



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

United Arab Emirates
Monetary, Banking & Financial Markets Developments

2017 – 1st Quarter Report

May 2017

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 2017, in comparison to the first quarter of the previous year. The report also reviews ratios of annual change over the period from March 2017 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 6.4% during the first quarter of 2017, compared to a 7.3% increase during the same period last year. On an annual basis, there was a 2.9% increase in the monetary aggregate M_1 , reaching AED 504.4 billion.

Money Supply M_2 (M_1 plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham plus Resident Deposits in Foreign Currencies)), increased by 3.8% during the first quarter of 2017, compared to a 2.7% increase during the same period last year. On an annual basis, there was a 4.4% increase in Money Supply M_2 , reaching AED 1272.2 billion.

Consequently, Money Supply M_3 (M_2 plus government deposits at banks and at the Central Bank) also increased by 3.9% during the first quarter of 2017 as compared to a 2.3% increase during the first quarter of 2016. On an annual basis, there was a 6.7% increase in Money Supply M_3 , reaching AED 1465.8 billion.

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 2017, M_2 increased relatively faster in comparison to its position at the end of the first quarter of 2016. The increase in M_2 during the first quarter of 2017 was mainly due to an increase in non-government resident deposits by 3.7% reaching 1,206.8 billion, compared to a smaller increase of 2.5% (AED 1156.6 billion) during the same period of the previous year.

Table 1 - Monetary Developments in the UAE

(In Billions Dirhams - End of Period)

	2014		2015		2016								2017	
	Fourth Quarter		Fourth Quarter		First Quarter		Second Quarter		Third Quarter		Fourth Quarter*		First Quarter*	
	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)
Money Supply (M1)	436.1	1.2%	456.9	0.7%	490.3	7.3%	481.0	-1.9%	472.5	-1.8%	474.0	0.3%	504.4	6.4%
Money Supply (M2)	1125.4	0.5%	1186.8	2.5%	1218.4	2.7%	1180.4	-3.1%	1200.2	1.7%	1225.5	2.1%	1272.2	3.8%
Money Supply (M3)	1314.5	-0.9%	1342.8	1.6%	1373.8	2.3%	1364.8	-0.7%	1368.6	0.3%	1411.4	3.1%	1465.8	3.9%

Source- Data received from banks operating in the UAE

M1 = Currency in Circulation Outside Banks (Currency Issued - Cash at banks) + Monetary Deposits

M2 = M1 + Quasi-Monetary Deposits

M3 = 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 2017, while their branches decreased from 874 at the end of the first quarter of 2016 to 834 at the end of the same period of 2017. The number of electronic services units of these banks decreased at the end of first quarter of 2017 to 35 from 39 at the end of March 2016. The number of Cash Offices decreased from 90 offices at the end of March 2016 to 72 offices at the end of March 2017.

The number of GCC banks remains constant during the first quarter of 2017 at 6 banks, with 4 branches. The number of other foreign banks and their branches also remains unchanged at 20 banks and 81 branches at the end of the first quarter of 2017. The number of electronic services units of these banks decreased from 41 units at the end of March 2016 to 29 units at the end of March 2017.

At the end of the first quarter of 2017, the number of financial institutions licensed by the Central Bank i.e., Wholesale Banks, Representative Offices, Finance Companies, Financial Investment Companies, Moneychangers and Offices for Intermediating in Currency Trading & Money Market Operations reached 11, 107, 28, 22, 141 and 11, respectively.

The total number of ATM of banks operating in the UAE reached 5,211 by the end of March 2017, compared to 5,144 at the end of March 2016 (see table 2 for more details).

Table-2 Banks, Other Financial Institutions & ATMs											
2013 - 2017											
	2013	2014	2015				2016				2017
	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec*	Mar*
Locally Incorporated Banks											
Main Branches	23	23	23	23	23	23	23	23	23	23	23
Additional Branches	841	869	871	873	875	874	874	862	857	846	834
Electronic Banking Service Units	29	34	31	32	34	37	39	33	32	33	35
Cash Offices	89	90	90	90	90	90	90	86	85	76	72
GCC Banks											
Main Branches	6	6	6	6	6	6	6	6	6	6	6
Additional Branches	4	4	4	4	4	4	4	4	4	4	4
Foreign Banks											
Main Branches	22	20	20	20	20	20	20	20	20	20	20
Additional Branches	83	82	82	82	82	82	81	82	81	81	81
Electronic Banking Service Units	52	48	48	48	45	40	41	42	41	31	29
Cash Offices	1	1	1	1	1	1	1	1	1	1	1
Wholesale Banks	4	7	8	8	8	8	9	9	10	11	11
Representative Offices	120	121	122	122	121	115	114	114	114	114	107
Finance Companies	25	26	26	26	26	27	27	27	27	27	28
Financial Investment companies	25	25	25	25	25	25	25	25	25	25	22
Moneychangers	134	140	140	141	142	140	139	139	139	140	141
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	12	12	12	12	11	11	11	11
ATMs	4,664	4,847	4,879	4,920	5,003	5,119	5,144	5,118	5,170	5,243	5,211

Source: Banking Supervision Department and UAESWITCH

*Estimates, subject to revision

2- Bank Assets and Loans

At the end of the first quarter of 2017 total assets of banks operating in the UAE increased by 1.4%, reaching AED 2648.3, showing a faster growth than the 0.5% increase by the end of the first quarter of 2016. During the period between March 2016 and March 2017, the total assets of banks operating in the UAE increased by 6.3%.

This hike was mainly brought about by 1.5% quarterly and 5.3% annual increase in credit, reaching AED 1597.2 billion by the end of March 2017.

3- Customer Deposits

By the end of the first quarter of 2017, total deposits of resident and non-resident customers with banks operating in the UAE also increased by 2.5%, reaching AED 1602 billion, compared to AED 1502.6 billion at the end of the first quarter of 2016. Resident deposits increased by 3.6%, reaching AED 1413 billion at the end of the first quarter of 2017, compared to AED 1325.1 billion at the end of the first quarter of 2016 (1.9% quarterly increase). On the other hand, Non-resident deposits decreased by 5%, reaching AED 189 billion by the end of March 2017, compared to a 3.5% increase at the end of the same period of 2016. On an annual basis, Resident deposits and Non-resident deposits increased by 6.6% and 6.5%, respectively.

4- Capital and Reserves

Aggregate Capital and Reserves of banks operating in the UAE decreased by 2.4%, falling to AED 338.7 billion at the end of the first quarter of 2017. However, this was a smaller reduction compared to a 2.5% decrease at the end of the same period of 2016. Compared to the first quarter of 2016, the total Capital Adequacy Ratios decreased slightly during the first quarter of 2017, however, remaining 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 Indicators

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

	2014		2015		2016							2017		
	Dec	Quarterly Change (%)	Dec	Quarterly Change (%)	Mar	Quarterly Change (%)	Jun	Quarterly Change (%)	Sep	Quarterly Change (%)	Dec*	Quarterly Change (%)	Mar*	Quarterly Change (%)
Total Assets	2304.9	-0.3%	2478.2	2.3%	2491.1	0.5%	2518.5	1.1%	2550.1	1.3%	2610.8	2.4%	2648.3	1.4%
Banks' Investments in Central Bank CDs	99.5	-15.8%	139.8	43.5%	115.4	-17.5%	109.1	-5.5%	103.8	-4.9%	108.2	4.2%	115.3	6.6%
Shariah Compliant Certificates of Deposits	19.8	-24.4%	20.9	2.2%	27.1	29.7%	21.9	-19.2%	16.7	-23.7%	20.1	20.4%	26.3	30.8%
Gross Credit ⁽¹⁾	1378.1	-0.3%	1485.0	0.4%	1517.5	2.2%	1543.4	1.7%	1566.0	1.5%	1574.0	0.5%	1597.2	1.5%
Personal Loans to Residents	299.8	-2.3%	330.7	0.3%	336.1	1.6%	341.9	1.7%	345.8	1.1%	348.2	0.7%	349.3	0.3%
Total Deposits ⁽²⁾	1421.3	0.5%	1471.6	2.4%	1502.6	2.1%	1493.0	-0.6%	1508.7	1.1%	1562.9	3.6%	1602.0	2.5%
Capital & Reserves ⁽³⁾	299.1	3.0%	324.8	3.1%	316.6	-2.5%	330.5	4.4%	339.4	2.7%	346.9	2.2%	338.7	-2.4%
Capital Adequacy Ratio	18.2%	-0.5%	18.3%	0.0%	18.0%	-1.6%	18.4%	2.2%	18.6%	1.1%	19.0%	2.2%	18.6%	-2.3%
Tier-1 Ratio	16.2%	-0.6%	16.6%	0.6%	16.3%	-1.8%	16.8%	3.1%	16.9%	0.6%	17.3%	2.4%	16.9%	-2.3%

⁽¹⁾ 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.

⁽²⁾ Net of inter-bank deposits and bank drafts, including commercial prepayments.

⁽³⁾ Excluding subordinated borrowings/deposits, but including current year profit.

**Estimates, subject to revision*

5- Foreign Assets of the Central Bank

At the end of the first quarter of 2017, the Central Bank's foreign assets increased by 4.5%, reaching AED 325 billion, compared to a 10.2% reduction at the end of the first quarter of 2016. This rise was mainly attributed to an increase in Current Account Balances & Deposits with banks abroad by 21% (an increase of AED 31 billion), overshadowing reductions in Held-to-Maturity Foreign Securities by 5.9% (a reduction of AED 8.8 billion) and Other Foreign Assets by 58.7% (a reduction of AED 8.1 billion).

6- Values in Abu Dhabi and Dubai Financial Markets

Abu Dhabi's quarterly average Financial Market Index increased by 3% during the first quarter of 2017 compared to a 0.5% fall in the first quarter of 2016. The quarterly average Market Capitalization of companies listed at the Abu Dhabi Securities Exchange (ADX) increased by AED 6.3 billion reaching AED 467.4 billion at the end of the first quarter of 2017 compared to AED 4.2 billion increase at the end of the first quarter of 2016. Quarterly Trading Value increased significantly, rising from AED 14.8 billion (8.6% quarterly increase) during the first quarter of 2016 to AED 17.4 billion (53.7% quarterly increase) during the first quarter of 2017.

Dubai's quarterly average Financial Market Index also increased by 5.2% during the first quarter of 2017, compared to a 2.7% reduction during the same period in 2016. The quarterly average Market Capitalization of companies listed at the Dubai Financial Market (DFM) increased by AED 61.2 billion reaching AED 387 billion at the end of the first quarter of 2017 compared to AED 10.9 billion reduction at the end of the first quarter of 2016. Quarterly Trading Value increased comparatively slower, rising from AED 40.6 billion (112.4% quarterly increase) during the first quarter of 2016 to AED 48.2 billion (14.8% quarterly increase) during the first quarter of 2017.

Table 4: Abu Dhabi Securities Exchange (ADX) Indicators

	2015				2016				2017
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Number of listed Companies	69	69	69	70	69	69	69	69	67
General Share Price Index**	4537.0	4632.7	4610.3	4288.6	4265.4	4430.5	4507.6	4385.1	4514.8
Quarterly Variation (%)	-3.2%	2.1%	-0.5%	-7.0%	-0.5%	3.9%	1.7%	-2.7%	3.0%
Market Capitalization (Billion AED)**	423.7	433.2	443.0	436.9	441.1	449.4	475.5	461.1	467.4
Quarterly Traded Values (Billion AED)	13.4	16.3	13.3	13.7	14.8	10.7	8.5	11.3	17.4

Source: Abu Dhabi Securities Exchange (ADX)

Table 5: Dubai Financial Markets (DFM) Indicators

	2015				2016				2017
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Number of listed Companies*	59	59	59	60	60	60	60	61	62
General Share Price Index**	3684.5	4079.7	3799.7	3286.3	3197.7	3372.2	3487.7	3408.1	3584.5
Quarterly Variation (%)	-	10.7%	-6.9%	-13.5%	-2.7%	5.5%	3.4%	-2.3%	5.2%
Market Capitalization (Billion AED)**	331.7	366.2	360.4	323.3	312.4	332.4	337.0	325.8	387.0
Quarterly Traded Values (Billion AED)	38.2	65.2	28.9	19.1	40.6	28.9	21.7	42.0	48.2

**includes foreign companies*

Source: Dubai Financial Markets (DFM)

******The Quarterly share Price Index and the Quarterly Market Capitalization are measured as the quarterly average of monthly observations.