



# **Quarterly Economic Review**

**Third quarter 2021**

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## List of Abbreviations

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

## Executive Summary

Global economic growth momentum was maintained in the third quarter of 2021. The IMF forecasts 5.9% growth for the year, as downward revision for developed economies was offset by upward revision for Emerging and Developing Economies.

Economic activity in the UAE continued its upward trend in the third quarter. For 2021, CBUAE maintains real total GDP growth to reach 2.1%, with the real non-hydrocarbon GDP projected to increase by 3.8%. For 2022, CBUAE forecasts real total GDP to grow at a stronger pace by 4.2% and non-hydrocarbon real GDP to increase by 3.9%. However, economic projections are susceptible to uncertainties amidst COVID-19 repercussions. .

Headline CPI inflation rate in the UAE turned positive during the third quarter, for the first time since Q4 2018, at 0.6% Y-o-Y, as tradable and non-tradable inflation remained at 1.5% and 0.1%, respectively. Inflation for the year is expected to remain roughly flat. Y-o-Y residential real estate sales prices in Abu Dhabi rose for a third consecutive quarter, following five years of decline, while declining in Dubai at a marginal pace. Both, the Dirham effective nominal and real rates depreciated Y-o-Y, due to lower inflation compared to main trading partners and in line with the USD trend.

Total bank deposits increased on both yearly and quarterly basis. Gross credit contracted on a yearly basis, but the pace of decrease eased with a moderate growth during the quarter. Overall, the financial soundness indicators remained adequate during this period, on the back of the gradual recovery of the economy. CBUAE reaffirmed during the quarter its continued commitment to supporting the economic recovery through the Targeted Economic Support Scheme and confirmed that withdrawal of the emergency measures introduced in response to the pandemic will be gradual and appropriately timed.<sup>1</sup>

Finally, the 3-month USD LIBOR declined during the third quarter of the year. Monetary aggregates M1 and M3 increased Q-o-Q by 1.4% and 0.8%, respectively, due to an increase in resident deposits, including government deposits at CBUAE and commercial banks. Meanwhile, M2 declined by 0.2% Q-o-Q owing to the decline in quasi-monetary deposits.

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<sup>1</sup> CBUAE Press Release (23 September 2021): “*CBUAE committed to supporting continued economic recovery and confirms withdrawal of support measures will be gradual and well-timed*” and the press release of 18 December, available on line : - <https://www.centralbank.ae/sites/default/files/2021-12/CBUAE%20extends%20several%20measures%20of%20the%20Targeted%20Economic%20Support%20Scheme%20to%20facilitate%20post-COVID%20recovery%20of%20the%20UAE%20economy-EN.pdf>

# Chapter 1. International Economic Developments

*The IMF maintained its yearly growth forecast of the global economy in Q3 2021 at 5.9%, with the downward revision for advanced economies mostly due to persistent supply disruptions and labour shortages offset by higher growth in Emerging Market and Developing Economies despite the pandemic. Meanwhile, inflation has risen rapidly in most economies due to higher energy prices and continued supply constraints*

## 1.1 Economic Growth

In its October 2021 issue of the World Economic Outlook (WEO), the IMF projected the global growth for 2021 at 5.9% (5.2% growth in Advanced Economies and 6.4% growth in Emerging Market and Developing Economies (EMDEs)).

In the United States, Y-o-Y real GDP growth fell from 12.2% in Q2 to 4.9% in Q3. Nonetheless, the healthy positive growth was maintained despite supply chain constraints and labor shortages. This was largely due to continued progress on vaccinations and a faster reopening of economic activity, in addition to the USD 1.9 trillion fiscal stimulus brought in by the Biden administration.

In the Eurozone, Y-o-Y real GDP growth is estimated to have grown by 3.7% in Q3 2021, down from 14.2% in Q2. The slowdown was due to peaking demand in the 2<sup>nd</sup> quarter, mostly for consumption purposes in tandem with persistent supply chain disruptions. Growth was nonetheless maintained thanks to positive developments in the labor market and an easing of the pandemic related restrictions such as travel requirements and social distancing.

In the UK, Y-o-Y real GDP growth is estimated to have grown by 6.6% in the third quarter slowing from a record 23.6% in the previous quarter, which was due to base effects as output shrunk in 2020 and Q1 2021. Nonetheless, Y-o-Y was maintained in Q3 thanks to further easing of the previous restrictions, the continued fiscal support, and the fast recovery in contact intensive sectors.

EMDEs are estimated to grow by 6.4% in 2021 (IMF WEO, October 2021 issue). This owes much to growth in large economies like China and India.

China's Y-o-Y growth, albeit it scaled back from the previous quarter amid real estate problems which resurfaced with Ever Grande Group's debt crisis, energy shortages and ongoing supply chain delays, remained at 4.9%. Meanwhile, the Indian government expected growth to reach 10.5% in the current fiscal year (the government's financial year runs from 1 April 2021 to 31 March 2022), owing mainly to the reopening of contact intensive activities, and the rebound in construction and exports.

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

	2019	2020	2021		
			Q1	Q2	Q3
USA	2.6	-2.3	0.5	12.2	4.9
UK	1.2	-7.3	-6.1	23.6	6.6
France	0.9	-4.2	1.5	18.8	3.3
Germany	0.2	-2.3	-3.1	9.8	2.5
China	5.8	6.5	18.3	7.9	4.9
Japan	-1.4	-1.1	-1.3	7.6	1.4
India	3.3	0.4	1.6	20.1	8.4

Source: National Statistical Authorities

## 1.2 Inflation

Headline inflation has risen rapidly in advanced economies as well as in emerging and developing economies since the beginning of 2021, triggered by higher energy prices and some specific supply-side factors.

In the US, Y-o-Y average CPI inflation accelerated to 5.3% in Q3 2021<sup>2</sup>, as restrictions

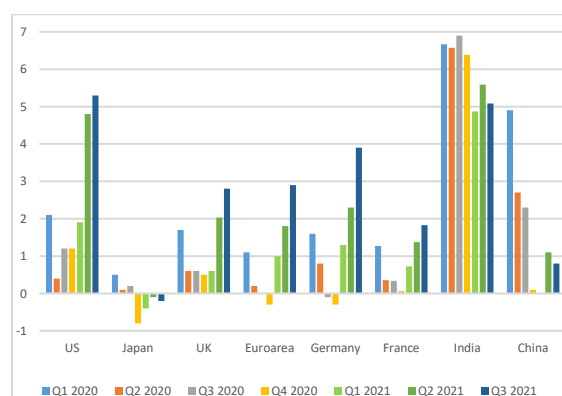
<sup>2</sup> By October 2021, Y-o-Y US Headline CPI inflation reached 6.2%.

were relaxed, and demand accelerated in the face of a slower supply response due to persistent disruptions and labor shortages.

In the Eurozone, headline Y-o-Y inflation reached 2.9%, i.e., above the 2% ECB's target, mainly due to persistent supply bottlenecks.

EMDEs were especially affected by supply shortages and imported inflation due to currency depreciation.

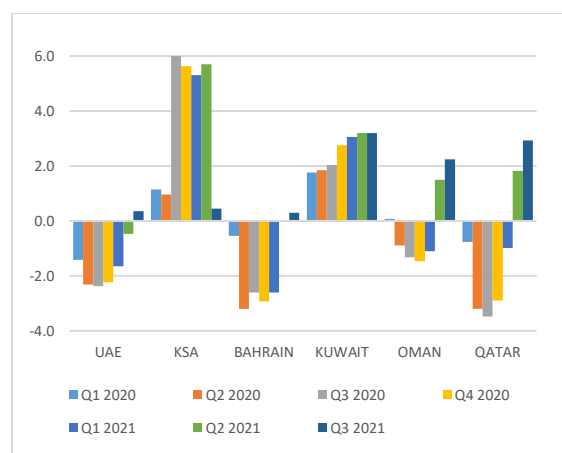
**Figure 1.2.a: Y-o-Y Average Headline Inflation in Selected Economies (%)**



Source: Bloomberg

In the GCC, inflation remained tame in the UAE, Saudi Arabia and Bahrain, while Y-o-Y average CPI inflation increased from 1.8% in Q2 2021 to 2.9% in Q3 in Qatar, and from 1.5% to 2.2% in Oman. This rise is due mainly to faster increase in prices of energy, transport, and food and beverages.

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



Source: Bloomberg

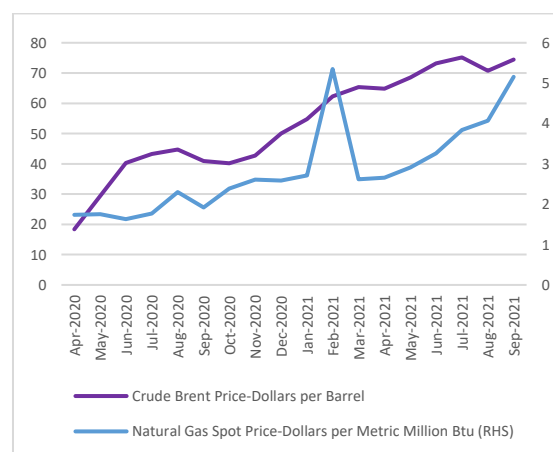
### 1.3 Commodity Prices

The price of Brent crude firmed up from USD 73.1 per barrel at the end of June 2021 to USD 74.4 per barrel at the end of September 2021, and increased from an average of USD 68.8 per barrel in Q2 2021 to USD 73.5 per barrel in Q3 2021. Higher prices are mostly a result of energy supply concerns and continued global oil stock drawdowns. In tandem with that, prices increased after the October 4 announcement by OPEC+ that the group would keep current production targets unchanged. Crude oil inventories in the U.S. decreased because of Hurricane Ida's impact on crude oil production in the Gulf of Mexico.

Natural gas prices increased on average from USD 2.94/MMBtu in Q2 to USD 4.36/MMBtu. The rising prices in recent months reflect U.S. natural gas inventory levels that are below the five-year average and continuing demand for natural gas for power generation.

Gold had a muted performance throughout the third quarter, with prices declining slightly from an average of USD 1,815 per ounce in Q2 2021 to USD 1,795 per ounce in Q3 2021, primarily due to outflows from gold-backed exchange-traded funds (gold ETFs) driven by a pick-up in USD real yields.

**Figure 1.3: Brent Crude and Natural Gas Prices**



Source: US Energy Information Administration (EIA)

### 1.4 Monetary policy

With policy rates in the US, UK and the Eurozone already at or near zero, the monetary authorities kept them unchanged in Q3 2021.

In the US, the Federal Open Market Committee (FOMC) announced at its September 2021 meeting that it will continue to put on hold any increase in the Federal Funds Rate and that “it would continue to increase its holdings of treasury securities by at least USD 80 billion per month and of agency mortgage-backed securities by at least USD 40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals.”<sup>3</sup> Due to the recent surge in inflation, nonetheless, Fed officials noted that it could be appropriate to start reducing the pace of asset purchases by the end of this year, provided that the economic recovery evolves as anticipated.

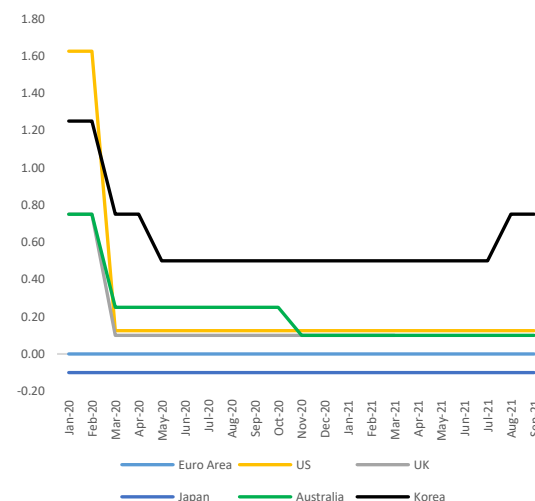
The ECB also left its policy rates at their current levels (0.00% on refinancing operations, 0.25% on the marginal lending facility, and -0.50% on the deposit facility), while it continued to conduct net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) with a total envelope of EUR 1,850 billion and its purchases under the Asset Purchase Programme (APP) at a monthly pace of EUR 20 billion. The program is expected to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

Bank of England’s Monetary Policy Committee (MPC) kept its policy rate at 0.1%, during the third quarter, while maintaining its target stock of asset purchases at GBP 895 billion (USD 1.2 trillion). The Committee judged that the existing stance of monetary policy remained appropriate.

The Bank of Japan expects short- and long-term policy interest rates to remain at their present or lower level (-0.1%), and announced that it will continue Quantitative and Qualitative

Monetary Easing (QQE) with Yield Curve Control, aiming to achieve its 2% inflation target

**Figure 1.4: Policy Rates in Selected Advanced Economies (%)**



Source: BIS

<sup>3</sup> Press Release available here:

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20210922a.htm>



## Box 1: The surge in US inflation and its impact on policy rates in the US and the UAE

In recent years, inflation in the US and other developed economies remained below the 2% target. However, a surge has been observed in recent months, with the Personal Consumption Expenditures Index (PCE), the Fed's preferred gauge, increasing Y-o-Y by 4.4% in September, and the headline Consumer Price Index (CPI) increasing by 5.4% in September and 6.2% in October 2021. The surge was mostly due to high increase in energy costs and food prices.

For decision-making purposes, the important question is whether the surge in US inflation is temporary or rather lasting, in which case the Fed will be expected to increase its policy rate (the Federal Funds Rate) sooner than previously announced.

The FOMC meeting concluded on 3 November that inflation is “largely reflecting factors that are expected to be transitory.”<sup>4</sup> This means that inflation is expected to moderate with the easing of supply constraints, and therefore it is expected to decrease to the 2% target or moderately above it. As a result, the statement emphasized that it will be appropriate to maintain the Federal Funds Rate in the current range of 0-0.25% “until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.”<sup>5</sup>

Given high uncertainties and rising risks of further increase in prices, however, there were already signs of increasing inflation expectations, with the 10-Year Breakeven Inflation Rate showing an expected annual inflation for the coming 5 years rising from

about 1.0% in March 2020 to 2.7% in November 2021<sup>6</sup>.

The expected increase in the Federal Funds Rate would lead to an increase in CBUAE's Base Rate applicable to the Overnight Deposit Facility (ODF), which provides an effective interest rate floor for overnight money market rates in the UAE. The Central Bank will be monitoring economic and financial developments and the liquidity situation of banks operating in the UAE to support the financing needs of the private sector.

CBUAE reaffirmed in Q3 2021 its continued commitment to supporting the economic recovery through the Targeted Economic Support Scheme (TESS) and confirmed that withdrawal of emergency measures introduced in response to the pandemic will be gradual and appropriately timed.<sup>7</sup>

<sup>4</sup> See Fed's Press Release dated 3 November 2021, available online: <https://www.federalreserve.gov/newsevents/pressreleases/money20211103a.htm>

<sup>5</sup> See the Fed's Press Release dated 3 November 2021, *supra*.

<sup>6</sup> See the Federal Reserve Bank of St Louis' estimates available online: <https://fred.stlouisfed.org/series/T10YIE>

<sup>7</sup> CBUAE Press Release (23 September 2021): “CBUAE committed to supporting continued economic recovery and confirms withdrawal of support measures will be gradual and well-timed” and the press release of 18 December, available online: <https://www.centralbank.ae/sites/default/files/2021-12/CBUAE%20extends%20several%20measures%20of%20the%20Targeted%20Economic%20Support%20Scheme%20to%20facilitate%20post-COVID%20recovery%20of%20the%20UAE%20economy-EN.pdf>

## Chapter 2: Domestic Economic Developments

*Economic activity in the UAE continued its upward trend in the third quarter. Total real GDP growth in 2021 is projected at 2.1% and at 4.2% for the following year. Headline CPI inflation rate turned positive during the quarter, for the first time since Q4 2018, thanks to higher energy prices and strong consumer demand. Inflation is expected to remain roughly flat in 2021. The Dirham depreciated Y-o-Y in both nominal and real terms.*

### 2.1 Economic Activity and Growth

The non-oil sector continued its upward trend in Q3 2021, as a result of the pick up in local and global demand, while the country continued to be a leader in containing the spread of the coronavirus. The UAE kept its top position globally since the beginning of the pandemic in the number of tests and in the distribution of the vaccine per capita, with 83.7 million tests and 20.0 million vaccines rolled out by the end of September 2021. This corresponded to over 846 tests performed and 202 vaccines administered per 100 people, with 83% of the population being vaccinated fully and 94% at least with one dose.

Residential real estate market kept improving, with prices in Abu Dhabi registering Y-o-Y gains for the third consecutive quarter in more than five years, while declining in Dubai at a marginal pace.

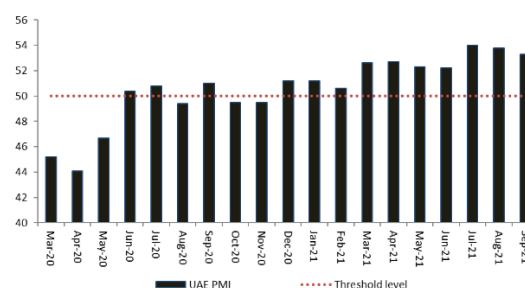
Employment and average salary remained roughly flat during the quarter, while they were higher than the last pre-crisis month – February 2020, as proxied by CBUAE's Wage Protection System (WPS) data<sup>8</sup>.

The average UAE PMI increased by 6.6% Y-o-Y in Q3, moving further up in the expansion zone to 53.3 in September. The improvement reflects the better sentiment boosted by the wide vaccination program and the Dubai World EXPO starting at the end of the quarter.

Tourism and hospitality data in Dubai in the first nine months of 2021 showed a recovery in hotel occupancy to 62%, up from 51% recorded

during 2020, owing mostly to the resumption of international travel.

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



Source: IHS Markit

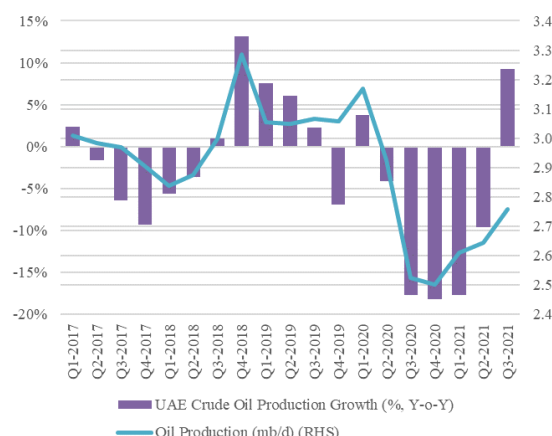
Meanwhile, the Oxford Stringency Index<sup>9</sup> went down from 61 at the end of June 2021 to 42 at the end of September, affirming the relative reopening of the economy compared to its GCC regional peers with an average of 44. Such reopening is expected to benefit the UAE, given its role as a regional trade, transportation and tourism hub, and in light of the start of the EXPO 2020.

CBUAE weighted these developments in its assessment and forecasts 3.8% real non-oil GDP growth for the year 2021.

The UAE's oil production increased by 9.3% Y-o-Y and by 4.3% Q-o-Q, in line with the agreement by OPEC+. Real oil GDP growth projection has been kept to -2.0% in 2021, corresponding to an average oil production of 2.72 mb/d for the year as a whole.

<sup>8</sup> Including employees under the Ministry of Human Resources and Emiratization, Jebel Ali Free Zone Authority and some employed by licensed financial institutions, where the labour related authority is not participating in the WPS.

<sup>9</sup> A measure, produced by the University of Oxford, between 0 and 100, indicating the level of closure, due to restrictions, aiming to reduce the spread of COVID-19.

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

Source: OPEC

CBUAE projects overall real GDP to grow by 2.1% during this year<sup>10,11</sup>, based on the non-hydrocarbon economy's performance and UAE's realized oil production in the first 10 months of the year, OPEC+ announcements and the anticipated output schedule.

For 2022, CBUAE kept its projections at 4.2% overall real GDP growth, with the non-oil real GDP expected to increase by 3.9%, owing to the continued increase in public spending, positive outlook for credit growth, higher

employment and better business sentiment, as Dubai World EXPO will continue to take place in Q1 2022. Furthermore, being a major tourism, transit and trade hub in the region, the UAE is expected to benefit from the removal of travel restrictions and events such as the FIFA World Cup which is planned to take place in Qatar in Q4 2022.

Real oil GDP growth projection for 2022 has not been changed and remains at 5.0%, reflecting the expected increase in demand with majority of the world economies being vaccinated.

Both, non-oil and oil GDP projections for 2022 are subject to upside risks, if global economies, trade and travel reach the full recovery point faster than expected, while downside risks are related to uncertainties around new variants and vaccination rates globally.

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

	2019	2020	2021 <sup>F</sup>	2022 <sup>F</sup>
Overall GDP	3.4	-6.1	2.1	4.2
Non-oil GDP	3.8	-6.2	3.8	3.9
Oil GDP	2.6	-6.0	-2.0	5.0

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

<sup>10</sup> Forecasts subject to revision, due to the high uncertainty around COVID-19.

<sup>11</sup> CBUAE forecasts the real non-oil GDP using univariate model where the quarterly real non-oil GDP Y-o-Y growth is explained by the lagged Y-o-Y growth of the fiscal spending, and the Y-o-Y

growth of the quarterly credit, UAE real estate sales prices, PMI and employment. The real oil GDP growth is estimated/projected based on hydrocarbon output and considering other value adding activities in the sector. The contribution of the real non-oil GDP is approximately 70% of the total GDP.

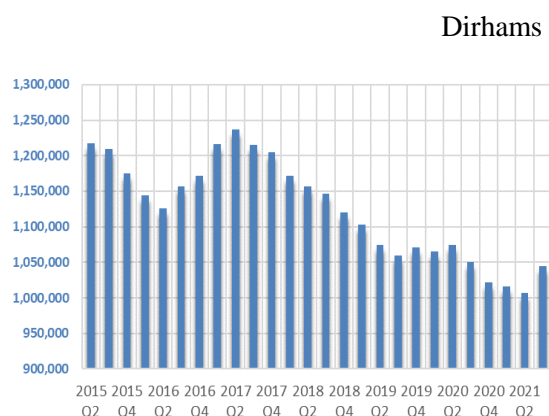
## 2.2 Developments in the Residential Real Estate Market

In Q3 2021, residential real estate prices marked a third quarter of Y-o-Y increase in Abu Dhabi, while rising Q-o-Q as well. In Dubai sales prices Y-o-Y growth almost flattened, with a significant pick up Q-o-Q.

### Dubai Residential Market

According to recent data from Dubai Land Department (DLD),<sup>12</sup> residential property prices in the Emirate declined on average by 0.6% Y-o-Y in Q3 2021, while rents dropped by 0.5% Y-o-Y. The implied rental yield<sup>13,14</sup> moved to 6.8% in Q3 2021, down from 7.2% in the previous quarter, as a result of decline in rents and rise in sales prices during the quarter.

**Figure 2.2.a. Average Dubai Residential Unit Sale Prices**

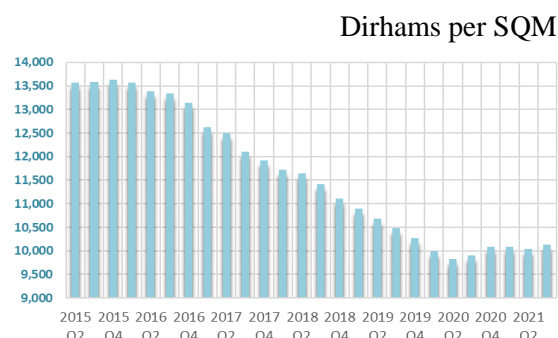


Source: DLD

### Abu Dhabi Residential Market

According to the REIDIN house price index, the average price per square meter in the Abu Dhabi housing market increased for a third consecutive quarter. Average Abu Dhabi residential prices registered a growth of 2.2% Y-o-Y in Q3 2021, same as in the previous quarter.<sup>15</sup>

**Figure 2.2.b. Abu Dhabi Residential Prices**



Source: REIDIN

The increase in rents by 1.2% Q-o-Q, in parallel with the rise in sales prices Q-o-Q by 0.9%, resulted in increasing rental yield to 6.6%, compared to 6.5% in the second quarter of the year. However, rents in Abu Dhabi declined in the third quarter of 2021 by 4.2% Y-o-Y.

<sup>12</sup> Data from DLD remain subject to revisions.

<sup>13</sup> The rental yield measures the rate of income return over the cost associated with an investment (the property price).

<sup>14</sup> CBUAE calculates the implied rental yield in Dubai, by dividing the annual rent by the average Dubai residential unit

sale prices. Annual rent and average Dubai residential unit sale prices are provided by DLD.

<sup>15</sup> REIDIN Residential Price Index in Abu Dhabi covers 7 areas and 5 districts.

## 2.3 Inflation

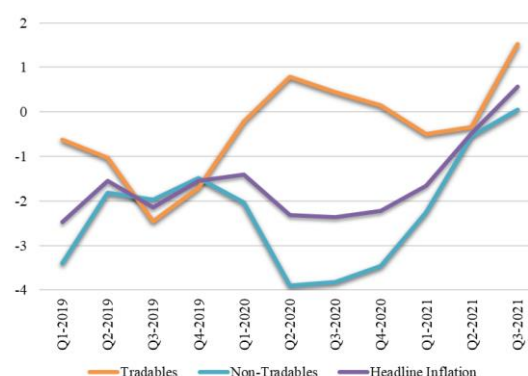
Headline CPI inflation turned positive in the third quarter of 2021 for the first time since Q4 2018, with the headline consumer price index increasing by 0.6% Y-o-Y, compared to a drop by 0.5% in the previous quarter. This was the result of a marginal increase by 0.05% in the price of non-tradables, i.e., goods and services that are not traded across borders, therefore their prices are mainly determined by domestic supply and demand conditions<sup>16</sup>. Meanwhile, tradables<sup>17</sup> prices rose by 1.5%.

Tradables prices, accounting for 34% of the CPI consumption basket, picked up in Q3 due to the rise in prices in most categories except food and soft drinks, and miscellaneous goods and services. The spike by more than 6% in oil prices during the quarter put pressure on the prices of the transportation category, registering an inflation of 11.9%, the highest among the components of the tradeables basket.

The continued drop in the housing component prices (34% weight in the consumer basket) by 4.1% Y-o-Y was the main driver of the moderate inflation of non-tradeables during Q3. Prices of all other non-tradeables were increasing, except for miscellaneous goods and services where they were falling.

CBUAE projects the average CPI inflation for 2021 to remain roughly flat, being negative in the first nine months of the year at -0.5%, in view of the still recovering real estate market and private consumption, and the uncertain economic environment. CBUAE expects the inflation to be in positive territory in the last quarter of 2021.

**Figure 2.3. Headline, Tradable and Non-Tradable Inflation (Y-o-Y, %) in the UAE**



Source: FCSC and CBUAE calculations

<sup>16</sup> As per CBUAE calculations, non-tradables includes the following categories of goods and services: housing; medical care; transportation; communications; recreation and culture; education; restaurants and hotels; and miscellaneous goods and services.

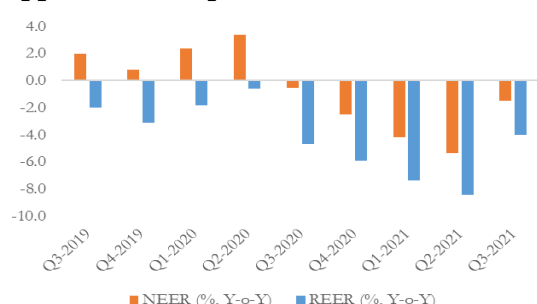
<sup>17</sup> As per CBUAE calculations, tradables include the following categories of goods and services: food and soft drinks; beverages and tobacco; textiles, clothing and footwear; furniture and household goods; transportation; and miscellaneous goods and services.

## 2.4 Exchange Rates and Outward Personal Remittances

### 2.4.1 Exchange Rate

The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the bilateral exchange rates of the UAE's trading partners, depreciated by 1.5% Y-o-Y, after a depreciation of 5.4% in the previous quarter in line with the trends of the USD.

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



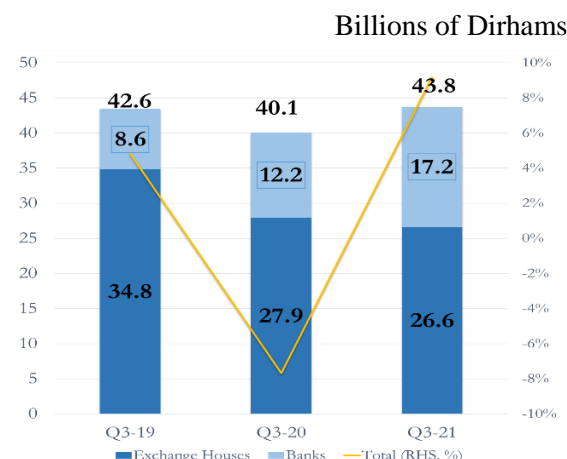
Source: BIS

In real terms, the Dirham Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, depreciated by 4.0% Y-o-Y in the third quarter, due to the lower inflation in the UAE during the period compared to the inflation rates prevailing in the trading partners.

### 2.4.2 Outward Personal Remittances

In Q3 2021, outward personal remittances increased by 9.2% or AED 3.7 billion Y-o-Y. There was a rise of outward remittances through banks by AED 5.0 billion or 29.2%, while transfers through exchange houses dropped by AED 1.3 billion or 5.1%.

**Figure 2.4.2. Outward Personal Remittances Settled Through Banks and Exchange Houses, Q3 2019-2021**



Source: CBUAE

The top five countries for outward personal remittances during the second quarter were India, Pakistan, the US, the UK and the Philippines, accounting for 26.0% and 12.3%, respectively for the first two, while the last three accounted for 6.6% each, of the total.



## Chapter 3. Banking and Financial Developments

*Domestic credit contracted Y-o-Y, albeit at a decreasing pace, with a moderate growth in credit during the quarter. Meanwhile, bank deposits continued to rise; and overall, the financial soundness indicators remained healthy, positioning the banking system towards further supporting the UAE economic recovery.*

### 3.1 Banking Structure

The number of licensed commercial banks remained unchanged at 58 in the third quarter of 2021. The total of 58 banks comprises of 21 national banks and 37 foreign banks (including 10 wholesale banks). Moreover, national bank branches fell by 1 compared with the previous quarter to reach 521 at the end of Q3 2021. Meanwhile, the number of banks' staff fell by 1,138 Y-o-Y (-3.4%) but rose by 130 Q-o-Q (0.4%) to reach 32,753 employees at the end of September 2021.

#### 3.1.1 Bank Deposits

Resident deposits (87.5% of total deposits) declined by 1.0% Y-o-Y in the third quarter of 2021, owing mainly to a decline in government deposits. Private sector deposits increased by 4.7% Y-o-Y (AED 51 billion), while non-resident deposits (12.5% of total deposits) increased by 27.1% Y-o-Y (AED 52 billion).

About 77.9% of the deposits at the end of Q3 2021 are at conventional banks and the remaining 22.1% at Islamic banks. Also, the share of national and foreign banks' deposits represented 88.2% and 11.8%, respectively.

**Table 3.1.1. Total Deposits at UAE Banks**

Billions of Dirhams

Item	Mar-21	Jun-21	Sep-21
<b>Bank Deposits</b>	1,881	1,909	1,942
(Y-o-Y change %)	-0.2%	2.3%	1.8%
(Q-o-Q change %)	1.6%	1.5%	1.8%
<b>Resident Deposits</b>	1,678	1,683	1,699
(Y-o-Y change %)	-0.3%	1.0%	-1.0%
(Q-o-Q change %)	2.6%	0.3%	1.0%
<b>Government Sector</b>	277	282	297
(Y-o-Y change %)	-3.5%	-2.6%	-11.0%
(Q-o-Q change %)	8.7%	1.6%	5.5%
<b>GREs</b>	246	227	220
(Y-o-Y change %)	-3.4%	-5.5%	-10.3%
(Q-o-Q change %)	-5.3%	-7.7%	-3.1%
<b>Private Sector</b>	1,117	1,134	1,146
(Y-o-Y change %)	1.5%	3.8%	4.7%
(Q-o-Q change %)	3.8%	1.5%	1.1%
<b>NBFI</b>	37	41	36
(Y-o-Y change %)	-6.3%	-8.8%	-15.2%
(Q-o-Q change %)	-14.4%	8.6%	-12.1%
<b>Non-Resident Deposits</b>	204	226	243
(Y-o-Y change %)	0.5%	12.6%	27.1%
(Q-o-Q change %)	-6.1%	10.9%	7.8%

Source: CBUAE

Note: Data as of end of period. September data are preliminary.

#### Banks' Assets and Credit

Total assets slightly fell in the third quarter by 0.2% Y-o-Y while gross bank credit decreased by 1.6% Y-o-Y amid contraction in the corporate loan portfolio compared to a year ago. Nonetheless, Q-o-Q credit growth rebounded in Q3 2021, in particular for domestic private sector credit. Domestic credit decreased by 0.6% compared to a year ago driven mainly by a Y-o-Y reduction in lending to the corporate and government sectors, while domestic quarterly credit growth recovered moderately by 0.4% Q-o-Q.

**Table 3.1.2.a. Assets and Credit at UAE Banks**

Billions of Dirhams

Item	Mar-21	Jun-21	Sep-21
<b>Total Assets</b>	3,176	3,209	3,247
(Y-o-Y change %)	-0.4%	0.6%	-0.2%
(Q-o-Q change %)	1.5%	1.0%	1.2%
<b>Gross Credit</b>	1,754	1,769	1,777
(Y-o-Y change %)	-1.4%	-1.2%	-1.6%
(Q-o-Q change %)	-0.8%	0.9%	0.4%
<b>Domestic Credit</b>	1,590	1,596	1,602
(Y-o-Y change %)	-0.4%	-1.9%	-0.6%
(Q-o-Q change %)	-0.3%	0.4%	0.4%
<b>Government</b>	253	246	245
(Y-o-Y change %)	0.2%	-2.7%	-4.0%
(Q-o-Q change %)	10.2%	-2.7%	-0.2%
<b>GREs</b>	215	224	223
(Y-o-Y change %)	-2.1%	2.5%	2.3%
(Q-o-Q change %)	7.0%	3.9%	-0.4%
<b>Private Sector</b>	1,106	1,113	1,119
(Y-o-Y change %)	-0.2%	-2.3%	-0.2%
(Q-o-Q change %)	-3.8%	0.6%	0.6%
<b>NBFI</b>	16	14	15
(Y-o-Y change %)	-2.4%	-20.6%	-12.0%
(Q-o-Q change %)	1.9%	-16.7%	8.9%
<b>Foreign Credit</b>	165	174	174
(Y-o-Y change %)	-9.6%	5.9%	-9.6%
(Q-o-Q change %)	-4.8%	5.5%	0.3%

Source: CBUAE

Note: Data as of end of period. September data are preliminary.

In lending to domestic economy, the highest increase was in Mining and Quarrying by 19.4% Y-o-Y (AED 2.5 billion), followed by Electricity, Gas and Water by 10.3% Y-o-Y (AED 2.7 billion), and by Construction and Real Estate by 0.3% Y-o-Y (AED 1.0 billion). Lending in all other activities declined resulting in the total domestic credit falling by 0.6% Y-o-Y.

Total assets of national banks marginally increased by 0.01% Y-o-Y, while total assets of foreign banks fell by 1.4%. Foreign banks had a 12.4% share in total assets and a 9.6%

share in gross credit. Meanwhile, total assets of Islamic banks declined by 3.5% Y-o-Y while assets of conventional banks increased by 0.6%. Looking at the type of banks at the end of September 2021 the share of Islamic banks was 18.4% in total assets and 21.7% in total gross financing of the banking system.

**Table 3.1.2.b. Domestic Credit by Economic Activity**

Billions of Dirhams

Economic Activity	Jun-21	Sep-21
<b>Total</b>	<b>1,596</b>	<b>1,602</b>
(Q-o-Q change %)	0.4%	0.4%
(Y-o-Y change %)	-1.9%	-0.6%
<b>Of which:</b>		
<b>Mining and Quarrying</b>	<b>15.3</b>	<b>15.2</b>
(Q-o-Q change %)	4.2%	-0.4%
(Y-o-Y change %)	33.4%	19.4%
<b>Manufacturing</b>	<b>75</b>	<b>77</b>
(Q-o-Q change %)	2.4%	2.7%
(Y-o-Y change %)	-6.3%	0.2%
<b>Electricity, Gas and Water</b>	<b>28.9</b>	<b>28.7</b>
(Q-o-Q change %)	3.2%	-0.7%
(Y-o-Y change %)	8.3%	10.3%
<b>Construction and Real Estate</b>	<b>324</b>	<b>328</b>
(Q-o-Q change %)	0.3%	1.2%
(Y-o-Y change %)	-0.9%	0.3%
<b>Trade</b>	<b>137.4</b>	<b>136.5</b>
(Q-o-Q change %)	-1.5%	-0.7%
(Y-o-Y change %)	-12.6%	-8.0%
<b>Transport, Storage and Communication</b>	<b>83</b>	<b>81</b>
(Q-o-Q change %)	-1.9%	-3.1%
(Y-o-Y change %)	-1.0%	1.9%
<b>All Others</b>	<b>932</b>	<b>937</b>
(Q-o-Q change %)	0.6%	0.4%
(Y-o-Y change %)	-0.9%	-0.3%

Source: CBUAE

Note: Data as of end of period. September data are preliminary.

With regard to bank lending to Micro, Small and Medium Enterprises (MSMEs), it increased by AED 1.3 billion to reach AED 93.9 billion at the end of the third quarter, 1.4% Y-o-Y higher than the level at the end of Q3 2020.



### 3.1.2 Financial Soundness Indicators

The Advances to Stable Resources Ratio (ASRR) of the banking system increased from 77.7% at the end of June 2021 to 77.9% at the end of September 2021, which indicates that the structural funding of the banking sector remained sound. Eligible Liquid Assets<sup>18</sup>, as a percent of total liabilities<sup>19</sup> rose to 18.4%, well above the 10% minimum regulatory requirement, constituting an adequate liquidity buffer of the banking system.

Total liquid assets at banks at the end of the third quarter of 2021 stood at AED 485.2 billion, increasing by 8.2% Y-o-Y (AED 36.9 billion higher compared to the end of September 2020).

Overall, the UAE banking system remained well capitalized, with an average Capital Adequacy Ratio (CAR) at 17.7%, Tier 1 Capital Ratio at 16.5%, and Common Equity Tier 1 Ratio (CET 1) at 14.7%.<sup>20</sup>

**Table 3.1.3. UAE Financial Soundness Indicators**

	Mar-21	Jun-21	Sep-21
<b>Total Banking System</b>			
Advances to Stable Resources Ratio (ASRR)	77.5%	77.7%	77.9%
Eligible Liquid Assets Ratio (ELAR)	18.8%	18.3%	18.4%
Capital Adequacy Ratio (CAR)	17.9%	17.5%	17.7%
Tier 1 Capital Ratio	16.7%	16.3%	16.5%
Common Equity Tier 1 (CET 1) Ratio	14.7%	14.5%	14.7%

Source: CBUAE

Note: Data as of end of period. September data are preliminary.

Loans to Deposits (LTD) ratio for the whole banking system decreased to 91.5% at the end of the third quarter, slightly below the 92.7% at the end of the previous quarter, due to the higher growth in deposits compared to loans during the period.

<sup>18</sup> 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

## 3.2 Financial developments

### 3.2.1 Share Prices

The Abu Dhabi Securities Exchange (ADX) share price index increased by 12.6% Q-o-Q and by 70.4% Y-o-Y, while the Dubai Financial Market (DFM) index rose by 1.2% Q-o-Q and by 25.2% Y-o-Y.

The sharp increase in ADX general share price index and market capitalization was due to strong demand, positive market sentiment, and the ADX One Strategy which aims to boost market liquidity and further improve market efficiency.

**Table 3.2.1. UAE – Securities Markets**

			Jun-21	Sep-21
Abu Dhabi	Share Price Index	Q-o-Q	15.6%	12.6%
		Y-o-Y	59.5%	70.4%
	Market Capitalization	AED bn	1169	1381
		Q-o-Q	35.7%	18.2%
		Y-o-Y	136.3%	101.9%
	Turnover (Traded Value)	AED bn	30.1	33.4
		Q-o-Q	39.3%	12.6%
		Y-o-Y	692.4%	320.3%
Dubai	Share Price Index	Q-o-Q	10.2%	1.2%
		Y-o-Y	43.8%	25.2%
	Market Capitalization	AED bn	388	391
		Q-o-Q	8.8%	1.0%
		Y-o-Y	32.3%	23.4%
	Turnover (Traded Value)	AED bn	4.7	3.6
		Q-o-Q	9.9%	-22.8%
		Y-o-Y	-25.3%	-52.7%

Source: SCA

### 3.2.2 Credit Default Swaps (CDS)

CDS, a type of insurance against default by the debtor, decreased generally worldwide during the third quarter of 2021 compared to 2020 levels with improving economic conditions. The government of Abu Dhabi CDS premium fell by 1.0 basis points (bps) to 41.9 bps, remaining the lowest CDS premium in the Middle East and

<sup>19</sup> Balance sheet total assets less (capital and reserves + all provisions except staff benefit provisions + refinancing + subordinated borrowing/deposits).

<sup>20</sup> The minimum regulatory requirement for CAR is 13% (10.5% minimum adequacy and 2.5% capital conservation buffer), 8.5% for Tier 1, and 7% for CET 1.

Africa region, while for the Emirate of Dubai, the premium decreased by 3.1 bps to 90.4 bps.

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

	2021		
	Q1	Q2	Q3
Abu Dhabi	44.7	42.9	41.9
Dubai	107.8	93.5	90.4

**Source:** Bloomberg

**Note:** All data are quarterly averages

## Chapter 4. Interest Rates and Money Supply

*LIBOR rates continued to fall during the third quarter of the year, leading to an increase in the spread between the EIBOR and the USD LIBOR. Monetary aggregates M1 and M3 increased thanks to a rise in resident private sector deposits, while M2 declined due to a fall in quasi-monetary deposits.*

### 4.1 Interest rates

#### 4.1.a Short-term interest rate

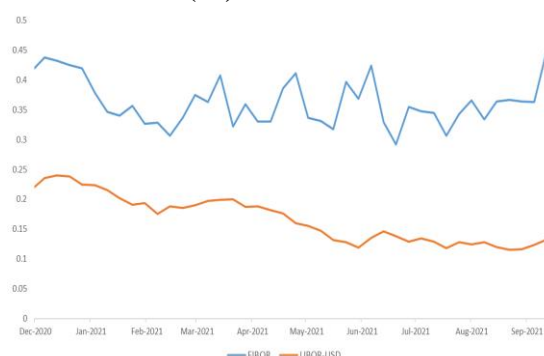
The Fed kept its policy rate in Q3 in the range of 0.00-0.25% and maintained its monthly purchases at USD 120 billion (USD 80 billion in treasuries and USD 40 billion in asset-backed securities, albeit it announced later faster tapering to start in January 2021.

The 3-month USD LIBOR decreased, nonetheless, from 0.19% in the last week of Q2 to 0.13% in the last week of Q3.

Meanwhile, the 3-month EIBOR rose from 0.33% to 0.45%, %, owing to a pickup in demand for credit compared to the previous quarter.

The above developments resulted in the spread of 3-month EIBOR vis-à-vis 3-month USD LIBOR increasing from 18.3 bps in the last week of June to 31.8 bps at the last week of September.

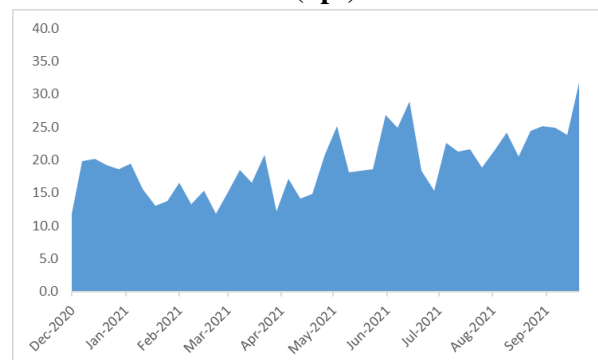
**Figure 4.1.a: EIBOR Rates in the UAE and LIBOR Rates (%)**



Source: Bloomberg

Note: Based on weekly data

**Figure 4.1.b. Spread of 3-month EIBOR vs. 3-month USD LIBOR (bps)**



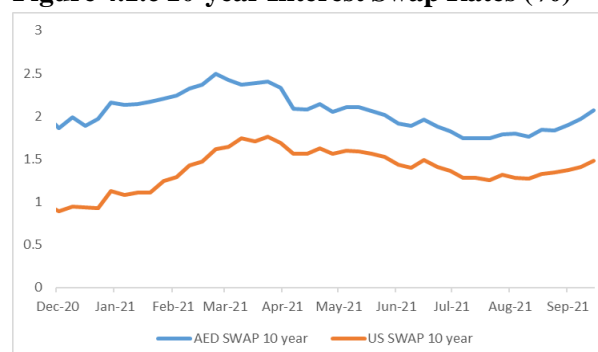
Source: Bloomberg

Note: Based on weekly data

#### 4.1.b Long-term swap rates

The 10-year swap rate on the Dirham declined from 1.9% in the last week of June to a trough of 1.7% in July before increasing to 2.1% in the last week of September, while the spread of the 10-year swap rate on the Dirham vs. that on the USD increased from 47.7% bps at the end of Q2 to 58.9 bps at the end of Q3 2021.

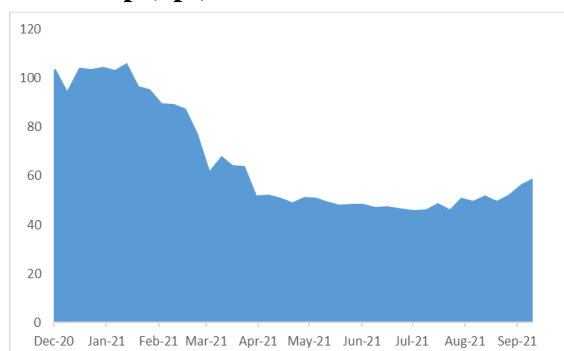
**Figure 4.1.c 10-year Interest Swap Rates (%)**



Source: Bloomberg

Note: Based on weekly data

**Figure 4.1.d Spread 10-year AED Swap vs. USD Swap (bps)**



Source: Bloomberg

Note: Based on weekly data

## 4.2 Money supply

The monetary aggregate  $M_1^{21}$  rose by 1.3% Q-o-Q (AED 9.0 billion) to reach AED 668.5 billion, driven by an increase in monetary deposits (86.5% of  $M_1$ ) by 2.1% (AED 11.6 billion), reaching AED 575.3 billion, while currency in circulation (13.9% of  $M_1$ ) declined by 2.7% (AED 2.6 billion).

$M_1$  rose by 17.7% Y-o-Y due to an increase in monetary deposits by 22.1%, while currency in circulation declined by 3.6%.

**Table 4.2.1. Money Supply in the UAE**

Billions of Dirhams

	$M_1$	$M_2$	$M_3$
20-Sep	568.0	1468.7	1805.7
20-Dec	600.0	1478.5	1769.3
21-Jun	659.5	1488.5	1772.6
21-Sep	668.5	1485.9	1786.9

Source: CBUAE

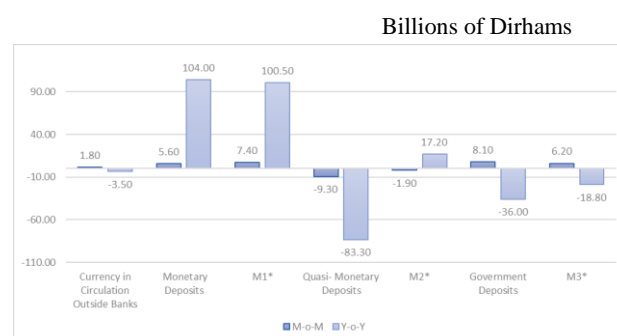
Monetary aggregate  $M_2^{22}$  decreased by 0.2% (AED 2.6 billion) Q-o-Q to reach AED 1,485.9 billion, owing to the decline in quasi-monetary deposits (55.0% of  $M_2$ ) by 1.4% (AED 11.6 billion) to reach AED 817.4 billion. The latter dropped as term deposits were not attractive for savers due to the low interest rates.

On a Y-o-Y basis,  $M_2$  increased by 1.2 %, as the increase in  $M_1$  by 17.7% was partially offset by the drop in quasi-monetary deposits by 9.2%.

$M_3^{23}$  grew slightly on a quarterly basis by 0.8% (AED 14.3 billion) to reach AED 1,786.9 billion, driven by the rise in the government deposits at commercial banks and CBUAE (16.8% of  $M_3$ ) by AED 16.9 billion, reaching AED 301.0 billion, compensating for the drop in  $M_2$ .

However,  $M_3$  decreased by 1.0% Y-o-Y, as government deposits registered a more significant loss (of 10.7%) than the rise in  $M_2$ , during this period.

**Figure 4.2: Q-o-Q Change in Monetary Aggregates in 2021 Q3**



Source: CBUAE

<sup>21</sup> Currency in Circulation outside banks + Monetary Deposits

<sup>22</sup>  $M_1$  + Quasi Monetary Deposits

<sup>23</sup>  $M_2$  + Government Deposits at commercial banks and CBUAE

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