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List of Abbreviations

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

Chapter 1

International Economic Developments and UAE External Sector

I.1. Growth Outlook of Major UAE Economic Partners

Global growth is expected to decline from 3.4% in 2022 to 2.8% in 2023

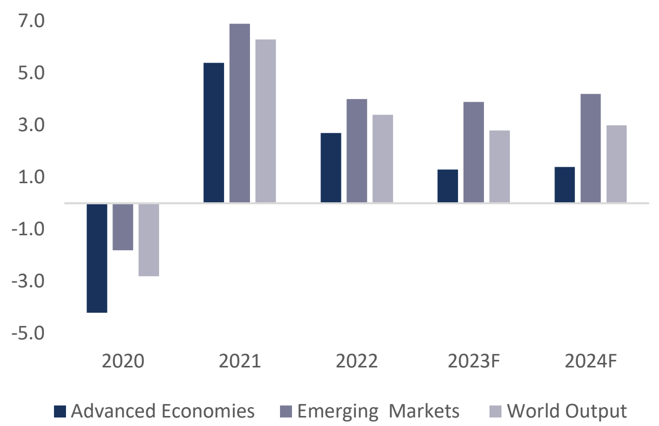
Uncertainty amidst banking turmoil, inflationary pressures and lingering geopolitical consequences

The GCC region is expected to experience a significant downturn in economic activity, signaling a notable reversal in its growth momentum

Global

The global economy appears to be set for a slow recovery following the setbacks of the pandemic and, more recently, greater geopolitical tensions. This was reflected in the IMF's decrease of global growth forecasts from 3.4% in 2022 to 2.8% in 2023 in the latest World Economic Outlook report (April 2023). The slowdown might be exacerbated by increased uncertainty in the financial system that could lead to abrupt reductions in lending and consumer expenditure. In parallel, the ongoing tightening of monetary policy by most central banks should meet its intended objective, with inflation returning to its targeted levels over the medium term.

Figure.1.1. Global Growth and Forecasts of GDP (%)



Source: IMF WEO, April 2023

Advanced Economies

Growth in advanced economies is expected to materially decline from 2.7% in 2022 to 1.3% in 2023, with economic activity expected to slow in about 90% of countries. The US economy expanded by 1.3% Y-o-Y in Q1 2023, after growing by 2.6% Y-o-Y in Q4 2022. The slowdown was mainly the result of a decline in both private inventory and non-residential fixed investments, partially offset by increased consumer expenditure and improved exports. Consistent with weaker growth performance, unemployment is projected to increase to 4.7% in 2023 compared to 4.5% in 2022.

Growth also declined in the Eurozone. GDP growth fell to 1.0% Y-o-Y in Q1 2023 from 1.8% Y-o-Y in Q4 2022. The rise in consumer prices brought on by increased energy and food costs, the ECB's fastest rate of policy tightening, and weakening consumer confidence have all had an adverse effect on the economy. The largest economies in the Eurozone all recorded lower growth in Q1 2023 compared to the previous quarter.

The UK economy slowed further in Q1 2023, with GDP growth falling to 0.2% Y-o-Y from 0.6% in Q4 2022 and inflationary pressures lingering. This reflects widespread labor strikes, sluggish retail sales, and the sudden decline in service activity in March, all pointing to a fragile recovery.

The Japanese economy was an outlier as it expanded by 1.9% Y-o-Y in Q1 2023, after slowing in the previous quarter to 0.4% Y-o-Y. The positive outcome largely reflected a rise in private spending after pandemic measures were lifted and the unanticipated increase in capital spending, which offset weak external demand.

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

	2022	2023E	2024F	Q4 2022 (Y-o-Y)	Q1 2023 (Y-o-Y)
Global	3.4	2.8	3.0	-	-
AEs	2.7	1.3	1.4	-	-
USA	2.1	1.6	1.1	2.6	1.3
Eurozone	3.5	0.8	1.4	1.8	1.0
UK	4.0	-0.3	1.0	0.6	0.2
Japan	1.1	1.3	1.0	0.4	1.9

Sources: IMF WEO, April 2023
National statistics authorities for other individual countries

Emerging and GCC Economies

The economic outlook is brighter for emerging markets (EMs) than for advanced economies. The IMF forecasts growth in EMs to only marginally decrease from 4.0% in 2022 to 3.9% in 2023, as the largest economies experience strong activity in the service sector.

Following a 4.5% Y-o-Y rise in Q4 2022, the Chinese economy expanded by 2.9% in Q1 2023 as it lifted the remaining COVID-19 related restrictions. Moreover, robust service activity, strong consumption momentum, and the easing of supply chain bottlenecks supported China's growth.

India's economy performed strongly in Q1 2023, with growth increasing to 6.1% Y-o-Y from 4.5% in the preceding quarter. The expansion was primarily fueled by strong private consumption, increased service exports, and a thriving manufacturing sector, aided by moderating input price pressures. The service industry rose to prominence as a key driver of growth, benefiting from strong demand.

Overall growth in Asia is expected to accelerate to 5.3% in 2023 from 4.4% in 2022. EMs in Eastern Europe are projected to grow at 1.2% in 2023, up from 0.8% in 2022. In contrast, growth in Latin America is expected to decelerate significantly from 4.0% in 2022 to 1.6% in 2023, due to downside risks such as tighter than expected financial conditions and geopolitical tensions. Lower commodity prices and the economic rebound in China played a significant role in driving growth across other emerging markets.

Projections for EMs indicate that these markets will gradually regain their potential growth rates by 2024 as inflation subsides, central banks adjust monetary policy, and the external economic environment stabilizes.

Economic activity in the GCC region is expected to drop significantly, reaching 2.9% in 2023 from a previous rate of 7.7% in 2022. The slowdown reflects persistent inflationary pressures, tighter credit conditions and the OPEC+ announcement to cut oil production further. This is in contrast to 2022, which was particularly buoyant due to a significant increase in oil revenues and major global events hosted in the region, such as Expo and the FIFA World Cup. Nonetheless, strong aggregate demand and resilient business sentiment continued to support growth in the first quarter of 2023. The non-oil sector will benefit from travel and tourism, fiscal support, and continued investment growth.

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

	2022	2023 E	2024 F	Q4 2022 (Y-o-Y)	Q1 2023 (Y-o-Y)
EMDEs	4.0	3.9	4.2	-	-
Brazil	2.9	0.9	1.5	4.0	1.9
India	6.8	5.9	6.3	4.5	6.1
China	3.0	5.2	4.5	2.9	4.5
South Africa	2.0	0.1	1.8	0.8	0.2

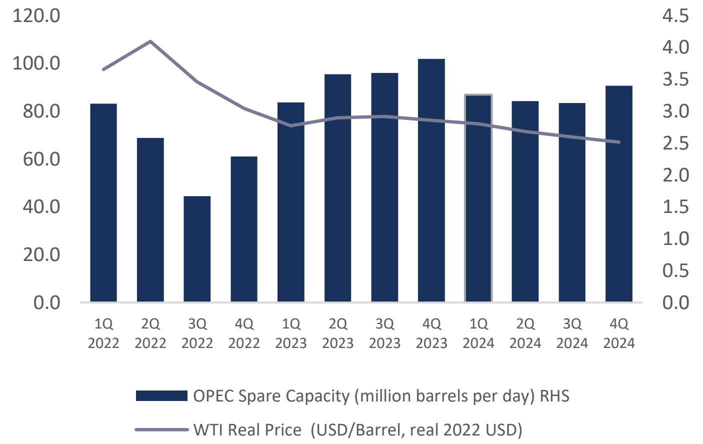
Source: IMF, WEO, April 2023

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

	2022	2023E	2024F
GCC	7.7	2.9	3.3
UAE*	7.9	3.3	4.3
Saudi Arabia	8.7	3.1	3.1
Qatar	4.2	2.4	1.8
Kuwait	8.2	0.9	2.7
Oman	4.3	1.7	5.2
Bahrain	4.2	3.0	3.8

Source: IMF WEO, April 2023 and IMF REO, April 2023
***FCSC for 2022 and CBUAE for 2023-24**

Figure.1.2. OPEC Oil Spare Capacity and Oil Prices



Source: U.S. International Energy Agency, April 2023

I.2. Inflation and Monetary Policy Responses

In 2023, inflation is projected to decline to 4.7% in advanced economies and 8.6% in emerging markets	Food prices significantly declined in the first quarter of 2023	The speed of the tightening cycle started to slow

Global Inflation Outlook

The probability of a soft landing for the global economy is declining due to persistently high inflation—which remains well above the target in many countries—and the recent instability in the financial sector of some advanced economies. According to the IMF April 2023 WEO, the rate of global inflation is estimated to ease to 7.0% in 2023, from 8.7% in 2022. Price pressures are projected to remain high in the near future due to the tight labor markets in many economies, and progressively moderate as central bank actions produce effects on activity and inflation.

The FAO Food Price Index (FFPI) averaged 126.9 points at the end of Q1 2023, 4.1% less than the average of 132.3 points at the end of Q4 2022. The index fell due to declines in cereal, vegetable oil, and dairy prices, while sugar and meat prices increased. In Q1 2023, the overall FFPI fell by 20.8% Y-o-Y, compared to a 1.0% drop in Q4 2022.

Inflation in Advanced Economies and Policy Responses

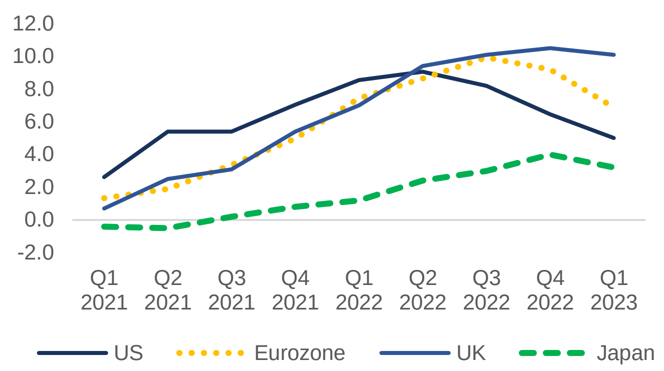
The inflation rate in the US decreased to 5.0% Y-o-Y at the end of Q1 2023 from 6.5% Y-o-Y at the end of Q4 2022, mainly due to a drop in energy prices of 6.4% Y-o-Y. In response to persistent inflationary pressures, the Federal Reserve tightened its monetary policy further with a 25 bps hike in March 2023, which set the Federal Funds rate at an upper band of 5.0% (and again in May 2023 to 5.25%).

At the end of Q1 2023, the annual inflation rate in the Eurozone dropped to 6.9% Y-o-Y from 9.2% at the end of the previous quarter as energy and food prices decreased. In an effort to tame the region's persistently high inflation, the European Central Bank (ECB) raised its key interest rate for the main refinancing operations to 3.0% in February and 3.5% in March 2023 (and again to 3.75% in May 2023).

The annual inflation rate in the UK marginally decreased to 10.1% Y-o-Y at the end of Q1 2023 from 10.5% a quarter earlier. To restore inflation back to the desired 2% level, the Bank of England's (BoE) Monetary Policy Committee increased its bank rate by 50 bps to 4.0% in February and by 25 bps to 4.25% in March 2023 (4.5% in May).

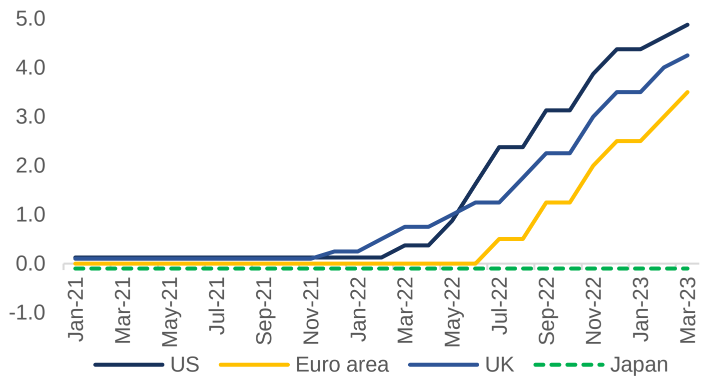
Japan's annual inflation rate slowly eased from 4.0% in December 2022 to 3.2% in March, as a result of the government's economic measures that drove down energy prices such as reducing the cost of household utilities. The Bank of Japan (BoJ) kept its policy rate at -0.1% during its monetary policy meeting in March 2023.

Figure.1.3. Y-o-Y Average Headline Inflation in Selected Advanced Economies (%)



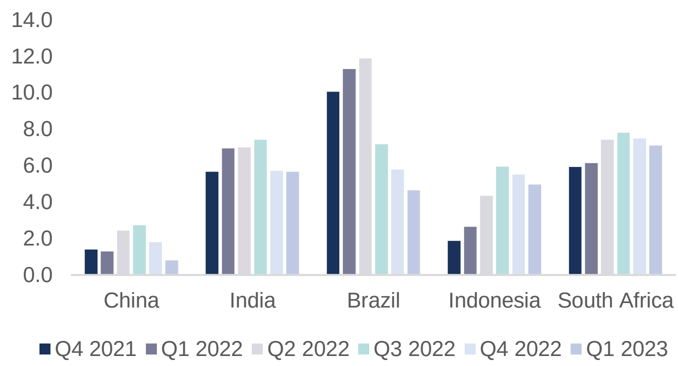
Source: Bloomberg

Figure.1.4. Policy Rates in Selected Advanced Economies (%)



Source: BIS

Figure.1.5. Y-o-Y Average Headline Inflation in Selected Emerging Economies (%)



Source: Bloomberg

Emerging and GCC Economies

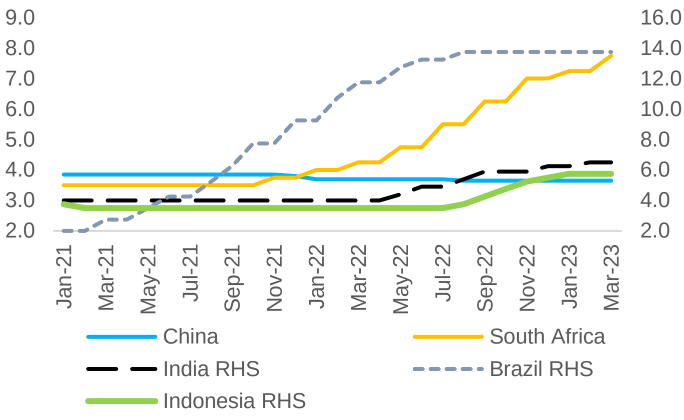
Inflation in China decreased further from 1.8% at the end of 2022 to 0.7% in March 2023 amidst the economy's uncertain recovery. Due to falling energy prices, China's consumer inflation in March dropped to its lowest level, signaling that demand remains weak. The PBoC kept its benchmark lending rate at 3.65% in March 2023 as inflation remained below the 3% target. Additionally, the PBoC held its one-year medium-term lending facility (MLF) rate at 2.75%. The rates were also left unchanged in May 2023 for the ninth straight month.

In March 2023, India's annual inflation rate eased to 5.7% Y-o-Y, within the Reserve Bank of India's (RBI) target range of 2%–6%. The decline reflects decreasing energy prices and easing supply chain bottlenecks. For the sixth consecutive time, the RBI increased its benchmark repo rate by 25 bps in February 2023, which reached 6.5%.

The annual inflation rate in Saudi Arabia decreased from 3.3% at the end of 2022 to 2.7% in March 2023 (Y-o-Y), despite persisting inflationary pressures worldwide. Qatar's annual inflation rate also dropped to 4.0% in March 2023 from 5.9% at the end of 2022 due to moderating price increases in accommodation, restaurants and hotels, and culture and recreation. However, inflation in Kuwait climbed from 3.2% in December 2022 to 3.7% in March 2023, driven by rising food prices and domestic strikes. In addition, in March 2023, inflation eased to 1.6% Y-o-Y in Oman, and the price level contracted by 0.1% Y-o-Y in Bahrain.

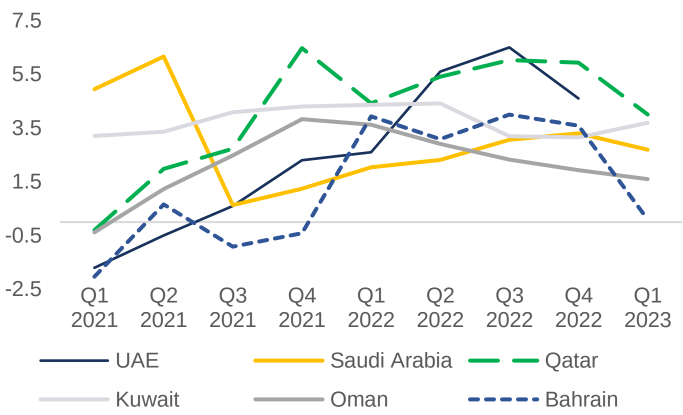
Central Banks across the GCC, whose currencies are pegged to USD, raised their policy rates by 25 bps in line with the Federal Reserve's hike in March 2023 (and later in May 2023). However, Kuwait, whose currency is pegged to an undisclosed basket of currencies, maintained the policy rate unchanged.

Figure.1.6. Policy Rates in Selected Emerging Economies (%)



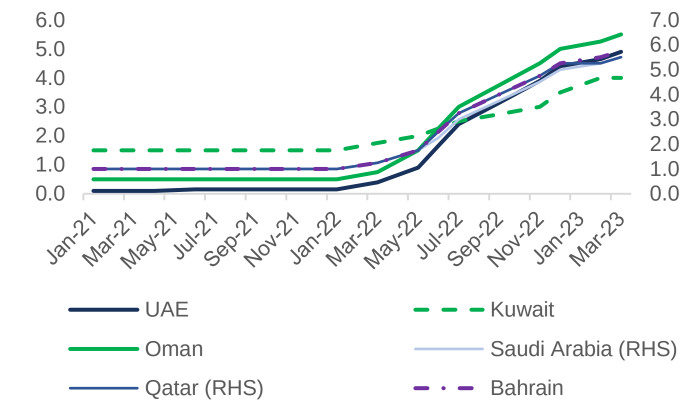
Source: Bloomberg

Figure.1.7. Y-o-Y Average Consumer Price Inflation in GCC Countries (%)



Source: Bloomberg, CBUAE

Figure.1.8. Policy Rates in GCC Countries (%)



Source: GCC Central Banks

I.3. Global Markets' Developments

Financial turmoil unfolded as three regional banks in the US and one large bank in Europe failed

Prices in commodity markets are moderating worldwide

Global macroeconomic headwinds put downward pressure on oil prices

Global Financial Conditions

The financial sector was put on edge by the intensification of monetary policy tightening worldwide, leading to the failure of three regional banks in the United States and one large bank in Switzerland. While these events sparked uncertainty in financial markets, policymakers acted swiftly and firmly to contain the repercussions.

In March 2023, the Adjusted National Financial Conditions Index (ANFCI) in the United States remained negative, indicating that financial conditions are still looser than what economic conditions suggest. Globally, financial conditions appear broadly neutral.

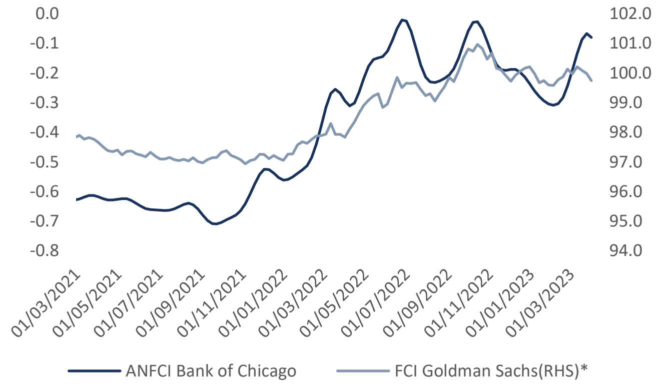
Commodities

The recent financial sector distress and the global economic slowdown have affected the demand for oil and led to a drop in its price. Brent prices declined from USD 80.9 per barrel in December 2022 to USD 78.4 in March 2023. Similarly, the average price of natural gas decreased from USD 5.5 per MMBtu in December 2022 to USD 2.3 per MMBtu at the end of March 2023.

Other commodities, such as copper and aluminum, fell Y-o-Y by 13.3% and 30.9%, respectively. In March 2023, the price of gold increased to USD 1,968 per ounce from USD 1,824 per ounce in December 2022, primarily due to factors such as gold's safe haven position, the high uncertainty outlook, the slower pace of monetary policy hikes and increased demand as China reopens its economy.

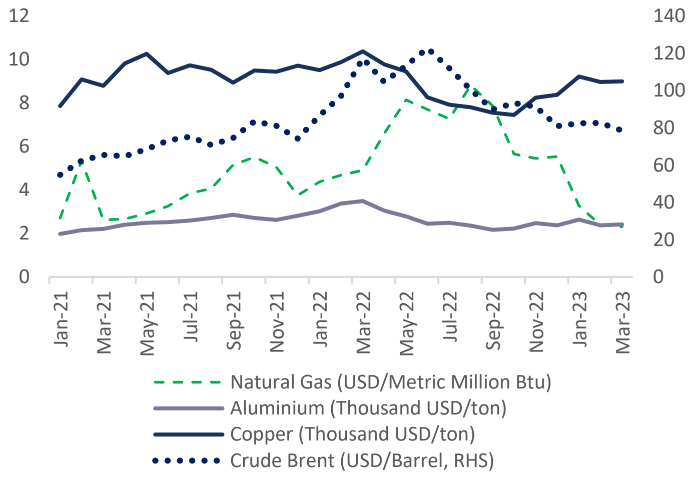
Figure.1.9. Weekly Financial Conditions Indices

Source: Federal Reserve Bank of Chicago (https://www.chicagofed.org/publications/nfci/index)



Positive figures indicate tightening financial conditions
*Bloomberg for FCI Goldman Sachs

Figure.1.10. Commodity Prices



Source: Bloomberg

UAE's International Trade

At the time of this report's production no data has been produced by the FCSC for Q4 2022. Therefore, trade volumes for the full year of 2022 have been estimated by the CBUAE. The CBUAE considers that the share of the trading partners remained the same in Q4 as in the first nine months of 2022.

In 2022, total non-oil exports of goods are estimated to have increased by 6.9% compared to 2021 reaching AED 354.5 billion. During that period, the UAE's largest non-oil export partner was India, followed by Saudi Arabia and Switzerland. Gold, platinum, copper wire, nickel waste, flat-rolled products of iron clad, minerals oils and articles of jewelry are the most commonly exported non-hydrocarbon goods.

Re-exports are estimated to have grown by 17.1% to AED 542.6 billion. Saudi Arabia, with a share of 12.1%, was the top destination for UAE re-exports in 2022, followed by Iraq (11.1%), India (9.1%), the US (4.2%), and Kuwait (4.0%). Telecommunications equipment, automatic data processing equipment, mineral oils, automobiles, jewelry, and textiles are among the majorly re-exported items.

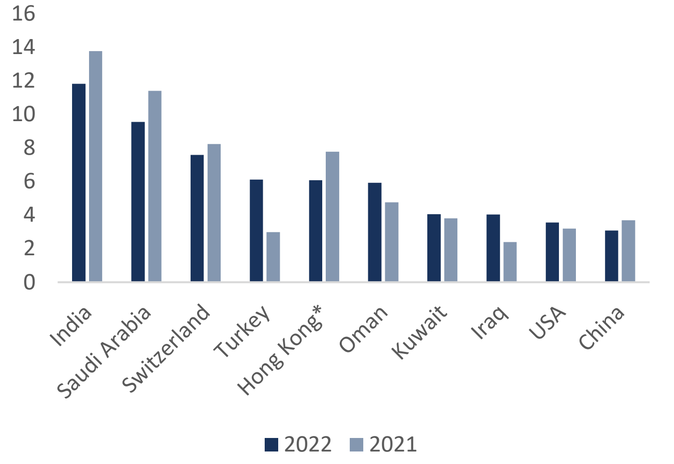
Due to the robust expansion in the non-hydrocarbon sector and the appreciation of the AED, total imports are estimated to have increased by 16.5% in 2022 compared to the previous year, reaching AED 1,155.6 billion. Mineral oils, diamonds, jewels, stones, precious metals, as well as machinery, automobiles, and telecommunications equipment, topped the list of imported goods.

China was by far the leading import partner, accounting for 19.5% of total imports, followed by India (8.5%), the US (6.3%), Japan (3.7%), Turkey (3.3%), and Saudi Arabia (2.9%).

Exchange rate

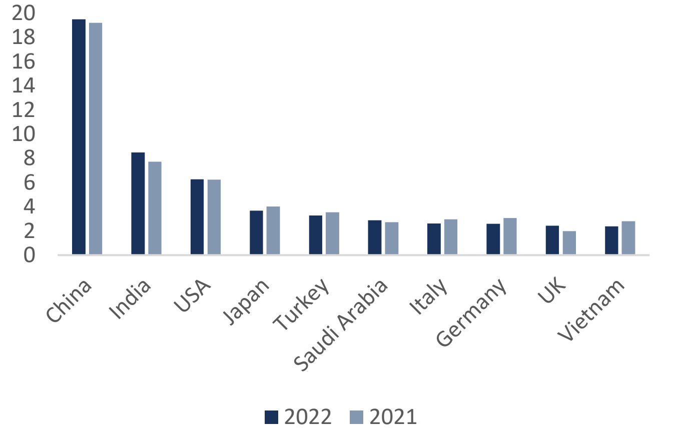
The average Nominal Effective Exchange Rate (NEER), which takes into account the multilateral exchange rates of the UAE's trading partners, appreciated Y-o-Y by 6.0% in Q1 2023, compared to 10.3% in the previous quarter, in line with the appreciation of the USD. The average Real Effective Exchange Rate (REER), which accounts for the inflation differentials between the UAE and its trading partners, appreciated by 8.4% in Q1 2023 Y-o-Y compared to 11.7% in Q4 2022 Y-o-Y.

Figure.1.11. UAE Non-Oil Exports to Major Trading Partners (% of Non-Oil Exports)



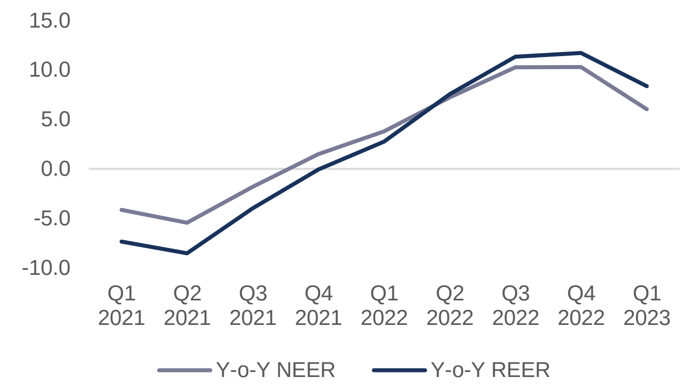
Source: FCSC
*Hong Kong Special Administrative Region

Figure.1.12. UAE Imports from Major Trading Partners (% of Imports)



Source: FCSC

Figure.1.13. Y-o-Y Nominal and Real Effective Exchange Rates Appreciation/Depreciation (%)



Source: BIS

Chapter 2

Domestic Economic Developments

II.1. Growth in the UAE

CBUAE projects growth at 3.3% in 2023, driven by a strong performance of the non-oil sector, partially offset by a drop in oil GDP	The consolidated fiscal balance recorded a surplus of 10.3% of GDP in 2022	Private consumption and investment continued to perform strongly in Q1 2023

Real GDP Outlook

The UAE economy continued to grow at a solid pace in Q1 2023, reflecting a strong performance of the non-oil sector, partially offset by a moderation in the oil segment of the economy. For 2023, growth has been revised down by 0.6 percentage points to 3.3%, reflecting oil production cuts agreed among OPEC+ members. The non-oil sector is expected to continue to support aggregate output, albeit at a more modest pace compared to 2022. For 2024, the CBUAE maintains its growth forecast unchanged at 4.3%.

Oil GDP

After growing at 9.5% in 2022, with an average production of 3.1 million barrels per day, oil GDP growth in Q1 2023 is estimated to have moderated to 3.1% Y-o-Y, in line with the OPEC+ agreements. Starting in May 2023, OPEC decided to cut production by 144 thousand barrels per day for the UAE. This resulted in a downward revision of the expected GDP growth for 2023 to -0.3%, corresponding to an average daily output of 2,950 thousand barrels per day. The CBUAE projects the other hydrocarbon products, such as natural gas liquids (NGL), that are not covered by the OPEC+ production agreements but contribute to oil GDP, to continue to grow at a strong pace in 2023. Oil GDP growth is forecasted to rebound to 3.5% in 2024. Performance in 2023 and 2024 is subject to the evolution of the conflict in Ukraine, a faster than expected deceleration in global growth, further OPEC+ cuts or increases in oil production, and subdued production of other OPEC+ members.

Non-Oil GDP

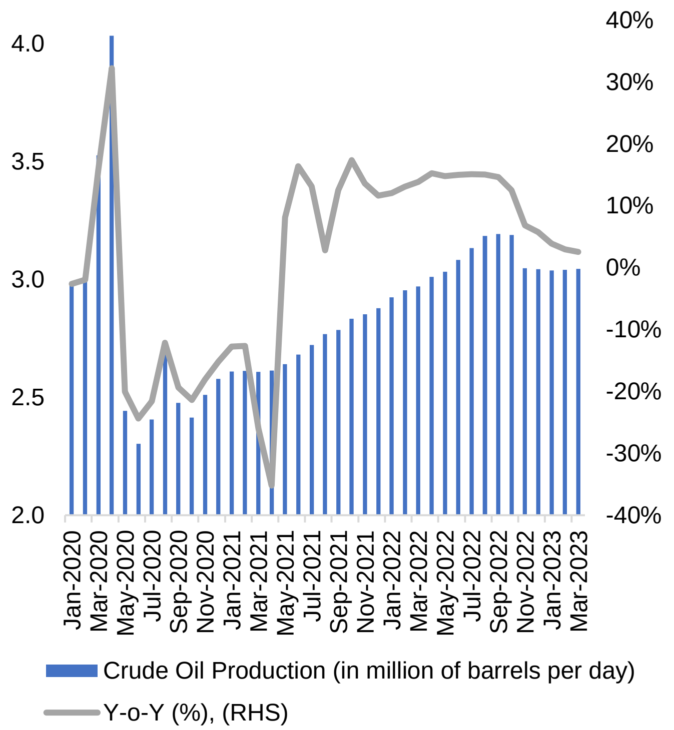
After expanding by 7.2% in 2022, the non-oil sector is estimated to have grown at slightly lower pace in Q1 2023. Despite the weaker performance in the first quarter of the year, the CBUAE revised its non-oil GDP growth upwards for 2023 to 4.5%, mainly due to an acceleration of private and public investment in the remainder of the year. Travel and tourism are expected to further accelerate, consistent with the results of some of the major industry market players. For 2024, the CBUAE projects the real non-oil GDP to expand by 4.6%, in line with global growth trends.

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

	2020	2021	2022	2023 F	2024 F
Overall GDP	-5.0	4.4	7.9	3.3	4.3
Non-oil GDP	-5.4	6.5	7.2	4.5	4.6
Oil GDP	-3.8	-1.1	9.5	-0.3	3.5

Source: FCSC for 2020-22, and CBUAE forecasts for 2023-24

Figure.2.1. Average UAE Crude Oil Production



Source: OPEC

II.2. Sectoral Analysis

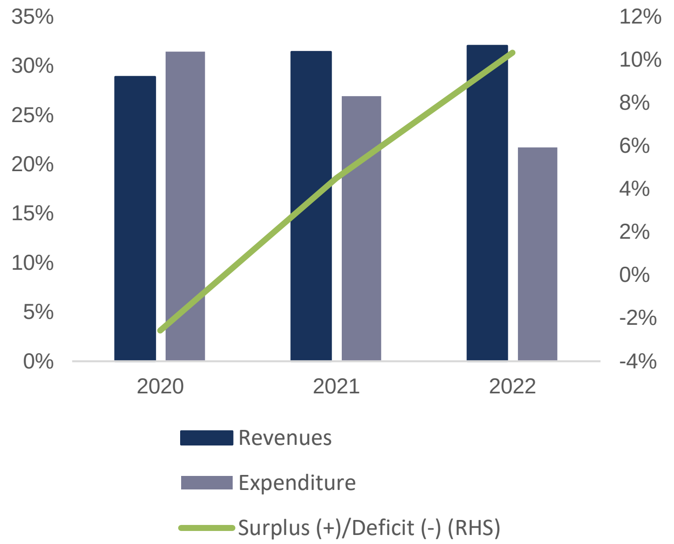
Real estate continued its solid performance in Q1 2023	Tourism and hospitality returned to pre-pandemic occupancy rates despite an increase in the number of rooms	UAE airports welcomed 31.8 million passengers in Q1 2023, 11.5 million more visitors compared to the same period in 2022

Government Investment and Consumption

In 2022, the consolidated fiscal balance recorded a surplus of AED 195.7 billion or 10.5% of the GDP, up from 4.5% in 2021. Government revenues increased in 2022 by 27.0% to AED 596.8 billion due to higher total tax receipts and social contributions, being partially offset by a decline in other revenue. On the expenditure side, current spending declined by 1.0% compared to 2021, reaching AED 381.1 billion, compared to the 9.0% annual increase observed in 2021. The drop in expenses is attributed to lower spending on goods and services, subsidies, grants and other expenses. Capital spending, measured by net investment in non-financial assets, decreased by 8.5% in 2022 to AED 20 billion. Total expenditures reached AED 401.7 billion, corresponding to a 1.4% drop compared to 2021.

Figure.2.2. Consolidated Fiscal Stance

Share of GDP



Source: UAE Ministry of Finance and FCSC

Private Investment and Consumption

The private sector continues to show strong dynamism, benefiting from multiple reforms to increase FDI inflows and attract top talent. The UAE's PMI signaled expansion in the non-oil private sector for the 28th consecutive month, reaching 55.9 in March 2023 and averaging 55.3 in 2022. New business growth was the quickest since October last year, encouraging firms to purchase inputs at the strongest rate in five years. Firms also continued to benefit from relatively mild cost pressures, though margins narrowed.

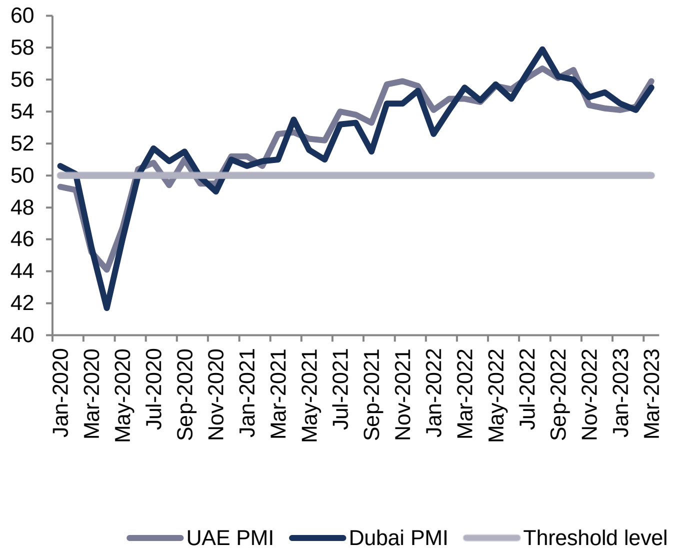
The Dubai PMI pointed to an uplift in growth momentum at the end of the first quarter of 2023, as firms broadened capacity to support an expansion in output. This was reflected in stronger increases in both jobs and inventories, with growth rates reaching multi-year records. However, the March data also indicated signs of cooling demand growth, as new orders posted the lowest growth rate since January 2022.

Domestic consumption also performed well during Q1 2023, supported by the significant rise in employment. The 3-month moving average of people employed in the UAE and wages paid in the private sector recorded a double-digit increase Y-o-Y in Q1 2023, with levels and growth higher than their pre-COVID levels[1]. The PMI survey also signaled a thriving labor market in the non-oil private sector in March, with accelerating new order growth and capacity pressures fed through to the fastest increase in employment since July 2016.

The banking sector continued to support investment in the private sector, as credit to the private sector increased by 5.9% Y-o-Y in Q1 2023.

Figure.2.3. UAE PMI

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



Source: IHS Markit

[1] Based on the Wage Protection System (WPS).

Real Estate

Despite the global economic challenges and uncertainties, the real estate sector in the UAE maintained its strong performance in Q1 2023, benefiting from the high domestic demand and FDI in the sector.

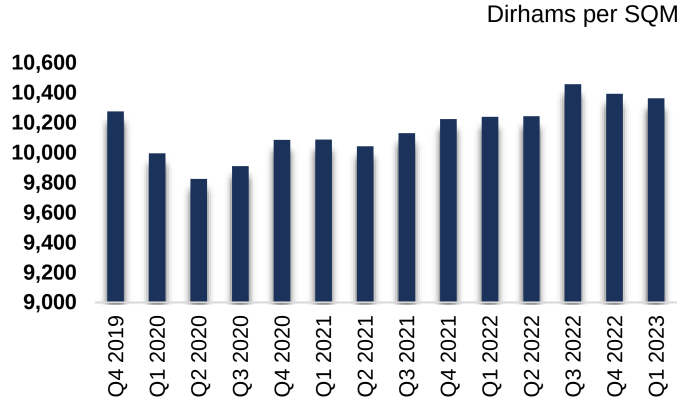
The average price per square meter (sqm) residential index in Abu Dhabi recorded a 1.5% Y-o-Y increase in Q1 2023. Starting in Q3 2022, however, prices declined marginally, including in Q1 2023. Average rents declined by 1.5% Y-o-Y in Q1 2023, leading to a stable rental yield of 6.4%.

The Dubai real estate market continued its strong performance during Q1 2023, on the back of robust demand in both the residential and commercial sectors. The latest figures reveal that property transactions have risen by approximately 80% in value and 49% in count compared to the same period in the previous year, feeding the upward trend. This has been driven by a stable economic environment, government initiatives to promote investment and business growth, and an influx of foreign investors attracted by the city's performance as a regional business hub.

Off-plan sales in Dubai increased considerably, particularly in the luxury segment, suggesting strong demand from both investors and end-users. Meanwhile, the rental market has witnessed steady growth. The residential sector has seen a shift towards more affordable units, with developers responding to demand by launching more mid-range housing projects.

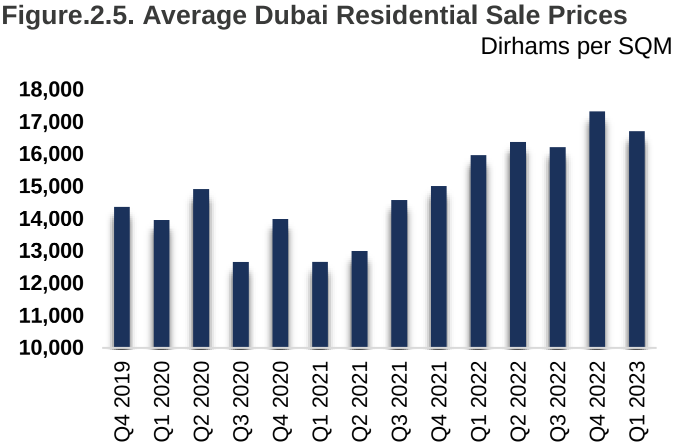
As per the Dubai Land Department (DLD), residential property sale prices in Dubai increased on average by 4.6% Y-o-Y in Q1 2023, while rents increased by 7.1% over the same period. This lead to an increase in rental yield to an average of 8.2% in Q1 2023. Yet, compared to the last quarter of 2022, which marked the peak over the past few years, average residential sale prices declined by 3.5%.

Figure.2.4. Average Abu Dhabi Residential Sale Prices



Source: REIDIN

Figure.2.5. Average Dubai Residential Sale Prices



Source: DLD

Tourism and Hospitality

In the first quarter of 2023, the UAE's hospitality sector experienced significant growth, owing to an influx of tourists mainly from India, Russia and Oman. The increase in tourism benefited the lower and mid-tier hospitality segments, which saw gains in occupancy and revenue per available room.

The number of tourists traveling to Dubai in Q1 2023 reached 4.7 million, just 80 thousand less compared to the same period in 2019 and up by 700 thousand compared to Q1 2022. Despite the increase from 769 in Q1 2022 to 814 in Q1 2023 in the number of tourist establishments and by over 8000 in the number of rooms available, the occupancy rate for hotels in Dubai remained broadly unchanged at 83% in the first quarter of 2023. At the same time, the city's average daily room rate rose by 22% relative to 2019, but fell by 6% compared to 2022, likely reflecting the increase in the number of available accommodations.

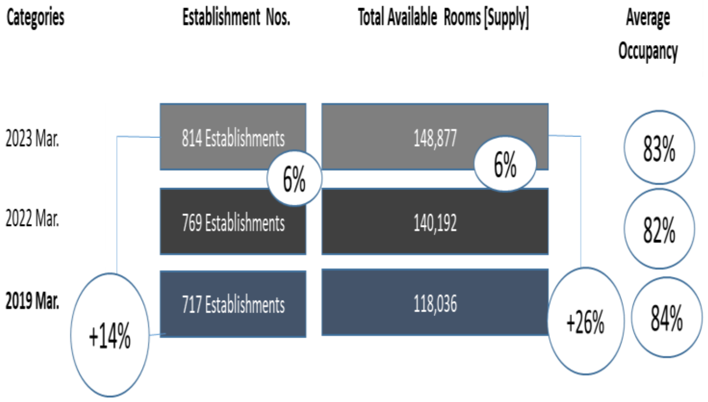
Abu Dhabi's occupancy rate declined to 74% in Q1 2023, down by 5% compared to the same period in 2022, mainly due to increasing supply. Yet, the average daily rate jumped by 33% to an average AED 468 for the quarter. The number of hotel guests increased by 34% to reach 1.2 million over the same period.

Transportation

The UAE civil aviation sector has managed to restore pre-pandemic passenger traffic levels. The country's airports welcomed as many as 31.8 million passengers in the first three months of 2023, an increase of 11.5 million passengers from the same period in 2022, when about 20.4 million passengers were recorded.

The size of cumulative investments in the UAE's civil aviation sector exceeded AED 1 trillion, while the size of investments in the development and expansion of airports reached AED 85 billion to accommodate over 300 million passengers annually. As of 2022, the aviation sector in the UAE contributes, directly or indirectly, to about 14% of GDP, compared to 2-3% in major emerging markets and advanced economies.

Figure.2.6. Accommodation Supply and Demand in Dubai in Q1 2023



Source: Dubai Department of Economy and Tourism

Figure.2.7. Tourism Sector Performance in Abu Dhabi[2] in Q1 2023

YTD March 2023 Performance	Hotel Guests 1,182K	Hotel Occupancy 74%	Hotel ALOS 2.8Nights	ARR (AED) 468	REVPAR (AED) 346	Revenues (AED) 1,700 million
% Change vs 2022	+34%	-5%	-22%	+33%	+27%	+28%

Source: Abu Dhabi Department of Culture and Tourism

[2] ALOS refers to average length of stay, ARR is average room rate, and REVPAR is revenue per available room.

II.3. Inflation

Dubai CPI inflation averaged 4.6% in Q1 2023	In Dubai, non-tradable prices rose by 4.2% Y-o-Y, with tradeable inflation reaching 5.7%. Housing inflation was 4.9%	CBUAE projects inflation at 3.1% and 2.6% in 2023 and 2024, respectively

Inflation projections for the UAE

The CBUAE has marginally lowered its inflation projections for 2023, from 3.2% to 3.1%. The revision reflects lower energy and food prices, as well as a mild decline in inflation in Dubai in Q1 2023. Imported inflation is expected to be modest owing to the disinflation trend in UAE's major trading partners, while rents, wages, and the introduction of corporate income tax in June 2023 are expected to contribute moderately. In 2024 inflation is projected to slow further to 2.6%, a downward revision from 2.8% in line with global trends.

Inflation in Dubai

Dubai's headline Consumer Price Index (CPI) inflation decelerated in the first quarter of 2023 in line with global trends and remained below the global average. According to the Dubai Statistics Center (DSC), CPI headline inflation averaged 4.6% in Q1 2023, compared to 4.8% in Q4 2022. Prices of non-tradeable goods and services increased by 4.2% in Q1 2023 Y-o-Y, down from 4.5% in the previous quarter. Tradable goods and services, on the other hand, registered a 5.7% increase, marginally up from 5.6 percent in Q4 2022.

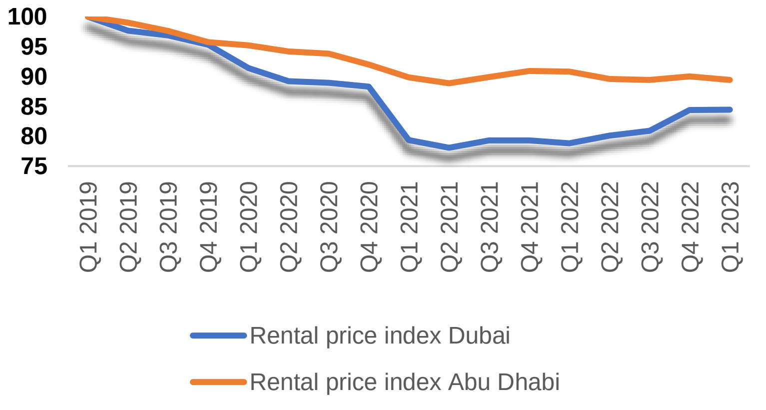
The prices for all items in the CPI basket increased Y-o-Y, except tobacco products. Among the CPI categories with the largest weight, the housing sub-index continued its upward trend and recorded a 4.9% Y-o-Y increase in Q1 2023, up from 4.3% in Q4 2022. This largely reflects a pickup in rents in Dubai. The index for transportation prices rose by 2.5% in Q1 Y-o-Y, slowing from the 9.4% increase registered in Q4 2022 and in line with global energy price developments. Prices of food and beverages increased by 6.0%, up from the 4.5% growth in Q4 2022.

Table.2.2. Dubai CPI Inflation (%)

	Weights	Q3 22	Q4 22	Q1 23
General Index	100.00	6.2	4.8	4.6
Non-tradeable	74.9	4.8	4.5	4.2
Tradeable	25.1	10.2	5.6	5.7
Housing, water, electricity, gas and other fuels	40.7	1.9	4.3	4.9
Food and beverages	11.7	7.6	4.5	6.0
Transport	9.3	27.9	9.4	2.5
Education	8.1	0.5	0.8	0.8
Restaurants and accommodation services	6.1	5.7	9.5	4.4
Information and communication	5.7	1.5	0.9	0.2
Personal care, social protection and miscellaneous goods and services	5.1	3.7	3.4	4.4
Clothing and footwear	5.0	5.8	6.7	6.3
Furnishings, household equipment and routine household maintenance	3.5	2.6	3.0	9.4
Recreation, sport and culture	2.4	38.0	22.4	19.0
Insurance and financial services	1.3	----	----	3.7
Health	0.9	0.7	-0.2	0.8
Tobacco	0.3	-0.6	-3.0	-8.1

Source: DSC, 2021 Base Year

Figure.2.8. Average Abu Dhabi and Dubai Rent Price Indexes (Q1 2019=100)



Source: DLD and REIDIN, and CBUAE calculations

Chapter 3

Monetary and Financial Markets Developments

III.1. Money Supply and Interest Rates

Monetary aggregates M1, M2 and M3 grew in Q1 2023 by 4.3%, 12.2% and 16.5% Y-o-Y, respectively	The CBUAE's Base Rate increased by 50 bps in Q1, following the Fed tightening cycle	The spread between the 12-month EIBOR and overnight EIBOR narrowed to 65 bps through the quarter

Monetary Aggregates

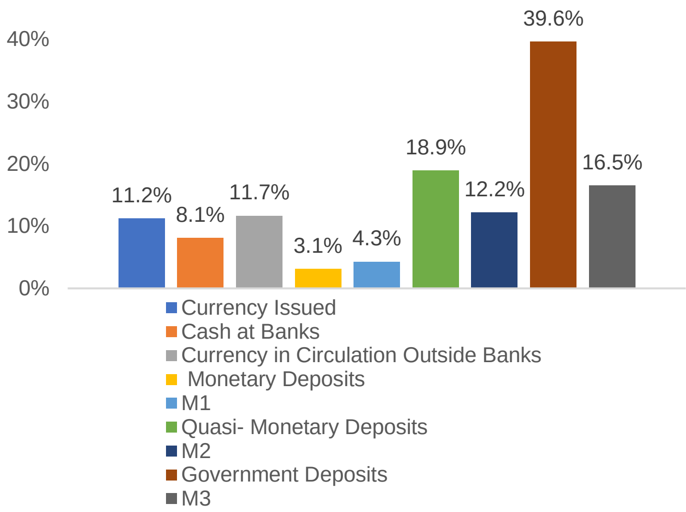
M1[3] rose by 4.3% Y-o-Y, standing at AED 759.3 billion at the end of March 2023. This reflects an 11.7% Y-o-Y increase in currency in circulation (14.7% of M1) and a 3.1% increase in monetary deposits (85.3% of M1). M2[4] increased by 12.2% Y-o-Y reaching AED 1,788.4 billion, owing to the increase in M1 and a rise in quasi-monetary deposits[5] (57.5% of M2) by 18.9% Y-o-Y. M3[6] grew by 16.5% Y-o-Y, reaching AED 2,195.9 billion at the end of March 2023. The rise in M3 also reflects a sizeable increase by 39.6% in government deposits at commercial banks and at the CBUAE (18.6% of M3).

Interest Rates

Short-term interest rates in the UAE continued their upward trajectory through Q1 2023. Consistent with changes in the United States Federal Reserve's Interest on Overnight Borrowing (IORB) rate, the CBUAE's policy rate – the Base Rate – increased by 50 basis points in the quarter to 4.90%. Overnight interbank rates followed such moves, with both overnight EIBOR and DONIA increasing by a similar magnitude through the quarter. The spread between overnight interbank rates and the Base Rate that opened in late 2022 has persisted into 2023, resulting in overnight rates persistently falling below the Base Rate. This reflects solid expansion of the monetary base through Q1 resulting in banks continuing to maintain large positions of excess reserves in aggregate.

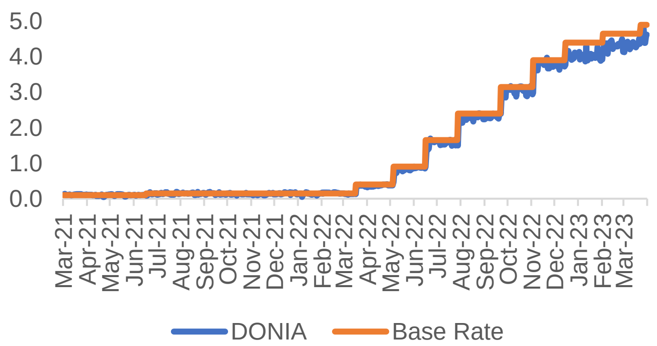
Shifting interest rate expectations in the United States – whereby expectations of interest rate cuts in 2023 begin to be priced in – were evident in UAE money markets. The spread between the 12-month EIBOR and the overnight EIBOR narrowed by 65 basis points through the quarter. Such trends were also evident in the Monetary Bills curve, with the average yield on the longest-dated Monetary Bill (266 days) coming in 11 basis points lower than the shortest dated (28 days) Monetary Bill in the last auction of the quarter.

Figure.3.1. Y-o-Y Change in Monetary Aggregates and Their Components



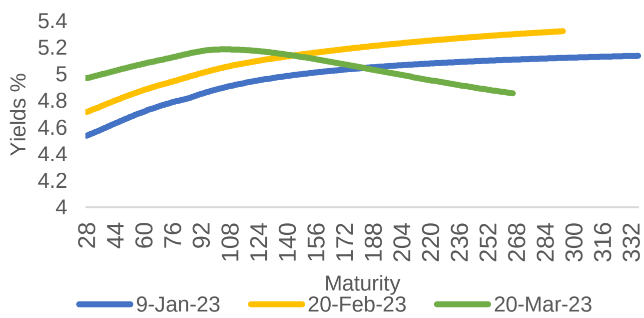
Source: CBUAE

Figure.3.2. DONIA and Base Rates (%)



Source: CBUAE

Figure.3.3. Monetary Bills Yield Curve



Source: Bloomberg, CBUAE Estimates

3 M1 consists of monetary deposits and currency in circulation outside banks.
4 M2 is equal to M1 plus the quasi-monetary deposits.

5 Quasi-monetary deposits include resident time deposits in AED and all types of foreign currency deposits.
6 M3 is equal to M2 plus government deposits at the CBUAE and commercial banks.

III.2. Banking Developments

Aggregate credit growth was sustained at 3.5% Y-o-Y, driven by lending to private corporates and retail sectors	Continued growth in household and corporate sectors' loan demand reflected in the credit sentiment survey	Favorable funding and liquidity conditions supported by continued robust deposit growth of 14.9% Y-o-Y

Banking System Assets and Structure

The UAE banking system recorded a 12.8% Y-o-Y increase in total assets reaching AED 3,765 billion at the end of Q1 2023. The number of licensed banks operating in the UAE totaled 61 at the end of Q1 2023, of which 22 were national banks, and 39 were foreign banks. The number of banks' physical branches moderated further, reflecting continued digital transformation in the UAE banking sector.

Banking System Credit and Deposits

The UAE banking system's lending grew 3.5% Y-o-Y. Domestic private sector credit grew 5.9% Y-o-Y, supported by lending to the private corporate and retail sectors. Retail sector credit growth continued to be broad-based, driven by sustained growth in mortgage loans, personal loans, and credit cards. Lending to the government and GRE sector, on the other hand, contracted. Cross-border lending by UAE-licensed banks (excluding lending by their subsidiaries abroad) grew at a more moderate pace compared to the previous year and remained largely extended to corporate borrowers in the MENA region.

Favorable liquidity and funding conditions were supported by strong deposit growth of 14.9% Y-o-Y, driven by resident government, private corporates and retail deposits. Conversely, non-resident deposits contracted by 0.7% Y-o-Y amidst strong resident funding. The loan-to-deposits ratio continued to edge lower to 82.2% resulting from the higher deposit growth compared to credit growth. The robust funding conditions and lending capacity continued to support the growth in domestic and foreign credit.

The CBUAE Credit Sentiment Survey

The Q1 2023 CBUAE Credit Sentiment Survey highlighted the persistent credit appetite of the private sector, evident in the strong demand growth for loans that were coupled with financial institutions' increased willingness to lend. The continued growth in credit demand was supported by a positive outlook on the domestic economy, which so far offsets the adverse impact of rising interest rates on loan demand during the quarter.

Table.3.1. Assets and Credit at UAE Banks

Billions of AED

Item	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Total Assets	**3,336**	**3,449**	**3,583**	**3,668**	**3,765**
(Y-o-Y change)	5.1%	7.5%	10.3%	10.4%	12.8%
Gross Credit	**1,832**	**1,866**	**1,873**	**1,879**	**1896**
(Y-o-Y change)	4.4%	5.5%	5.5%	4.8%	3.5%
Domestic Credit	**1,639**	**1,659**	**1,655**	**1,651**	**1,674**
(Y-o-Y change)	3.1%	4.0%	3.3%	2.0%	2.1%
Government	227	222	213.0	211.7	216
(Y-o-Y change)	-10.2%	-9.5%	-13.3%	-10.3%	-4.8%
GREs	264	260	256	253.3	245.1
(Y-o-Y change)	22.6%	16.3%	14.8%	3.2%	-7.1%
Private Sector	1,133	1,163	1,174	1,173	1200
(Y-o-Y change)	2.5%	4.5%	4.9%	4.7%	5.9%
Retail	357	361.2	369	375	384
(Y-o-Y change)	7.8%	7.3%	7.2%	7.8%	7.7%
Wholesale	776	801.6	805	798	816
(Y-o-Y change)	0.2%	3.3%	3.8%	3.2%	5.1%
NBFIs	16	14	14	12.9	13
(Y-o-Y change)	-4.3%	1.5%	-8.2%	-23.2%	-18.1%
Foreign Credit	193	207	218	228.5	222
(Y-o-Y change)	16.9%	19.2%	25.0%	30.5%	15.2%

Source: CBUAE
Note: Data as of end of period

Table.3.2. Total Deposits at UAE Banks

Billions of AED

Item	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Bank Deposits	2,006	2,092	2,187	2,222	2,306
(Y-o-Y change)	6.6%	9.6%	12.6%	11.3%	14.9%
Resident Deposits	1,791	1844	1,958	2,010	2,093
(Y-o-Y change)	6.8%	9.5%	15.3%	13.8%	16.8%
Government Sector	291	317	402	396.8	406
(Y-o-Y change)	5.1%	12.7%	35.3%	37.7%	39.5%
GREs	239	213	232	216.9	214
(Y-o-Y change)	-2.8%	-6.4%	5.5%	-12.5%	-10.4%
Private Sector	1,220	1,265	1,275	1,350	1,423
(Y-o-Y change)	9.2%	11.6%	11.2%	13.3%	16.6%
Retail	522	529	537	559	601
(Y-o-Y change)	3.2%	3.8%	5.7%	7.6%	15.1%
Wholesale	698	736	738	790	822
(Y-o-Y change)	14.2%	18.0%	15.6%	17.7%	17.7%
NBFIs	41	48	50	46.5	49
(Y-o-Y change)	9.4%	18.7%	38.7%	22.0%	20.8%
Non-Resident Deposits	215	248	229	213	213.4
(Y-o-Y change)	5.6%	10.1%	-6.0%	-8.0%	-0.7%

Source: CBUAE
Note: Data as of end of period

III.3. Financial Developments

The UAE banking system maintained adequate capital and liquidity, and stable funding	In Q1, share prices rose by 0.6% in Dubai and 4.0% in Abu Dhabi Y-o-Y	CDS premium for Abu Dhabi and Dubai declined compared to the previous quarter

Financial Soundness Indicators

The overall UAE banking system remained well capitalised. The capital adequacy ratios improved further in Q1 2023 compared to the same period last year, reaching 17.8%.

The liquidity and funding positions of the UAE banking system remained robust in Q1 2023, supported by strong deposit growth. Consequently, the improved liquidity and funding ratios reflected ample bank credit capacity.

The UAE banking system asset quality indicators improved in Q1 2023. The Net NPL ratio moderated from the peak reached during the pandemic to 2.9% in Q1 2023, reflecting both an increase in credit growth and a reduction in the stock of non-performing loans.

Stock Exchanges (Equity Markets)

The Abu Dhabi Securities Exchange (ADX) average share price index increased by 4.0% Y-o-Y in Q1 2023 and the market capitalization reached AED 2.59 trillion in March 2023. The Dubai Financial Market (DFM) average share price index rose by 0.6% Y-o-Y in the first quarter of 2023 and the market capitalization reached AED 589.0 billion in March 2023.

Credit Default Swaps (CDS)

For the government of Abu Dhabi, the CDS premium fell from 52.6 bps in Q4 2022 to 43.1 bps in Q1 2023. During January and February 2023, it stood at 43.6 bps and 41.8 bps, respectively. Abu Dhabi has a strong fiscal position and with its large sovereign wealth funds it has one of the lowest CDS premiums in the Middle East and Africa region. Dubai's CDS also fell from 106.7 bps in Q4 2022 to 78.0 bps in Q1 2023 mainly due to declining government debt as a share of GDP amid robust economic growth and debt reduction, and averaged at 81.7 bps and 73.3 bps in January and February 2023, respectively.

Table.3.3. UAE Financial Soundness Indicators

Indicator	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Liquidity and Funding Indicators					
Advances to Stable Resources Ratio	79.4%	79.1%	76.4%	75.6%	74.8%
Net Stable Funding Ratio[3]	108.1%	109.5%	111.9%	111.2%	112.7%
Loan-to-deposit Ratio	91.3%	89.2%	85.7%	84.6%	82.2%
Eligible Liquid Assets Ratio	19.0%	18.0%	17.3%	19.1%	19.7%
Liquidity Coverage Ratio[3]	128.4%	136.0%	154.7%	156.0%	154.8%
Asset Quality Indicators					
Net Non-Performing Loans Ratio[4]	3.2%	3.2%	3.2%	3.0%	2.9%
Specific Provision Coverage Ratio	60.3%	59.9%	59.6%	60.4%	60.8%
Total Provision Coverage Ratio	87.4%	87.2%	87.0%	88.6%	90.9%
Capital Adequacy Ratios					
Capital Adequacy Ratio	17.1%	16.9%	17.5%	17.4%	17.8%
Tier 1 Capital Ratio	16.0%	15.8%	16.3%	16.2%	16.6%
Common Equity Tier 1 Ratio	14.2%	14.0%	14.5%	14.4%	14.8%

Source: CBUAE
Note: Data as of end of period
[3] LCR and NSFR applicable to five approved banks.
[4] The Net NPL ratio excludes specific provisions and provides a better indicator of asset quality, taking into account the provisioning levels in the UAE banking system.

Table.3.4. UAE Stock Exchanges (Equity Markets)

			Q1-2022	Q2-2022	Q3-2022	Q4-2022	Q1-2023
Abu Dhabi	Share Price Index*	Y-o-Y	62.9%	53.8%	29.0%	25.2%	4.0%
	Market Capitalization*	AED bn	1753.6	1963.4	2104.1	2574.1	2591.6
		Y-o-Y	112.1%	95.9%	53.7%	63.7%	47.8%
	Traded Value**	AED bn	100.9	98.8	88.0	92.6	85.4
		Y-o-Y	100.6%	12.6%	2.4%	-21.6%	-15.4%
Dubai	Share Price Index*	Y-o-Y	30.0%	25.3%	20.8%	9.4%	0.6%
	Market Capitalization*	AED bn	421.6	554.2	566.9	577.6	589
		Y-o-Y	19.1%	46.2%	46.4%	44.7%	39.7%
	Traded Value**	AED bn	22.8	26.6	19.8	20.4	19
		Y-o-Y	48.2%	104.6%	101.5%	-36.7%	-16.3%

Source: SCA
Note: *Average values
**Values during the whole quarter

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

	2022				2023
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Abu Dhabi	**50.4**	**59.6**	**56.8**	**52.6**	**43.1**
Dubai	**98.9**	**112.7**	**125.8**	**106.7**	**78.0**

Source: SCA
Note: Average of the quarter

III.4. Insurance Sector Developments

14.1% Y-o-Y growth of gross written premiums, and 9.2% increase in the gross paid claims in Q1 2023	7.7% Y-o-Y increase in total technical provisions in Q1 2023	The insurance sector remained well capitalized with capital adequacy ratios and asset quality ratio in Q1 2023

Insurance Sector Structure and Activity

The UAE insurance sector continued to grow in Q1 2023, as reflected by the increase in number of insurance policies in line with the increase in the gross written premiums.
At the end of Q1 2023, the number of licensed insurance companies in the UAE decreased to 60, reflecting the write down of two Takaful companies [7]. The sector now comprises 23 traditional national companies, 10 Takaful national and 27 foreign companies; while the number of insurance related professions[8] slightly increased to 493 in Q1 2023 up from 491 in Q4 2022.

Gross Written Premiums (GWP)

GWP increased Y-o-Y by 14.1% in Q1 2023 to AED 17.8 billion, mostly due to an increase in property and liability insurance premiums Y-o-Y by 16.1%, an increase in health insurance premiums Y-o-Y by 14.8%, and an increase in insurance of persons and fund accumulation premiums Y-o-Y by 5.3%.

Paid Claims

Gross paid claims of all types of insurance plans increased Y-o-Y by 9.2% to AED 7.1 billion in Q1 2023. This was mainly driven by the increase in claims paid in health insurance Y-o-Y by 22.5%, while the claims paid in insurance of persons and fund accumulation decreased Y-o-Y by 16.7% and those in the property and liability insurance decreased Y-o-Y by 10.5%, compared to Q4 2022.

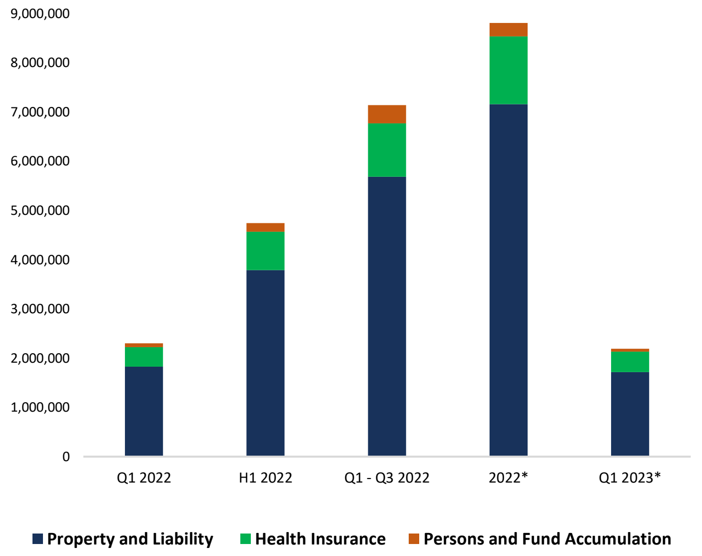
Technical Provisions

The total technical provisions[9] increased Y-o-Y by 7.7% to AED 73.7 billion in Q1 2023 compared to AED 68.4 billion in Q1 2022, reflecting a rise of all types of insurance, such as outstanding loss reserves, unexpired risk reserves, incurred but not reported claims, and mathematical reserve, to meet the insured's accrued financial liabilities in the future.

Investments

The volume of invested assets[10] in the insurance sector amounted to AED 70.5 billion (54.9% of total assets) in Q1 2023 compared to AED 70.4 billion (58.6% of total assets) in Q1 2022.

Figure.3.3. Number of Written Insurance Policies



* Preliminary data;
Accumulative at end of period
Source: CBUAE

Table 3.6. Key Indicators of the Insurance Sector

Billions of AED

Description	2022				2023
	Q1	H1	Q1-Q3	2022*	Q1*
1- Gross Written Premiums	15.6	26.8	36.7	47.2	17.8
Property & Liability	5.6	9.8	14.6	17.8	6.5
Health Insurance	8.1	11.4	16.4	21.8	9.3
Persons and Fund Accumulation	1.9	5.5	5.7	7.6	2.0
2- Gross Claims Paid	6.5	13.1	18.7	27.3	7.1
Property & Liability	1.9	3.5	5.2	7.6	1.7
Health Insurance	4.0	7.1	11.8	16.6	4.9
Persons and Fund Accumulation	0.6	2.5	1.7	3.1	0.5
3- Technical Provisions	68.4	70.3	68.8	69.0	73.7
4- Total Invested Assets	70.4	71.8	72.2	71.4	70.5
5- Total Assets	120.2	121.2	118.2	121.3	128.3
6- Total Equity	27.0	26.7	27.1	26.9	26.3

* Preliminary data;
Accumulative at end of period
Source: CBUAE

[7] Dar Al Takaful PJSC and Al Watania Takaful were written off.
[8] Persons / companies licensed by the CBUAE to practice one of the activities of an insurance agent, Actuarial, broker, loss adjuster, consultant, or any other profession related to insurance.
[9] The technical provisions that the insurers must deduct and maintain to meet the insured's accrued financial liabilities as per Law's stipulations and financial regulations for insurance and Takaful companies. link
[10] The sum of all assets held for investment purposes, including real estate, derivatives or other hedging instruments and cash.

Retention

The retention ratio[11] of written insurance premiums for all types of insurance increased Y-o-Y by 53.2% to AED 9.5 billion in Q1 2023, compared to 52.1% in Q1 2022.

Insurance Soundness Indicators

The UAE insurance sector remained well capitalized. The own funds to minimum capital requirement ratio increased to 319.5% in Q1 2023, compared to 275.4% in Q1 2022, due to an increase in own funds[12] eligible to meet the minimum capital requirements.

The own funds to solvency capital requirement ratio rose to 213.2% in Q1 2023 compared to 175.9% in Q1 2022.

The own funds to minimum guarantee fund ratio reached to 336.3% in Q1 2023 up from 287.3% in Q1 2022.

Table.3.7. Insurance Soundness Indicators

Description	2022				2023
	Q1	**H1**	**Q1-Q3**	**2022***	**Q1***
Reinsurance ratio					
Retention ratio	52.1%	57.8%	51.2%	54.3%	53.2%
Capital Adequacy Ratios					
Own funds to Minimum Capital Requirement (MCR)	275.4%	274.0%	325.0%	312.5%	319.5%
Own Funds to Solvency Capital Requirement (SCR)	175.9%	170.8%	203.6%	219.2%	213.2%
Own Funds to Minimum Guarantee Fund (MGF)	287.3%	280.8%	323.1%	332.7%	336.3%
Asset Quality Ratio					
Net total profit to net written premiums	9.4%	8.8%	8.4%	4.9%	8.0%
Return on avg. assets	0.6%	0.5%	0.4%	0.2%	0.5%

*Estimated data
Accumulative at end of period
Source: CBUAE

[11] Retention ratio = (net written premiums ÷ gross written premiums)
[12] The capital that an insurance company has available to meet Solvency requirements, which includes Admissible Assets less Liabilities.

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