Emerging Markets and Developing Economies</i>
FCSC	<i>Federal Competitiveness and Statistics Center</i>
FOMC	<i>The Federal Reserve Open Market Committee</i>
Fed	<i>The US Federal Reserve</i>
GCC	<i>Gulf Cooperation Council</i>
GDP	<i>Gross Domestic Product</i>
GREs	<i>Government Related Entities</i>
IORB	<i>Interest on Reserve Balances</i>
IMF	<i>International Monetary Fund</i>
LTD	<i>Loan-to-Deposit</i>
M1	<i>Monetary Aggregate 1</i>
M2	<i>Monetary Aggregate 2</i>
M3	<i>Monetary Aggregate 3</i>
M-o-M	<i>Month-on-Month</i>
MENA	<i>Middle East and North Africa</i>
NEER	<i>Nominal Effective Exchange Rate</i>
NFCI	<i>National Financial Conditions Index</i>
NBFI	<i>Non-Banking Financial Institutions</i>
OPEC	<i>Organization of Petroleum Exporting Countries</i>
PMI	<i>Purchasing Managers' Index</i>
Q-o-Q	<i>Quarter-on-Quarter</i>
RBI	<i>Reserve Bank of India</i>
RHS	<i>Right Hand Side</i>
REER	<i>Real Effective Exchange Rate</i>
SAMA	<i>Saudi Central Bank</i>
SCA	<i>Securities and Commodities Authority</i>
TESS	<i>Targeted Economic Support Scheme</i>
UAE	<i>United Arab Emirates</i>
UK	<i>United Kingdom</i>
USA/US	<i>United States of America</i>
USD	<i>United States Dollar</i>
VAT	<i>Value Added Tax</i>
Y-o-Y	<i>Year-on-Year</i>
WEO	<i>World Economic Outlook</i>
WPS	<i>CBUAE's Wage Protection System</i>

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Chapter I. International Economic Developments and the UAE External Sector

I.1. Growth Outlook for Major UAE Economic Partners

Global growth was revised downward for 2022 from 4.4% to 3.6%

Decelerating growth in China and India was due to COVID-19 lockdowns and high commodity prices

GCC growth sustained its momentum amid rising oil prices

Global Growth

The global economy derailed from its robust recovery from the COVID-19 pandemic in the first quarter of 2022. In April, the IMF revised downward its global growth forecasts for the year 2022, from 4.4% to 3.6%, and warned over the risks of further downward revisions.

The unexpected deceleration was mainly due to the high level of uncertainties related to the Ukraine conflict, and to the persistence of COVID-19 that has led to frequent lockdowns in China and other countries, with implications on supply bottlenecks. In addition, the rising inflation in advanced economies to levels that were not seen in the past 30 years has prompted central banks to increase interest rates, leading to tighter monetary conditions that contribute to further slowing down the global economic growth.

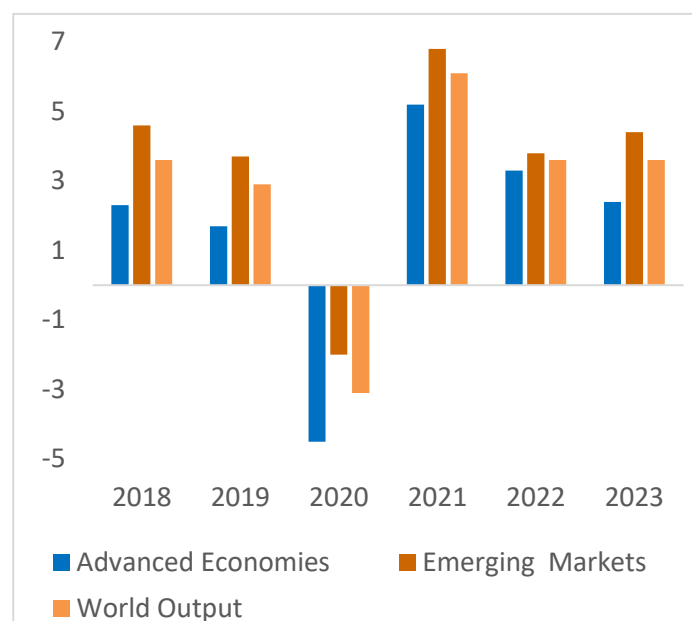
Advanced Economies

The US economy may be in a position to maintain the growth momentum in 2022, despite an unexpected contraction by an annualized 1.4% in the first quarter of the year. Other economic indicators illustrate an improvement in economic activity compared to the previous quarters, such as the decline in unemployment rate, reaching 3.6% at the end of the quarter.

The Eurozone expanded by 5% during Q1 2022, from an upwardly revised 4.7% during the previous quarter. Nonetheless, the Eurozone's economic performance is expected to be subdued due to the energy shock, the persistent supply bottlenecks, and the decline in consumer and business confidence as result of the Ukraine conflict.

Japan's economy shrank by an annualized 0.2% during Q1 2022. Challenges however remain such as geopolitical tensions, interest rate hikes in the U.S, and the lockdown in China. Meanwhile, the U.K. economy was estimated to have grown by 8.7% during Q1 2022 on the back of a recovery services, industry and construction sectors.

Figure.1.1. Global Growth and Forecasts (%)



Source: IMF WEO, 2022 April

Table.1.1. Real GDP Growth in Advanced Economies (%)

	2021	2022 F	Q1 2022 (Y-o-Y)
Global	6.1	3.6	-
USA	5.7	3.7	1.4
Eurozone	5.3	2.8	5.0
France	7.0	2.9	0.0
Germany	2.8	2.1	0.2
Italy	6.6	2.3	-0.2
UK	7.4	3.7	8.7
Japan*	1.6	2.4	-0.2*

Source: IMF WEO, April 2022 for global growth. National statistics authorities for the individual countries.

* Japan annualized Quarterly growth (Source: Cabinet office Japan)

Emerging and GCC Economies

Emerging markets experienced several unexpected shocks during the first quarter of 2022, with 70% revising their growth forecasts for year downward. The geopolitical tensions caused disruptions in the supply chain, a surge in inflation, and tightening and volatile capital markets.

The latest data on China shows a growth of 4.8% during the first quarter of 2022, exceeding expectations, despite the increasing COVID-19 cases and the zero-COVID policy that resulted in total lockdowns of major cities like Shanghai. However, growth for the overall year was revised downward by 0.4 percentage points to 4.4% for the year 2022, well below the official target of 5.5%.

The Reserve Bank of India has revised growth for 2022-23 to 7.8%, down from slightly over 9%. The downward revision was mainly due to the global financial market volatility, higher international commodity prices, and global supply-side disruptions.

The GCC monthly Purchasing Manager's Index (PMI) illustrate a sustained expansion of the non-oil sector, albeit at a slower pace compared to Q4 2021. Geopolitical tensions had a limited effect on the service sector, with the hydrocarbon sector gains from the higher prices offsetting any decline. Real GDP growth is expected to peak this year before decelerating in 2023.

Given the high level of uncertainties arising from the global growth perspectives, it is difficult to identify clear implications on the UAE economy. On one hand, the economic slowdown in advanced and emerging markets alike (especially the unprecedented low growth forecasts in China) can reduce oil demand for UAE's oil. On the other hand, global oil supply will most probably remain stable despite the decline in demand, which is needed to reduce oil prices in order to help containing the mounting inflationary pressures in most countries.

As a result of the sanctions on Russian oil imports by the U.S. and UK, Switzerland and European Union, exports from OPEC members will most probably accelerate. Yet, many OPEC members do not have spare capacity of production, have production disruptions, or are under oil embargo, and therefore cannot rapidly increase production. In this context, exports of oil from the UAE can contribute to filling some of the gap, given the UAE's estimated spare capacity.

Table.1.2. Real GDP Growth in Selected Emerging Markets (%)

	2021	2022 F	2023 F
Brazil	4.6	0.8	1.4
India	8.9	8.2	6.9
China	8.1	4.4	5.1
South Africa	4.9	1.9	1.4
Turkiye	11.0	2.7	3.0

Source: IMF, Regional Economic Outlook, April 2022

Table.1.3. Real GDP Growth in GCC Economies (%)

	2021	2022 F	2023 F
Saudi Arabia	3.2	7.6	3.6
Qatar	1.5	3.4	2.5
Bahrain	2.2	3.3	3.0
Kuwait	1.3	8.2	2.6
Oman	2.0	5.6	2.7

Source: IMF, Regional Economic Outlook, April 2022

Table 1.4. Oil Spare Capacity

In millions of barrel per day

	Sustainable capacity	Short order spare capacity	90-Day spare capacity
Saudi Arabia	12.2	1.2	2.1
UAE	4.1	0.6	1.2
Iraq	4.8	0.3	0.6
Kuwait	2.8	0.1	0.2
Russia	10.2	0.1	0.2
Others*	12.0	0.0	0.8
Total*	46.2	2.2	5.1

*Excludes Iran

Source: International Energy Agency, March 2022.

I.2. Inflation and Monetary Policy Response

High inflation projections for 2022: 5.7% in advanced economies and 8.7% in emerging markets

High commodity prices due to the Ukraine conflict

Wave of monetary policy tightening around the world except in China

Global Inflation Outlook

Inflation continued to rise rapidly in the first quarter of 2022 across the globe, to levels above the official targets of major central banks. Latest inflation projections for 2022 are around 5.7% in advanced economies and 8.7% in emerging and developing economies.

Factors that led to rising inflation since the second half of 2021 continue to persist, including supply bottlenecks and disruption in global value chains, regain in demand post confinement, sharp increase in housing prices, and commodity prices hitting record highs. In addition to its negative impact on growth, the Ukraine conflict is also contributing to soaring inflation. Energy, fertilizers, and food prices are rising sharply, with many experts pointing to a looming global food crisis.

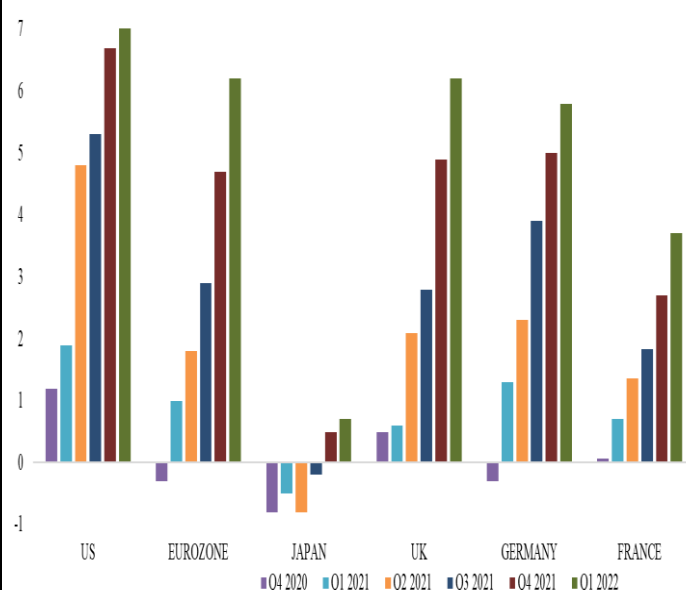
The benchmark gauge for world food prices, published by the Food and Agriculture Organization of the United Nations (FAO) increased by 19.1% from December 2021 to March 2022, led by a hike in the prices of vegetable oils and dairy products. While the overall Food Price Index retracted slightly in April; sugar, meat and dairy price sub-indices sustained moderate increases.

Advanced Economies Inflation and Policy Responses

The annual inflation rate in the US increased to 8.6% Y-o-Y in April 2022, the highest since December 1981. Energy prices increased by 32% overall, and food prices jumped by 8.8% during the same period. After keeping the US benchmark interest rate near zero since the beginning of the COVID-19 pandemic, the Fed raised its policy rate (the Federal Funds Rate) by 25 basis points (bps) to the range of 0.25%-0.5%. The Fed officials indicated that they are attentive to the risks of further upward pressure on inflation and inflation expectations.

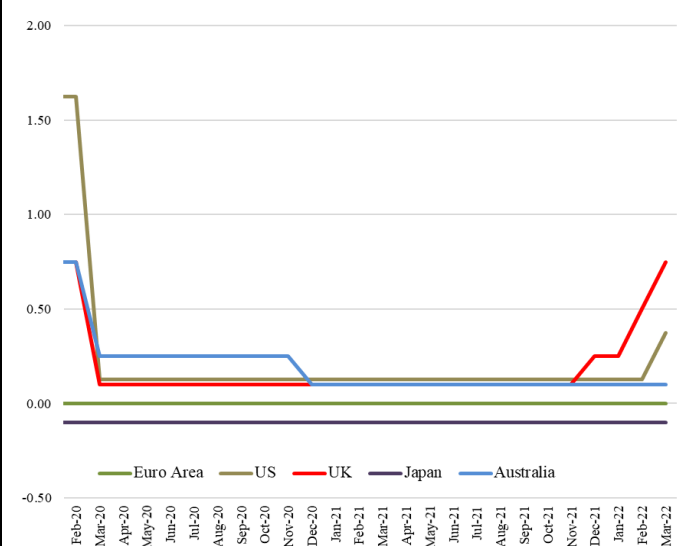
In the Eurozone, annual inflation rate increased to an all-time high of 7.5% Y-o-Y in March 2022, more than 3 times above the European Central Bank (ECB) target of 2%. At the end of Q1 2022, the ECB projected headline inflation to average 5.1% in 2022, while core inflation was projected to average 2.6%. Excluding energy and food prices, core inflation was limited to 3.2% in March 2022.

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



Source: Bloomberg

Figure.1.3. Policy Rates in Advanced Economies (%)



Source: BIS

The Y-o-Y annual inflation rate in the UK increased to 7.0% in March 2022, from 5.4% in December 2021. In March 2022, the Bank of England increased interest rates to 0.75% to tackle rising inflation in the UK. The base rate went back to its pre-pandemic levels. In Japan, inflation increased to 1.2% Y-o-Y in March 2022, the highest since October 2018. Core consumer prices increased by 0.8% Y-o-Y, in line with the forecasts but remained well below the Bank of Japan's 2% target.

Emerging and GCC Economies

Inflation accelerated in China more than expected, to 1.5% in March from 0.9% in February, with the People's Bank of China setting an annual price target of around 3% for 2022.

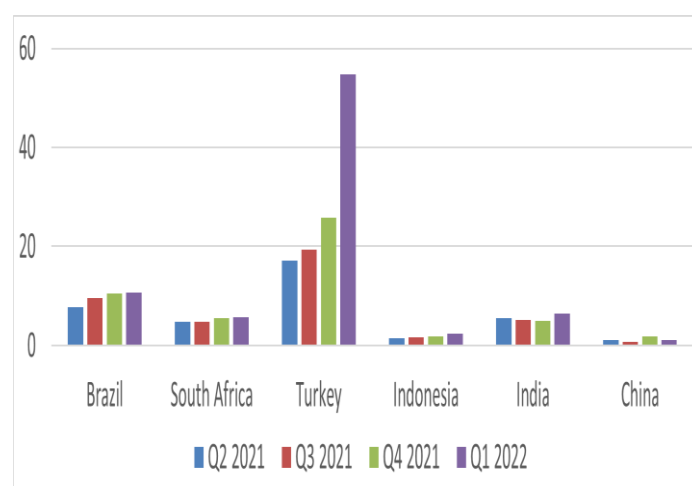
In contrast to most major economies that have started to tighten monetary policy to combat inflation, China relaxed its monetary policy to cushion its slowdown.

In India, the annual inflation rate rose to 6.9% in March 2022 Y-o-Y, the highest since October 2020, above the 2% to 6% tolerance limit of the central bank for a third month in a row. The Reserve Bank of India (RBI) in April 2022 revised upward its inflation forecast to 5.7% for Fiscal Year 2022-2023 from 5.3%, citing surging commodity prices. In February 2022, the RBI kept the repo rate unchanged at 4% for the eleventh consecutive time while maintaining an "accommodative stance".

The annual inflation rate in Saudi Arabia increased to 2.0% in March 2022 from 1.2% at the end of Q4 2021, in line with market expectations. It was the highest inflation rate since last June, mainly due to higher prices of transport (4.7%). Inflation in Kuwait increased slightly to 4.4% in March from 4.3% in December 2021, while Bahrain's annual inflation rate accelerated for the third straight month to 3.9% in March 2022, from 0.4% in December 2021. In Qatar, annual inflation rate reached 4.4% in March compared to 6.5% in December 2021, driven by upward pressures from cost of housing and utilities. Finally, in Oman inflation decreased to 3.6% in March 2022 from 3.7% at the end of Q4 2021; the lowest reading in four months. On a monthly basis, consumer prices edged up 0.1%.

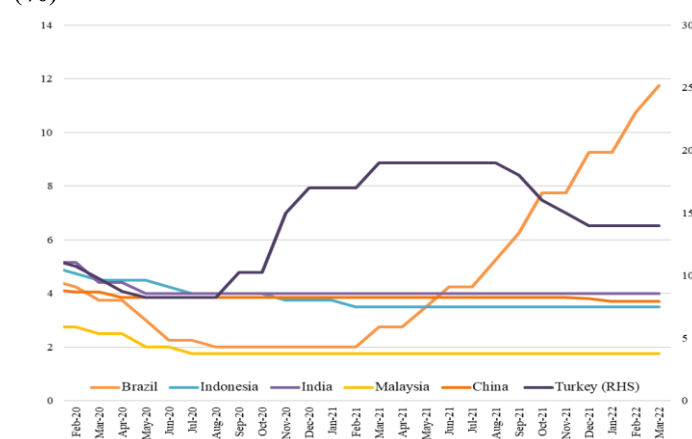
The GCC countries followed the Fed's rate increase on June 2022. Along with the central banks of Bahrain, Oman, and Qatar, the CBUAE raised its base rate, which is the interest rate applied on the Overnight Deposit Facility, by 75 bps. The Saudi Arabian Central Bank increased the rate by 50 bps, while Kuwait increased it by only 25 bps. The CBUAE also has decided to maintain the rate applicable to borrowing short-term liquidity from the CBUAE through all standing credit facilities at 50 basis points above the Base Rate, while The Saudi Central Bank (SAMA) raised its repurchase agreement (repo) rate by half a percentage point to 2.25% and its reverse repo rate by a similar margin to 1.75%, respectively.

Figure.1.4. Y-o-Y Average Headline Inflation in Selected Emerging Economies (%)



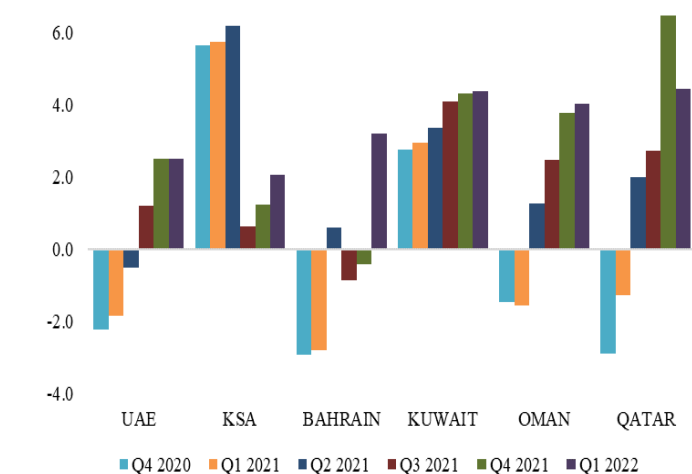
Source: Bloomberg

Figure.1.5. Policy Rates in Selected Emerging Economies (%)



Source: BIS

Figure.1.6. Y-o-Y Average Consumer Price Inflation in GCC Countries (%)



Source: Bloomberg

1.3. Global Markets Developments and the UAE External Sector

Volatility and uncertainty in financial markets are on the rise

International commodity prices surge

UAE trade in goods and services increases as the economy reopens

Global Financial Conditions

Expecting further increases in the interest rates by world's major Central Banks during 2022 and a wider credit spreads, the financial markets are showing a trend of continued tightening. This is reflected in the increase in the Chicago Fed's National Financial Conditions Index¹ (NFCI), albeit its still negative values indicate that financial conditions remain relatively loose.

Risks and uncertainties increased significantly in the aftermath of the Ukraine conflict. The VIX Index² that remained roughly flat in 2021, started increasing from 16.6 in early January 2022 to reach a peak of 36.5 in early March, before declining to 20.6 at the end of the quarter. Similarly, the World Uncertainty Index based on the Economist Intelligence Unit country reports, has also been increasing since early 2021, to grow by 33.6% in Q1 2022.

Commodities

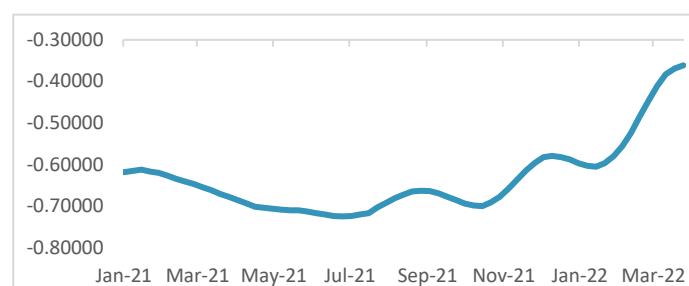
Due to a pick-up in transportation and economic activity in general, the price of Brent Crude continued its upward trend during the quarter, boosted by the Ukraine conflict. On average, Brent Crude rose from \$74.2 in December 2021 to \$117.3 in March 2022. Similarly, natural gas prices increased on average, during the same period, from \$3.8 per MMBtu to \$4.9 per MMBtu.

Meanwhile, other commodities such as aluminum and copper saw their prices rise by 29.5% and 8.9% respectively. Gold failed to function as an inflation hedge. After seeing its price increasing by 5.9% to reach \$1937.9 per oz in March 2022, gold prices moderated to \$1836 per oz in early June 2022, impacted by the appreciation of the US dollar.

UAE Trade

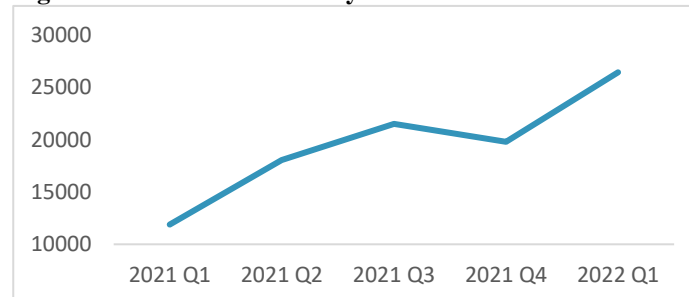
Consequential to the OPEC+ decision to keep increasing production for all member countries by over 400 thousand barrels per day in 2022, oil production in the UAE is estimated to have increased by 13% to more than 3 million barrels per day.

Figure.1.7. Chicago Fed's National Financial Conditions Index



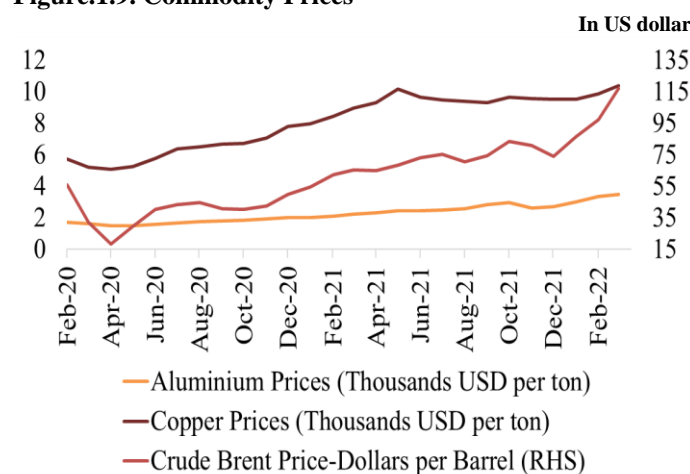
Source: Database, St. Louis Fed
Positive figures indicate tightening financial conditions.

Figure.1.8. World Uncertainty Index



Source: Worlduncertaintyindex.com

Figure.1.9. Commodity Prices



Source: Bloomberg

¹ NFCI provides a comprehensive update on financial conditions in the US money, debt, and equity markets

² The Chicago Board Options Exchange (CBOE)'s gauge, known as the volatility VIX Index, is a benchmark used to measure the expected future volatility of the S&P 500

Total non-oil exports increased Y-o-Y by 17.3% to reach AED 88.0 billion in Q1 2022, while re-exports increased by 20.4% to reach AED 130.5 billion. Parallel to that, imports rose by 21.7% to reach 281.2 billion, in response to the needs of the growing non-hydrocarbon activities.

Non-oil exports data in Q1 2022 highlighted India's top position as the UAE's major export partner, followed by Saudi Arabia, and Switzerland. Merchandise-wise, gold topped the list of leading commodities included in the UAE's non-oil foreign trade (17%), followed by diamonds, communication devices, mineral oils, jewelry, and cars.

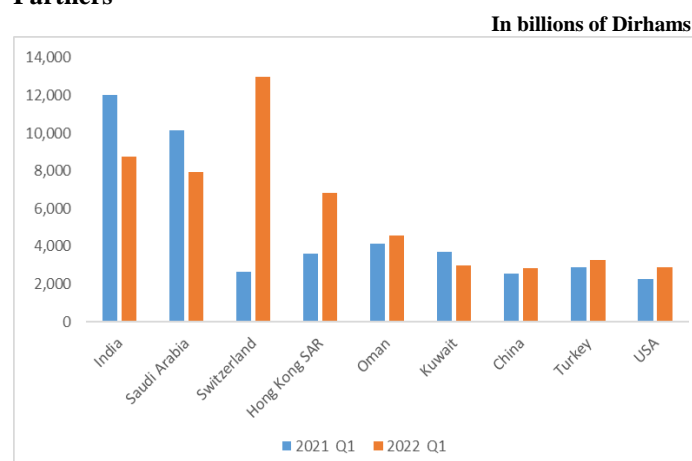
Total imports increased by 21.7% Y-o-Y in Q1 2022 to reach AED 281.2 billion in response to the economic recovery. The major partner is China, followed by India, the USA, The EU, Türkiye and Japan.

The number of international guests arriving in Dubai more than tripled in a year, increasing from 1.27 million in Q1 2021 to 3.97 million in Q1 2022. Also, the average occupancy in Dubai hotels increased from 64% to 82% during the same period of last year, while average revenue by available room more than doubled (from AED 251 to 534). Preliminary data for Abu Dhabi also shows a remarkable increase in room occupancy as well as average room revenue in Q1 2022, compared to the same period in the previous year. Yet, average spending by foreign hotel guests remained roughly flat during this period.

Being a major trade and logistics hub, the UAE transport industry would most definitely benefit from end of lockdowns and resumption of international travel. As the UAE is a trade and logistics hub, the transportation industry will most definitely benefit from the end of lockdowns and resumption of international travel. International travel is expected to increase during 2022 by 9.5%, while transportation is expected to increase by 14.1%.

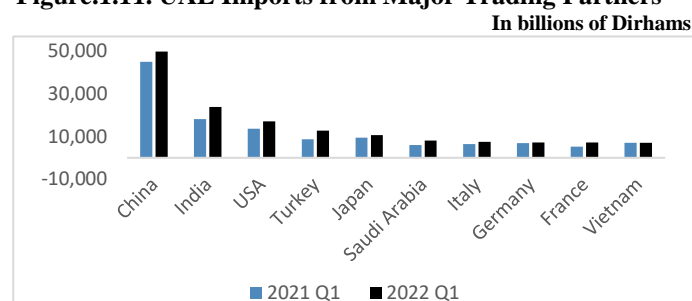
The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the bilateral exchange rates of the UAE's trading partners, appreciated Q-o-Q by 1.1% in Q1 2022 following an appreciation by 1.6% in the previous quarter, in line with the appreciation of the U.S. dollar. Meanwhile, the Dirham's Real Effective Exchange Rate (REER), which takes into account inflation differentials between the UAE and its trading partners, depreciated by 0.6% due to the fact that domestic inflation remains below the levels prevalent in UAE's trade partners.

Figure.1.10. UAE Non-oil Exports to Major Trading Partners



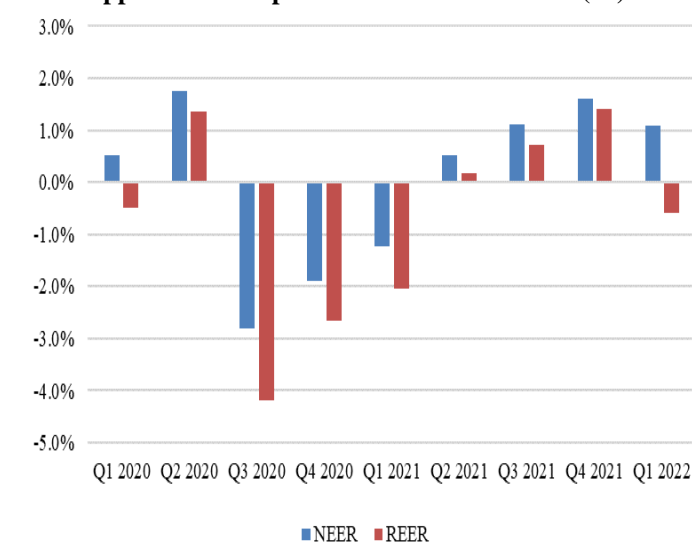
Source: FCSC

Figure.1.11. UAE Imports from Major Trading Partners



Source: FCSC

Figure.1.12. Q-o-Q Nominal and Real Effective Exchange Rates Appreciation/Depreciation of UAE Dirham (%)



Source: BIS

Chapter II. Domestic Economic Developments

II.1. Growth in the UAE

CBUAE estimated that real GDP has grown by 8.1% in Q1 2022 Y-o-Y driven by a sharp rise in oil GDP

Non-oil GDP driven by tourism-related sectors

Private consumption and investment rise in Q1 2022

Real GDP outlook

Overall real GDP experienced a strong performance during the first quarter of 2022, estimated to have increased by 8.2% Y-o-Y. It was driven by a sharp increase in oil production, as well as a noticeable improvement in the real non-oil GDP. For 2022 and 2023, overall real GDP is projected to grow by 5.4% and 4.2% respectively. There is a higher probability for growth being stronger, driven by higher oil production and by the government commitment to double the size of the manufacturing sector by 2031.

Oil GDP Evolution

In Q1 2022, oil production averaged 2.95 million barrels per day and the UAE hydrocarbon GDP is estimated to have grown by 13.0% Y-o-Y, in line with the OPEC+ agreements. Shocks to global oil supply and demand have added to oil price volatility and bolstered the level of the price. Depending the developments in global economic activity, recessionary expectations and geopolitical tensions, there may be space for increased oil supply to balance the markets and stimulate global growth. Oil GDP is projected to grow by 8.0% and 5.0% in 2022 and 2023, respectively, with both years depending on the evolution of the Ukraine conflict, and further post-Covid recovery stance.

Non-Oil GDP Evolution

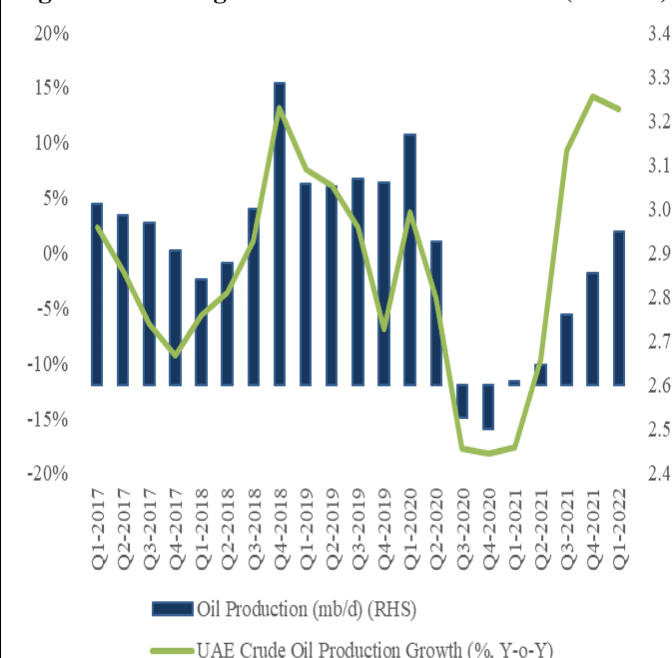
The non-hydrocarbon sector is estimated to have grown by 6.1% Y-o-Y in Q1 2022, benefiting from the removal of several COVID-19 related restrictions during the first quarter of 2022, and from the recovery in global travel as the UAE continued to be a global leader in containing the spread of the virus. At the end of Q1 2022, 97.2% of the eligible population was fully vaccinated and 100% of those eligible received at least one dose. For 2022 and 2023 as a whole, CBUAE projects the non-oil GDP to expand by 4.3% and 3.9%, respectively.

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

	2019	2020	2021 ^E	2022 ^F	2023 ^F
Overall GDP	3.4	-4.8	3.8	5.4	4.2
Non-oil GDP	3.8	-4.3	5.3	4.3	3.9
Oil GDP	2.6	-6.1	-0.1	8.0	5.0

Source: FCSC for 2019-2021, and CBUAE forecasts for 2022-23

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



Source: OPEC

Government Investment and Consumption

Federal Government revenues, which represent around 14.4% of total Consolidated Government revenues, increased in the last quarter of 2021, due to the pick-up both in oil production and non-oil economic activity. Given the rise in oil and gas prices and the expected increase in production, 2022 is set for higher revenue.

The UAE Cabinet approved a general federal budget of AED 58.9 billion for the year 2022. The largest share of the UAE 2022 federal budget (41.2%) was allocated to the development and social benefits sector, focusing on raising the nation's education, healthcare, and social affairs sectors to the highest standards. Total expenditures of the federal budget 2022-2026 were approved at AED 290 billion. The budget focuses on the leadership's vision and directives to provide the highest possible welfare for the nation's citizens and residents.

Private Investment

The UAE is benefitting from a vibrant private sector, supported by comprehensive reforms and a labor market attractive to best talents. The banking sector is stable and conducive to private investment.

The business condition survey shows that the business outlook in Q1 2022 was optimistic for all parameters, amid high market demand for goods and services as business operations get to pre-COVID levels, and as projects and customer numbers increase.

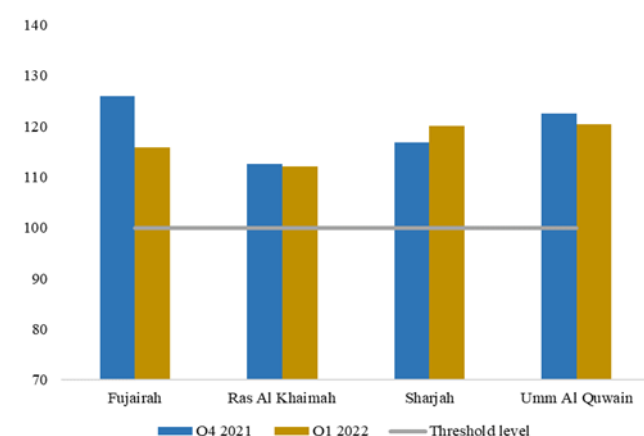
The UAE average PMI remained in Q1 2022 above the 50.0 no change mark for the 16th straight month, reaching 54.8 at the end of March 2022. Output and new orders continued to grow sharply amid a modest increase in export sales. Based on the PMI survey in March 2022, domestic sales were the main driver of GDP growth, and the rate of new business growth in the UAE non-oil firms remained close to the post-pandemic high of November 2021.

Private Consumption

Domestic consumption has picked up during Q1 2022, sustained by the increase in employment and wages. Based on the Wage Protection System (WPS), the number of employees and wages increased by 8.1% and 4.9% Y-o-Y respectively at the end of March 2022, reaching its highest level since the inception of the series in 2012. In addition, private sector credit increased by 2.5% Y-o-Y, which would further support domestic consumption.

Figure.2.2. Business Confidence Index in the Northern Emirates

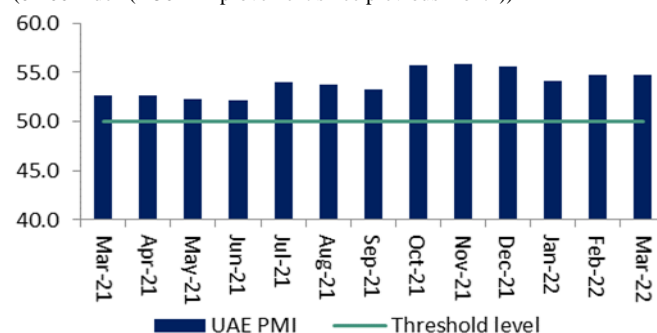
(BCI < 100, business expectations are negative/BCI = 100, business expectations are stable/BCI > 100, business expectations are positive)



Source: CBUAE

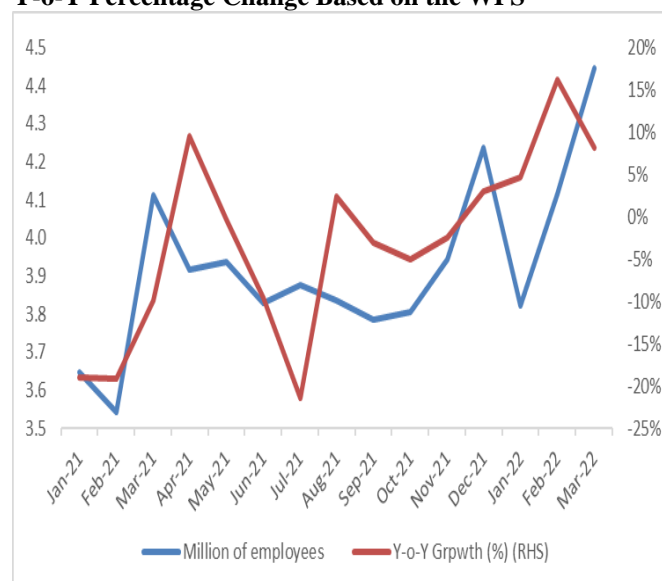
Figure 2.3. UAE PMI

(0-100 Index (> 50 = improvement since previous month))



Source: IHS Markit

Figure 2.4. Number of Private Sector Employees and Their Y-o-Y Percentage Change Based on the WPS



Source: CBUAE

II.2. Sectoral Analysis

Tourism spending and hotel occupancy rates rise significantly in Q1 2022

Real estate sales improved during Q1 2022

Telecommunications and transportation record strong increases

Real GDP sectoral composition

The real GDP is divided into 17 sectors, with the wholesale and retail trade remaining the most important non-hydrocarbon sector of GDP, contributing 19.6% to the non-oil GDP in 2021, followed by manufacturing, 12.7%, with construction activities being third with 10.6%.

Wholesale and Retail Trade

The wholesale and retail trade sector continues to show robust signs of recovery, surpassing 2019 levels by achieving a 4.5% growth in overall consumer spending in 2021 and presenting a positive outlook for 2022. The sector has witnessed an increasing appetite for digital experiences, particularly for high-quality omnichannel retailing.

Manufacturing

The manufacturing sector represented 12.7% of the 2021 non-oil GDP, making it the second largest non-hydrocarbon sector. As per the Ministry of Economy, the UAE manufacturing is shifting to sustainable practices, leading to a closed-loop production system by 2050. While in 2021 the GDP contribution of the manufacturing sector stood at AED 151.0 billion, the UAE government has put a target to double it to AED 300 billion by 2031³. The sector presents many opportunities, such as digital industrial robotics, 3D printing and fully automated warehouses and smart recycling. Localized manufacturing to shorten and regionalize supply and value chains is also a relevant development.

Telecommunications

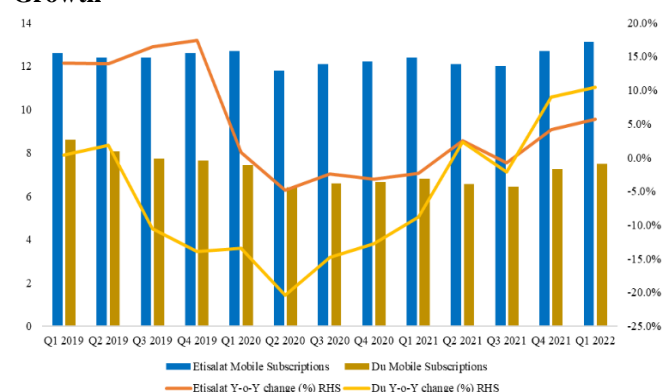
Mobile subscriptions for both operators, Du and Etisalat, continued to strongly increase in Q1 2022, rising by 10.4% and 5.6% Y-o-Y respectively. The increase is due to improvement in commercial activities, Expo 2020, and the increase in visitors and tourists to the UAE. All of this reflects the strong economic growth, and the higher level of domestic consumption during Q1 2022.

Table 2.2. Contribution to 2021 non-oil real GDP by economic activities

Economic Activity	%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	19.6%
Manufacturing	12.7%
Financial and insurance activities	11.4%
Construction	10.6%
Real Estate Activities	8.2%
Public Administration and Defense; Compulsory Social Security	7.4%
Transportation and Storage	6.1%
Professional, Scientific and Technical Activities and Administrative and Support Services	5.7%
Electricity, Gas, and Water Supply; Waste Management Activities	4.2%
Information and Communication	4.0%
Accommodation and Food Service Activities	2.9%
Human Health and Social work Activities	2.3%
Education	1.8%
Agriculture, Forestry and Fishing	1.3%
Activities of Households as Employers	0.9%
Arts, Recreation and Other Service Activities	0.8%

Source: FCSC

Figure 2.5. Etisalat and Du Mobile Subscriptions Y-o-Y Growth



Source: Etisalat and DU

³ Based on the Prime Minister industrial strategy "Operation 300Bn" announced on 21/3/2021, <https://wam.ae/en/details/1395302920337>

Real Estate

Real estate activities is the fourth most important non-hydrocarbon sector with 8.2% contribution to the non-oil GDP. Over the first quarter of 2022, both activity levels and performance in the UAE's real estate market have increased significantly. Looking ahead, increased interest rates may negatively impact demand for real estate. In the year leading up to March 2022, average residential property prices in Abu Dhabi climbed by 1.5%. According to REIDIN data, new supply in Abu Dhabi remains limited, with Al Raha Beach, Al Maryah and Reem Islands accounting for 71.1% of scheduled deliveries.

During the same period, average prices in Dubai grew by 11.3%. According to data from the Dubai Land Department, the overall amount of sales in Dubai's residential market increased in March 2022 by 83.4% from the previous year. Off-plan sales climbed by 94.6% over this period, while secondary market sales increased by 76.1%.

Utilities

The demand for electricity and water continues to rise mainly as a result of economic expansion, and initiatives and investments to make the sector more climate-friendly. The sector is undergoing significant transition in Abu Dhabi with the energy mix shifting towards renewables and nuclear power. In March 2022, the second of the four reactors at the Barakah Nuclear Energy Plant began commercial operations, as nuclear energy is planned to fulfill 25% of UAE's electricity needs once all four reactors are operational.

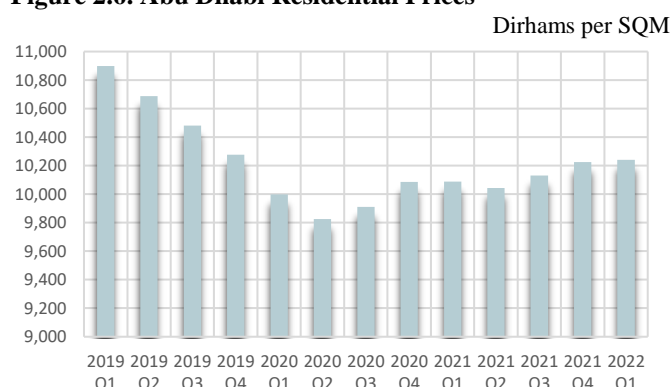
Tourism and hospitality

The UAE's tourism and hospitality industry recovered strongly from the COVID-19 crisis, with an average occupancy for Q1 2022 in Dubai of 82%, compared to 64% over the same period in 2021. This recovery is due to high safety measures, a massive vaccination campaign and well planned initiatives to get the sector back safely. The UAE also announced some visa policy changes aiming to boost tourism, where a standard visa allows visitors and holidaymakers to stay up to 60 days in the UAE, starting September 2022.

Transportation

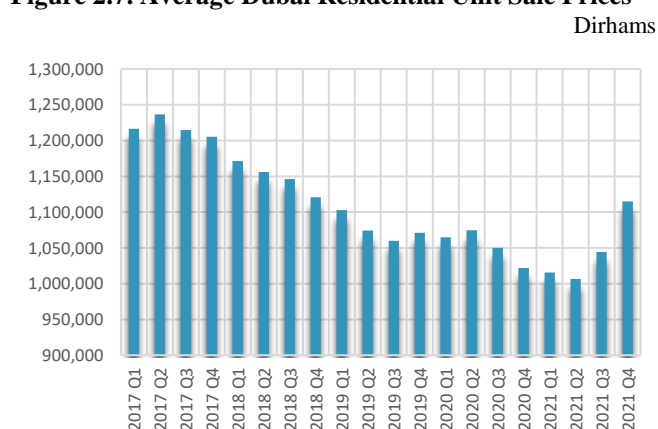
Abu Dhabi International Airport welcomed 2.6 million passengers in Q1 2022, which corresponds to 218.0% increase Y-o-Y, and a rise in number of flights rose by 38.8% Y-o-Y. Dubai International Airport (DXB) continued to be the world's busiest airport by number of international passengers as it welcomed 13.6 million passengers in Q1 2022. The recovery in both airports is an indicator of a rebound in UAE tourism and economic activity.

Figure 2.6. Abu Dhabi Residential Prices



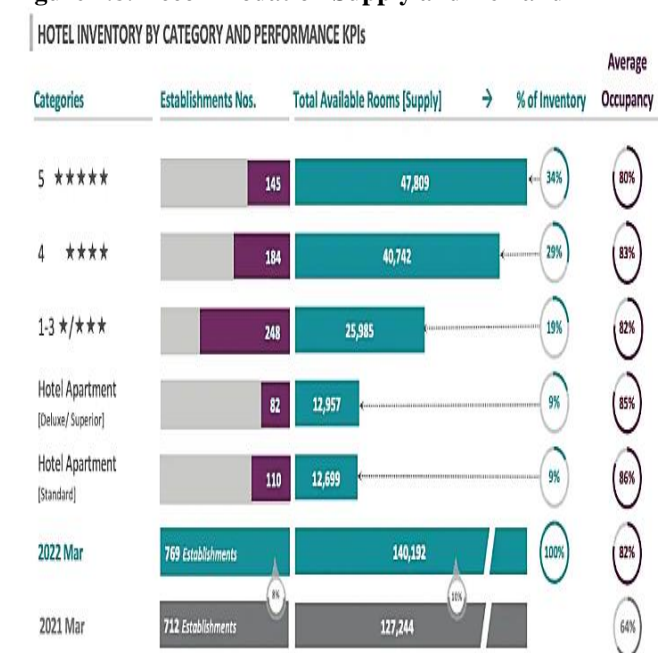
Source: REIDIN

Figure 2.7. Average Dubai Residential Unit Sale Prices



Source: DLD

Figure 2.8. Accommodation Supply and Demand



Source: Dubai Tourism

II.3. Inflation

Average headline CPI inflation at 3.4% in Q1 2022

CPI inflation for 2022 projected at 5.6%

Inflation driven by energy prices, imported inflation, and rising wages

Inflation drivers

The consumer price index (CPI) increased by 3.4 during 2022 Q1, compared to 0.6% and 2.3% in Q3 and Q4 2021 respectively, in line with global trends. On the rising side, average prices of transportation services, that represent 12.7% of the consumer basket, rose by 22.0% Y-o-Y during the first quarter, as a result of the increase in fuel, oil and car prices.

Recreation and culture also recorded positive inflation of 0.5% due to the higher prices of items such as holiday packages. Inflation in education, health services and communication increased as well by 0.9% and 2.3%, respectively, driven by the rise of imported equipment that is impacted by supply bottlenecks and shipment cost, in addition of an increase of fees and subscriptions.

Positive inflation was contained in 2021 by the decline in prices of heavier weight items. Housing and utilities prices decreased mainly due to a continuous decline in rents. The decline is shrinking in Q1 2022 as we see a recovery in rents both in Dubai and Abu Dhabi. Given that housing represents around 35.1% of the CPI basket, we expect overall inflation in the UAE to be positive in 2022.

Overall prices of textile goods were less expensive in 2021 because of lower prices of fabrics and ready-made clothes. This trend is reversing in Q1 2022, given the ongoing global inflation and the continuation of the disruption in global value chains.

Food and non-alcoholic beverages is considered one of the most important CPI groups, representing 12.0% of the basket. As the UAE depends on importing basic commodities, the Food and non-alcoholic beverage group is directly impacted by the evolution of global prices.

In Q1 2022, the rise in the world wheat and corn prices was particularly relevant, as international prices reached their highest levels in many years. The rise in food prices is due to global demand, an increase in fertilizer prices, decline in crop production in a number of the largest wheat-producing countries, and high shipping costs. In addition, the increasing fears of suspended supplies due to the Ukraine conflict, as exports from Russia and Ukraine represent about 30% of world wheat trade, further contributed to inflation of food prices.

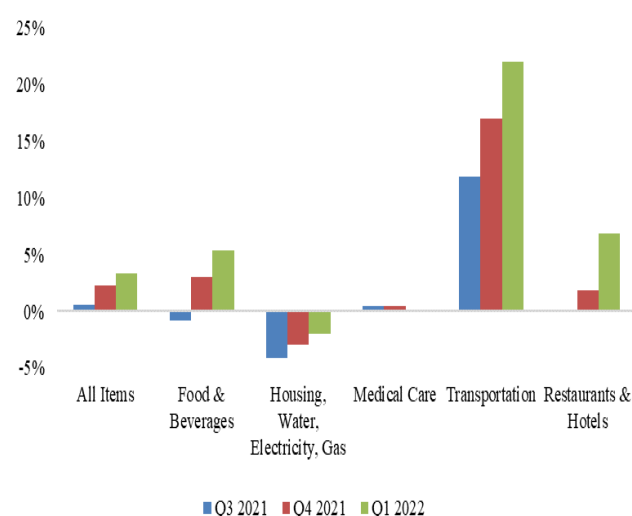
Table.2.3. UAE CPI Inflation in 2021 and Q1 2022

	Weights	Q3 2021	Q4 2021	Q1 2022
Items All	100%	0.6%	2.3%	3.4%
Food & Beverages	12.0%	-0.8%	3.1%	5.4%
Tobacco	0.2%	0.2%	0.8%	4.1%
Textiles, Clothing and Footwear	5.2%	-5.7%	0.4%	2.7%
Housing, Water, Electricity, Gas	35.1%	-4.1%	-2.9%	-2.0%
Furniture and Household Goods	5.1%	1.5%	1.8%	2.1%
Medical Care	2.2%	0.4%	0.5%	0.0%
Transportation	12.7%	11.9%	17.0%	22.0%
Communications	5.9%	-0.1%	0.1%	2.3%
Recreation and Culture	3.1%	18.1%	8.5%	0.5%
Education	7.6%	1.2%	0.1%	0.9%
Restaurants & Hotels	4.6%	0.0%	1.9%	6.9%
Insurance and Financial Services	1.3%	n.a.	n.a.	-1.7%
Miscellaneous Goods and Services	4.9%	-2.0%	-1.0%	-1.0%

Source: FCSC

Note: Q3&Q4 2021 = 2014 Base Year. Q1 2022 = 2021 Base Year

Figure.2.9. Headline and Major Categories Inflation (Y-o-Y, %) in the UAE



Source: FCSC and CBUAE calculations

Inflation projections

According to the IMF's "World Economic Outlook" report for the month of April 2022, inflation expectations reflect a rise in inflation rates for 2022 to levels unseen in advanced economies for decades. Despite the ongoing expectations of tighter monetary policy, IMF warns that oil and food prices might continue to increase, with possible second-round effects pressuring inflation upward.

In the UAE, the Central Bank projects overall inflation at 5.6% in 2022. The pass-through of higher oil price to fuel will have a significant impact on the cost of transportation and therefore on headline inflation. This is also valid for food-related items that are soaring globally, with inevitable consequences for the UAE.





Yet, the pricing mechanism implemented by the Ministry of Economy aiming at containing sharp swings in food-related commodities, is significantly contributing to moderating the impact on inflation. Under this mechanism, a group of commodities⁴ will require obtaining prior approval from the Ministry if suppliers desire to raise their price due to higher import costs.

Upward pressures on inflation would result from higher wages and higher rents. As a result, domestic demand shall increase and might put further pressure on prices, especially on the non-tradeables like rents.

The impact of imported inflation is expected to be mitigated by the fact that the UAE dirham is pegged to the US dollar. As the US dollar appreciated by around 10% vis-à-vis a basket of international currencies in Q1 2022 the UAE Dirham has also appreciated and therefore UAE's imports will be cheaper, limiting the pass-through effect of global inflation on the UAE inflation.

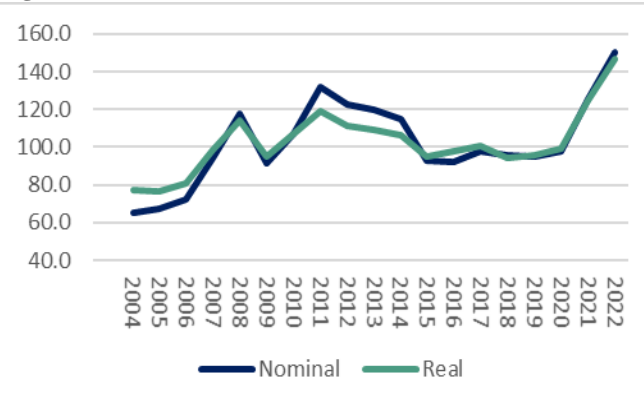
Figure.2.10. Monthly Fuel Prices in the UAE

Prices in AED per liter (including VAT)

				
June 2022	3.96	4.03	4.15	4.14
May 2022	3.48	3.55	3.66	4.08
April 2022	3.55	3.62	3.74	4.02
March 2022	3.05	3.12	3.23	3.19
February 2022	2.75	2.82	2.94	2.88

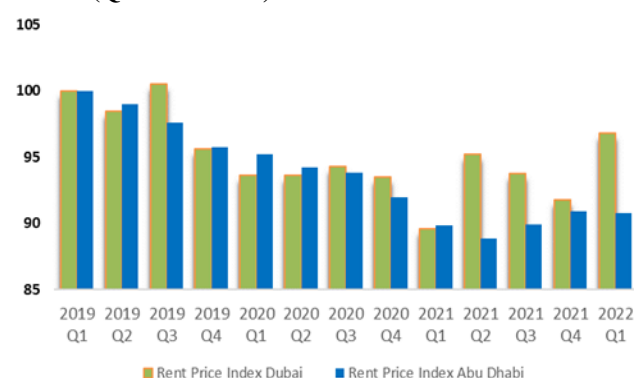
Source: ADNOC Distribution

Figure 2.11. FAO Food Price Index



Source: FAO

Figure 2.12. Average Abu Dhabi and Dubai Rent Price Indexes (Q1 2019 = 100)



Source: DLD & REIDIN

⁴ Including fresh and dry milk, fresh chicken and eggs, bread, flour, sugar, salt, rice and legumes, cooking oil, mineral water and others items

Chapter III. Monetary and Financial Markets Developments

III.1. Money Supply and Interest Rates

All monetary aggregates grew in Q1 2022

Short-term interest rates rose in Q1 2022

Monetary conditions have tightened on expectations of further interest rate increases

Monetary Aggregates

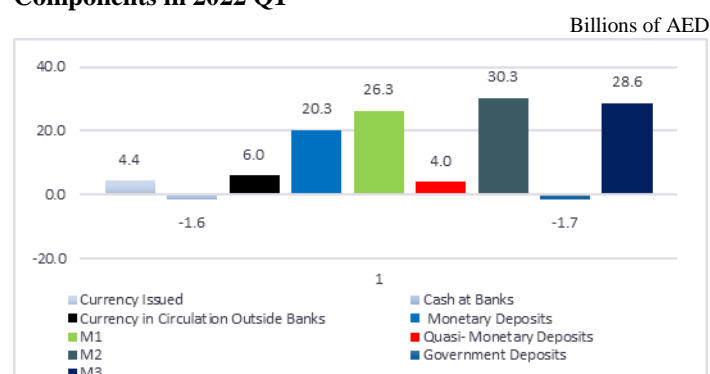
The monetary aggregate M1 rose by 3.7% Q-o-Q, standing at AED 728.2 billion, driven by an increase in monetary deposits by 3.3% and in currency in circulation by 6.4%. In addition, the monetary aggregate M2 increased by 1.9% Q-o-Q to reach AED 1,593.4 billion, due to the rise in quasi-monetary deposits (55.0% of M2) by 0.5% Q-o-Q. Subsequently, M3 grew Q-o-Q by 1.5% to AED 1,885.3 billion at the end of Q1 2022, despite the decline in government deposits at commercial banks and CBUAE (16.8% of M3) by 0.6%.

Interest Rates

Short-term interest rates in the UAE rose through Q1 2022, with the Dirham Overnight Index Average (DONIA) finishing the quarter 17 bps higher than at the end of Q4 2021. Driving the increase in short-term interest rates was an increase in the CBUAE's main policy rate, the base rate, which was increased by 25 bps to 40 bps on 17 March, in line with the US Federal Reserve's increase in its Interest on Reserve Balances (IORB) rate. Overnight interbank rates have tended to track below the base rate by around 1 bp on average, while volumes were subdued reflective of the large surplus liquidity position in the banking system through the quarter.

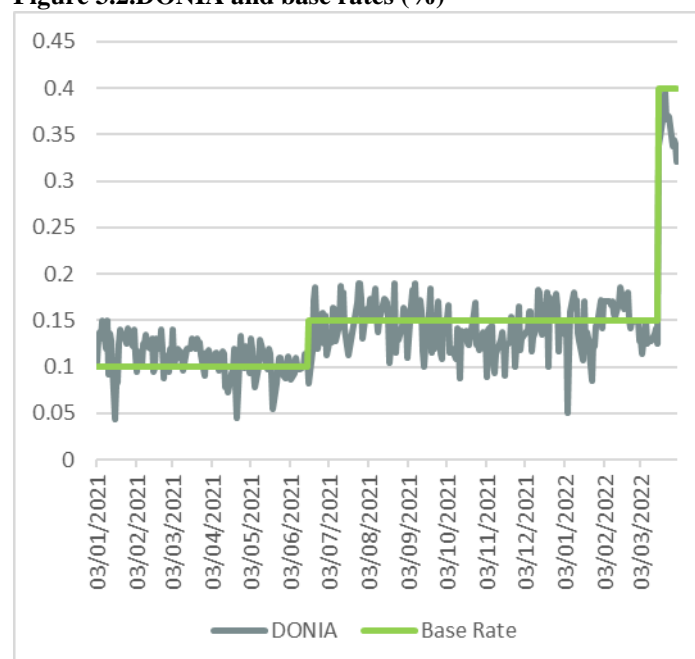
Beyond the increase in overnight interest rates, monetary conditions have tightened further on expectations of future interest rate increases. This was evident in the notable steepening of the interest rate curve through the quarter, with the spread between overnight and one-year EIBOR rates widening to 177 bps by quarter-end (compared to 61 bps at end 2021). Such trends were also evident in the swap curve while yields on M-Bills rose steadily through Q1 2022, with the final auction of the quarter seeing a weighted average yield of 50 bps on the 28-Day M-Bill (compared to 20 bps at 2021 year-end). Such movements have been broadly consistent with those of US money market and Treasuries' rates.

Figure 3.1. Q-o-Q Change in Monetary Aggregates Components in 2022 Q1



Source: CBUAE

Figure 3.2. DONIA and base rates (%)



Source: CBUAE

III.2. Banking Developments

Credit growth rebounded by 4.4% Y-o-Y in Q1 2022

Credit sentiment improved with a rising demand for loans from businesses and households

Bank deposits rose 6.6% Y-o-Y, mainly due to the increase in private sector deposits

Banking System Assets and Structure

The total UAE banking system assets increased by 5.1% Y-o-Y to AED 3,336 billion in Q1 2022. The number of bank employees rose by 845 compared to Q1 2021 to 33,882 at the end of March 2022 amid improving economic activity. The number of licensed commercial banks remained at 59 in Q1 2022, comprising 22 national banks and 37 foreign banks. Nonetheless, reflecting continued trend towards digitalization, the number of bank branches in the UAE declined by 22 since Q1 2021 to 585 in Q1 2022.

Banking System Credit and Deposits

Overall, bank lending rebounded by 4.4% Y-o-Y, reflecting improved credit sentiment. Domestic credit⁵ (89.5% of total loans) increased by 3.1% Y-o-Y. At the end of Q1 2022, total bank deposits increased by 6.6% Y-o-Y, while resident deposits (89.3% of total deposits) increased by 6.8% Y-o-Y. The strong growth in deposits was mainly due to private sector corporate and retail deposits.

The overall recovery in bank credit growth was driven by increments in lending to government-related corporate, private corporate and retail sectors. Private corporate credit rebounded from a negative growth rate in 2021, while strong retail credit growth continued in line with the trend in the previous year. The retail sector credit growth was evident across all key retail sub segments.

The CBUAE's Credit Sentiment Survey

The CBUAE's Credit Sentiment Survey for Q1 2022 highlighted the increase in credit appetite of banks (reflecting credit supply) and rising demand for loans from businesses and households. The demand for personal loans recorded the highest quarterly increase since 2014 due to the improvement in economic conditions, while rising demand for business loans was most prominent among large firms.

Table 3.1. Assets and Credit at UAE Banks

Billions of AED			
Item	Sep-21	Dec-21	Mar-22
Total Assets	3,247	3,322	3,336
(Y-o-Y change)	-0.2%	4.2%	5.1%
Gross Credit	1,777	1,794	1,832
(Y-o-Y change)	-1.6%	0.8%	4.4%
Domestic Credit	1,602	1,619	1,639
(Y-o-Y change)	-0.6%	1.4%	3.1%
Government	245	236	227
(Y-o-Y change)	-4.0%	-4.1%	-10.2%
GREs	223	245	264
(Y-o-Y change)	2.3%	9.6%	22.6%
Private Sector	1,119	1,121	1,133
(Y-o-Y change)	-0.2%	0.7%	2.5%
NBFIs	15	17	16
(Y-o-Y change)	-12.0%	20.0%	-4.3%
Foreign Credit	174	175	193
(Y-o-Y change)	-9.6%	0.6%	16.9%

Source: CBUAE

Note: Data as of end of period.

Table 3.2. Total Deposits at UAE Banks

Billions of AED			
Item	Sep-21	Dec-21	Mar-22
Bank Deposits	1,942	1,997	2006
(Y-o-Y change)	1.8%	5.0%	6.6%
Resident Deposits	1,699	1,766	1791
(Y-o-Y change)	-1.0%	5.0%	6.8%
Government Sector	297	288	291
(Y-o-Y change)	-11.0%	0.4%	5.1%
GREs	220	248	239
(Y-o-Y change)	-10.3%	-3.2%	-2.8%
Private Sector	1,146	1,191	1,220
(Y-o-Y change)	4.7%	8.3%	9.2%
NBFIs	36	38	41
(Y-o-Y change)	-15.2%	-4.8%	9.4%
Non-Resident Deposits	243	231	215
(Y-o-Y change)	27.1%	14.4%	5.6%

Source: CBUAE

Note: Data as of end of period.

⁵ Foreign credit (which accounted only for 10.5% of total loans) grew by 16.9% Y-o-Y mainly from the increase in loans to non-resident corporates.

III.3. Financial Developments

The UAE banks maintained adequate capital and liquidity

Share prices rose by 10.3% in Dubai and 17.2% in Abu Dhabi Q-o-Q

CDS premium for Abu Dhabi remained among the lowest in the Middle East and Africa

Financial Soundness Indicators

The UAE banking system remained well-capitalized, with an overall Capital Adequacy Ratio of 17.1%, Tier 1 Capital Ratio of 16.0%, and Common Equity Tier 1 Ratio at 14.2%. The Eligible Liquid Assets Ratio⁶, reflecting the banking system's liquidity, stood at 19.0% at the end of Q1 2022, well above the 10% minimum regulatory requirement. The strong growth in deposits compared to lending contributed to the favourable liquidity and funding conditions.

The Advances to Stable Resources Ratio⁷ was 79.4% at the end of Q1 2022, well below the 100% regulatory requirement, which indicates that loans and advances are covered by stable funding resources to a satisfactory degree. Overall, these banking indicators reflected adequate liquidity, stable funding, and capital resources available to support the UAE recovery.

Stock Exchanges

The Abu Dhabi Securities Exchange (ADX) share price index increased by 17.2% Q-o-Q in Q1 2022 and the market capitalization increased to reach AED 1.9 trillion. The Dubai Financial Market (DFM) share price index rose by 10.3% Q-o-Q and the market capitalization increased to reach AED 436.2 billion over the same period. The increase in both ADX and DFM was due to the listing of new companies, and the increase in share prices, volumes and market caps.

Credit Default Swaps (CDS)

For the government of Abu Dhabi, the CDS premium rose moderately by 7.5 bps to 50.4 bps. Abu Dhabi has a strong fiscal position and due to its large sovereign wealth funds it has one of the lowest CDS premiums in the MENA region. Meanwhile, Dubai's CDS increased moderately by 6.8 bps to 98.9 bps. However, these changes were relatively low compared to other MENA markets.

Table 3.3. Financial Soundness Indicators

Indicator	Sep-21	Dec-21	Mar-22
Advances to Stable Resources Ratio	77.9%	77.3%	79.4%
Eligible Liquid Assets Ratio	18.4%	19.6%	19.0%
Capital Adequacy Ratio	17.7%	17.2%	17.1%
Tier 1 Capital Ratio	16.5%	16.1%	16.0%
Common Equity Tier 1 Ratio	14.7%	14.2%	14.2%

Source: CBUAE

Note: Data as of end of period.

Table 3.4. UAE – Securities Markets

			Q4-2021	Q1-2022
Abu Dhabi	*Share Price Index	Q-o-Q	10.3%	17.2%
	*Market Capitalization	AED bn	1626	1869
	**Traded Value	Q-o-Q	17.8%	14.9%
		AED bn	118	101
Dubai	*Share Price Index	Q-o-Q	12.3%	-14.6%
	*Market Capitalization	AED bn	37.5%	10.3%
	**Traded Value	Q-o-Q	4.7%	6.4%
		AED bn	32.2	22.8
		Q-o-Q	227.5%	-29.3%

Source: SCA

Note: *indicates end of period

**indicates value during the whole quarter

Table 3.5. UAE – Sovereign Credit Default Swaps (CDS) (in bps)

	2021			2022
	Q2	Q4	Q4	Q1
Abu Dhabi	42.9	41.9	42.9	50.4
Dubai	93.5	90.4	92.1	98.9

Source: Bloomberg

Note: Average of the quarter

⁶ In the ELAR, the eligible liquid assets include required reserves, mandated by the Central Bank, certificates of deposits, m-bills held by banks at the Central Bank, in addition to zero-risk weighted government bonds and public sector debt and cash at banks.

⁷ Maximum prudential requirement is temporarily increased to 110% during the TESS program tenure.

III.4. Insurance Developments

4.6% Y-o-Y gains in gross written premiums, and 3.1% increase in the gross paid claims in Q1 2022

2.1% Y-o-Y increase in the total technical provisions in Q1 2022

2.6% Y-o-Y increase in the total assets, and 5.4% Y-o-Y increase in invested assets in Q1 2022

Insurance Sector Activity

The insurance sector in the UAE continued to grow in the Q1 2022 as reflected by the increase in number of insurance policies, gross written premiums and increase in the number of licenced insurance-related entities,⁸ while the number of insurance companies Y-o-Y remained the same in Q1 2022 at 62.⁹

Number of Insurance Policies

The total number of insurance policies increased Y-o-Y by 10.4% in Q1 2022 to 2.3 million policy compared to 2.1 million policy in Q1 2021. This is mostly due to the property and liability insurance policies.

Gross Written Premiums (GWP)

GWP increased Y-o-Y by 4.6% in Q1 2022 to AED 15.8 billion mostly due to increase in property and liability insurance premiums by 12.2%. Health insurance increased Y-o-Y by 2.5% in Q1 2022.

Paid Claims

Gross paid claims of all types of insurance plans increased by 3.1% Y-o-Y to AED 6.6 billion in Q1 2022. This is mainly driven by the increase in claims paid to engineering and construction industry, as well as fire.

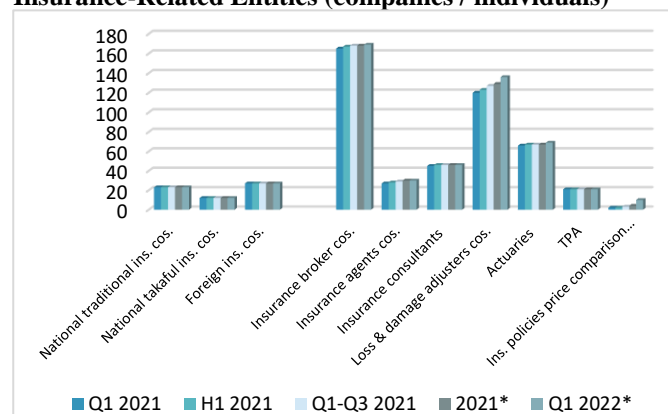
Technical Provisions

The total technical provisions increased by 2.1% Y-o-Y to AED 73.4 billion in Q1 2022 compared to AED 71.9 billion in Q1 2021, due to increase in all types of technical provisions.¹⁰

Invested Assets

The total invested assets in the insurance sector increased by 5.4% Y-o-Y to AED 77.8 billion (61.1% of total assets) at the end of Q1 2022 compared to AED 73.8 billion (59.4% of total assets) in Q1 2021.

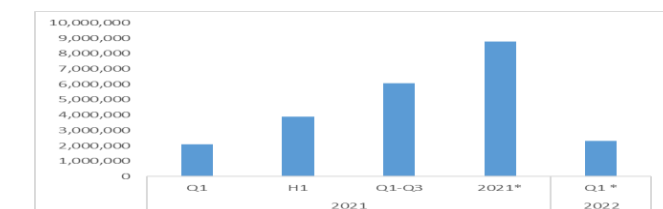
Figure 3.3. Number of Licensed Insurance Companies and Insurance-Related Entities (companies / individuals)



* Preliminary data, accumulative at end of period

Source: CBUAE

Figure 3.4. Number of Insurance Policies



* Preliminary data, accumulative at end of period

Source: CBUAE

Table 3.6. Key Indicators of the Insurance Sector

Billions of dirhams

Description	2021					2022
	Q1	H1	Q1-Q3	2021*	Q1*	Q1*
1- Gross Written Premiums	15.1	25.6	34.9	44.3	15.8	15.8
•Property & Liability	4.9	8.8	12.1	15.6	5.5	5.5
•Health Insurance	7.9	12.3	16.1	19.9	8.1	8.1
•Persons and Fund Accumulation	2.3	4.5	6.7	8.8	2.2	2.2
2- Gross Claims Paid	6.4	13.3	19.7	26.6	6.6	6.6
•Property & Liability	1.4	3.1	4.7	6.5	1.8	1.8
•Health Insurance	3.8	7.8	11.7	15.6	4.0	4.0
•Persons and Fund Accumulation	1.2	2.4	3.3	4.5	0.8	0.8
3- Technical Provisions	71.9	73.1	71.5	71.6	73.4	73.4
4- Total Invested Assets	73.8	76.8	77.2	79.1	77.8	77.8
5- Total Assets	124.2	125.4	122.3	123.4	127.4	127.4
6- Total Equity	27.8	27.7	28.1	28.2	28.1	28.1

* Preliminary data
Accumulative at end of period
Source: CBUAE

⁸ Insurance-related entities: any person and company licensed by the CBUAE to practice certain insurance-related activities.

⁹ <https://ia.gov.ae/en/open-data/registered-insurance-companies-and-related-professions>

¹⁰ The technical provisions which the insurers must maintain to meet their financial liabilities as per Law's stipulations and financial regulations for insurance and Takaful companies, <https://ia.gov.ae/en/RulesRegulations/financialregulationsDocs/Financial%20Regulations%20for%20Insurance%20Companies.pdf>

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