



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

United Arab Emirates Monetary, Banking & Financial Markets Developments

1st Quarter 2016

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Introduction

As part of its commitment to promote economic and financial stability and growth in the UAE, the Central Bank of the UAE actively fosters a stable and efficient financial system by providing effective central banking services. The *United Arab Emirates Monetary, Banking and Financial Markets Developments Report* is one of the many avenues through which the Central Bank seeks to keep its stakeholders informed.

This report discusses the monetary and banking activities as well as developments in the UAE financial markets during the first quarter of 2016, in comparison to the first quarter of the previous year. The report also reviews ratios of annual change over the period from March 2015 to March 2016.

Monetary Developments

Money Supply M_1 , which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, increased by 7.3% during the first quarter of 2016, compared to a 4.8% increase during the same period last year. On an annual basis, the monetary aggregate M_1 increased by 7.3% reaching AED 490.3 billion.

Money Supply M_2 (M_1 plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham plus Resident Deposits in Foreign Currencies), also increased by 2.7% during the first quarter of 2016, compared to a 3.3% increase during the same period last year. On an annual basis, M_2 increased by 4.8% reaching AED 1,218.4 billion.

Consequently, Money Supply M_3 (M_2 plus government deposits at banks and at the Central Bank) also increased by 2.3% during the first quarter of 2016 as compared to a 2.4% increase during the first quarter of 2015. On an annual basis, Money Supply M_3 increased by 2.1% reaching AED 1,373.8 billion.

On an annual basis, the growth of M_1 , M_2 and M_3 was 7.3 %, 4.8% and 2.1%, respectively. Generally, the median money supply M_2 is considered the best indicator for the availability of liquidity in the economy, as it comprises currency in circulation outside banks, in addition to various deposits of all the resident sectors except the government sector in the UAE. Statistical data show that at the end of the first quarter of 2016, M_2 increased in comparison to the position at the end of first quarter of 2015. This increase in M_2 was mainly due to the increase of non -government resident deposits by 4.5% (increase of AED 50.3 billion) to reach AED 1,156.6 billion.

Table 1 - Monetary Developments in the UAE¹

(In Billions Dirhams - End of Period)

	2015								2016		
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		First Quarter*		
	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Change (%)	
										Quarterly	Annual
Money Supply (M ₁)	456.9	4.8%	464.1	1.6%	453.6	-2.3%	456.9	0.7%	490.3	7.3%	7.3%
Money Supply (M ₂)	1,162.5	3.3%	1,174.2	1.0%	1,158.3	-1.4%	1,186.8	2.5%	1218.4	2.7%	4.8%
Money Supply (M ₃)	1,346.0	2.4%	1,337.6	-0.6%	1,322.0	-1.2%	1,342.8	1.6%	1373.8	2.3%	2.1%

*Source- Data received from banks operating in the UAE*¹ Revised to comply with MFS guidelines issued by IMFM₁ = Currency in Circulation Outside Banks (Currency Issued - Cash at banks) + Monetary DepositsM₂ = M₁ + Quasi-Monetary DepositsM₃ = M₂ + Government Deposits

*Estimates, subject to revision

Banking Sector Development

1- Banks Operating in the UAE

The number of locally incorporated banks remains at 23 banks by the end of the first quarter of 2016, while their branches increased from 871 at the end of the first quarter of 2015 to 874 at the end of the same period of 2016. The number of electronic services units of these banks increased at the end of first quarter of 2016 to 39 from 31 at the end of March 2015. The number of Cash Offices remains constant at 90 offices by the end of March 2016.

The number of GCC banks continues to remain constant during the first quarter of 2016 at 6 banks, with 4 branches. The number of foreign banks also remains unchanged at 20 banks with the number of branches falling from 82 branches at the end of the first quarter of 2015 to 81 branches at the end of the same period of 2016. The number of electronic services units of these banks also decreased from 48 units at the end of March 2015 to 41 units at the end of March 2016.

At the end of the first quarter of 2016, the number of financial institutions licensed by the Central Bank, i.e., financial investment companies and offices for intermediation in currency trading and money market operations remains constant at 25 and 12, respectively. Whereas, the number of wholesale banks and finance companies increased from 8 to 9 and from 26 to 27, respectively. On the other hand, the number of representative offices and money changers decreased from 122 to 114 and from 140 to 139, respectively.

The total number of ATMs of banks operating in the UAE reached 5,144 by the end of March 2016, compared to 4,879 at the end of March 2015 (see table 2 for more details).

**Table-2 Banks, Other Financial Institutions & ATMs
2013 - 2015**

	2013				2014				2015				2016
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March*
Locally Incorporated Banks													
Main Branches	23	23	23	23	23	23	23	23	23	23	23	23	23
Additional Branches	810	824	832	841	843	858	866	869	871	873	875	874	874
Electronic Banking Service Units	28	28	29	29	29	33	33	34	31	32	34	37	39
Cash Offices	89	89	89	89	89	89	89	90	90	90	90	90	90
GCC Banks													
Main Branches	6	6	6	6	6	6	6	6	6	6	6	6	6
Additional Branches	3	3	3	4	4	4	4	4	4	4	4	4	4
Foreign Banks													
Main Branches	22	22	22	22	22	22	22	20	20	20	20	20	20
Additional Branches	83	83	83	83	83	83	83	82	82	82	82	82	81
Electronic Banking Service Units	54	54	54	52	53	53	54	48	48	48	45	40	41
Cash Offices	1	1	1	1	1	1	1	1	1	1	1	1	1
Wholesale Banks	4	4	4	4	4	5	5	7	8	8	8	8	9
Representative Offices	120	120	117	120	120	122	121	121	122	122	121	115	114
Finance Companies	25	25	25	25	25	26	26	26	26	26	26	27	27
Financial Investment companies	23	23	23	25	25	25	25	25	25	25	25	25	25
Moneychangers	124	128	131	134	134	137	138	140	140	141	142	140	139
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	12	12	12	12	12	12	12	12	12	12
ATMs	4,555	4,582	4,642	4,664	4,642	4,674	4,740	4,847	4,879	4,921	5,003	5,119	5,144

Source: *Banking Supervision Department and UAESWITCH*

*Estimates, subject to revision

2- Bank Assets and Loans

Between the end of the first quarter of 2015 and the end of the first quarter of 2016, total assets of banks operating in the UAE increased by 4.7%, reaching AED 2.49 trillion by the end of March 2016.

This hike was mainly brought about by 7.6% increase in credit, reaching AED 1.52 trillion by the end of March 2016.

3- Customer Deposits

By the end of the first quarter of 2016, total deposits of resident and non-resident customers with banks operating in the UAE also increased by 3.7%, reaching AED 1.5 trillion, compared to AED 1.45 trillion at the end of the first quarter of 2015. Resident deposits increased by 1.8%, reaching AED 1.33 trillion at the end of the first quarter of 2016, compared to AED 1.30 trillion at the end of the first quarter of 2015. Non-resident deposits also increased by 19.9%, reaching AED 177.5 billion by the end of March 2016, compared to AED 148 billion at the end of the same period of 2015.

4- Capital and Reserves

During March 2015 and March 2016, aggregate capital and reserves of banks operating in the UAE, increased by 5.6%, rising from AED 311.1 billion at the end of the first quarter of 2015 to AED 328.4 billion at the end of the same period of 2016. The total capital adequacy ratios remain well above the 12% Capital Adequacy and 8% Tier1 ratios prescribed by the Central Bank regulations.

Capital adequacy ratios measure the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. A high capital adequacy ratio provides protection to depositors and promotes the stability and efficiency of the financial system of an economy.

Table- 3: Banking Indicators¹

(End of Month, Figures in billions of Dirhams unless otherwise indicated)

	2015								2016		% Annual Change
	March	Quarterly Change (%)	June	Quarterly Change (%)	Sep.	Quarterly Change (%)	Dec.	Quarterly Change (%)	March*	Quarterly Change (%)	
Total Assets	2,379.9	3.3%	2,419.5	1.7%	2,422.2	0.1%	2,478.2	2.3%	2491.1	0.5%	4.7%
Banks' Investments in Central Bank CDs	111.7	12.3%	101.3	-9.3%	97.4	-3.8%	139.8	43.5%	115.4	-17.5%	3.3%
Shariah Compliant Certificates of Deposits	22.1	11.6%	21.2	-4.1%	20.5	-3.5%	20.9	2.2%	27.1	29.7%	22.6%
Gross Credit ⁽²⁾	1,410.2	2.3%	1,446.7	2.6%	1,478.5	2.2%	1,485.0	0.4%	1517.5	2.2%	7.6%
Personal Loans to Residents	309.8	3.3%	319.3	3.1%	329.7	3.3%	330.7	0.3%	336.1	1.6%	8.5%
Total Deposits ⁽³⁾	1,449.3	2.0%	1,444.3	-0.3%	1,436.8	-0.5%	1,471.6	2.4%	1502.6	2.1%	3.7%
Capital & Reserves ⁽⁴⁾	311.1	10.0%	311.0	0.0%	307.5	-1.1%	309.5	0.6%	328.4	6.1%	5.6%
Capital Adequacy Ratio	18.2%	0.0%	18.3%	0.5%	18.3%	0.0%	18.3%	0.0%	18.0%	-1.6%	-1.1%
Tier-1 Ratio	16.2%	0.0%	16.5%	1.9%	16.5%	0.0%	16.6%	0.6%	16.3%	-1.8%	0.6%

¹ Revised to comply with MFS guidelines issued by IMF⁽²⁾ Includes credit to residents and non-residents: loans to non-banking financial institutions, Trade Bills Discounted and Loans and Advances to the Government and Public Sector, Private sector (corporates and individuals) in local and foreign currencies.⁽³⁾ Net of inter-bank deposits and bank drafts, including commercial prepayments.⁽⁴⁾ Excluding current year profit & including subordinated borrowings/deposits

*Estimates, subject to revision

5- Foreign Assets of Central Bank

Central Bank's foreign assets increased by 13.7% from AED 269.3 billion at the end of the first quarter of 2015 to AED 306.2 billion at the end of the first quarter of 2016. This increase was mainly attributed to an increase in Current Account Balances and Deposits with Banks Abroad by 25.9% (increase of AED 27.3 billion), an increase in Held-to-Maturity Foreign Securities by 4.7% (increase of AED 7.6 billion) and an increase in Other Foreign Assets by 52.1% (increase of AED 2 billion).

6- Values in UAE Financial Markets

The UAE financial markets general index rose by 0.5%, from the first quarter of 2015 to the first quarter of 2016. Market capitalization of companies listed on financial markets also increased by 0.6%, rising from AED 726.2 billion at the end of March 2015 to AED 730.5 billion at the end of March of 2016. Similarly, quarterly trading value rose from AED 51.8 billion at the end of the first quarter of 2015 to AED 56.5 billion at the end of the corresponding quarter of 2016.

Table 4: UAE Financial Markets Indicators

	2013				2014				2015				2016
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March
Number of listed Companies	123	121	120	120	120	120	121	125	126	126	127	128	128
General Share Price Index	2,925.6	3,402.8	3,817.0	4,313.6	5,083.6	4,657.8	5,378.0	4,580.1	4,479.9	4,927.3	4,611.4	4,279.8	4,503.2
Quarterly Variation (%)	14.2%	16.3%	12.2%	13.0%	17.9%	-8.4%	15.5%	-14.8%	-2.2%	10.0%	-6.4%	-7.2%	5.2%
Market Capitalization (Billion AED)	434.8	509.9	571.9	646.3	763.1	699.2	808.3	728.4	726.2	798.7	747.6	693.9	730.5
Quarterly Traded Values (Billion AED)	33.4	59.9	70.7	80.4	162.1	180.0	97.0	86.7	51.8	81.8	42.7	33.1	56.5

Source: UAE Securities & Commodities Authority