



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

United Arab Emirates Monetary, Banking & Financial Markets Developments

3rd Quarter 2016

November 2016

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 third quarter of 2016, in comparison to the third quarter of the previous year. The report also reviews ratios of annual change over the period from September 2015 to September 2016.

Monetary Developments

Money Supply M_1 , which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, decreased by 1.8% during the third quarter of 2016, compared to a 2.3% decrease during the same period last year. On an annual basis, the monetary aggregate M_1 increased by 4.2% reaching AED 472.5 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 1.7% during the third quarter of 2016, compared to a 1.4% decrease during the same period last year. On an annual basis, M_2 increased by 3.6% reaching AED 1200.2 billion.

Consequently, Money Supply M_3 (M_2 plus government deposits at banks and at the Central Bank) also increased by 0.3% during the third quarter of 2016 as compared to a 1.2% decrease during the third quarter of 2015. On an annual basis, Money Supply M_3 increased by 3.5% reaching AED 1,368.6 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 third quarter of 2016, M_2 increased in comparison to the position at the end of the second quarter of 2016. This increase in M_2 was mainly due to the rise of resident deposits, except government deposits, by 2 % (rise of AED 22.4 billion). Whereas on an annual basis, resident deposits, excluding government deposits, increased by 3.4% (increase of AED 37.4 billion) reaching AED 1,138.4 billion.

Table 1 - Monetary Developments in the UAE

(In Billions Dirhams - End of Period)

	2014		2015								2016							
	Fourth Quarter		First Quarter		Second Quarter		Third Quarter		Fourth Quarter		First Quarter		Second Quarter		Third Quarter*			
	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Amount	Change (%)	
																	Quarterly	Annual
Money Supply (M ₁)	436.1	1.2%	456.9	4.8%	464.1	1.6%	453.6	-2.3%	456.9	0.7%	490.3	7.3%	481.0	-1.9%	472.5	-1.8%	4.2%	
Money Supply (M ₂)	1,125.4	0.5%	1,162.5	3.3%	1,174.2	1.0%	1,158.3	-1.4%	1,186.8	2.5%	1218.4	2.7%	1180.4	-3.1%	1,200.2	1.7%	3.6%	
Money Supply (M ₃)	1,314.5	-0.9%	1,346.0	2.4%	1,337.6	-0.6%	1,322.0	-1.2%	1,342.8	1.6%	1373.8	2.3%	1364.8	-0.7%	1,368.6	0.3%	3.5%	

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 remained at 23 banks by the end of the third quarter of 2016, while their branches decreased from 875 at the end of the third quarter of 2015 to 857 at the end of the same period of 2016. The number of electronic services units of these banks decreased at the end of third quarter of 2016 to 32 from 34 at the end of September 2015. The number of Cash Offices decreased from 90 offices by the end of September 2015 to 85 offices by the end of September 2016.

The number of GCC banks continues to remain constant during the third quarter of 2016 at 6 banks, with 4 branches. The number of foreign banks also remains unchanged at 20 banks, while their branches decreased from 82 at the end of the third quarter of 2015 to 81 at the end of the same period of 2016. The number of electronic services units of these banks decreased from 45 units at the end of September 2015 to 41 units at the end of September 2016.

At the end of the third quarter of 2016, 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 10, 114, 27, 25, 139 and 11, respectively.

The total number of ATMs of banks operating in the UAE reached 5,170 by the end of September 2016, compared to 5,003 at the end of September 2015 (see table 2 for more details).

Table-2 Banks, Other Financial Institutions & ATMs

2013 - 2016

	2013				2014				2015				2016		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep*
Locally Incorporated Banks															
Main Branches	23	23	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	862	857
Electronic Banking Service Units	28	28	29	29	29	33	33	34	31	32	34	37	39	33	32
Cash Offices	89	89	89	89	89	89	89	90	90	90	90	90	90	86	85
GCC Banks															
Main Branches	6	6	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	4	4
Foreign Banks															
Main Branches	22	22	22	22	22	22	22	20	20	20	20	20	20	20	20
Additional Branches	83	83	83	83	83	83	83	82	82	82	82	82	81	82	81
Electronic Banking Service Units	54	54	54	52	53	53	54	48	48	48	45	40	41	42	41
Cash Offices	1	1	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	9	10
Representative Offices	120	120	117	120	120	122	121	121	122	122	121	115	114	114	114
Finance Companies	25	25	25	25	25	26	26	26	26	26	26	27	27	27	27
Financial Investment companies	23	23	23	25	25	25	25	25	25	25	25	25	25	25	25
Moneychangers	124	128	131	134	134	137	138	140	140	141	142	140	139	139	139
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	12	12	12	12	12	12	12	12	12	12	11	11
ATMs	4,555	4,582	4,642	4,664	4,642	4,646	4,740	4,847	4,879	4,920	5,003	5,119	5,144	5,118	5,170

Source: Banking Supervision Department and UAESWITCH

*Estimates, subject to revision

2- Bank Assets and Loans

Between the end of the third quarter of 2015 and the end of the third quarter of 2016, total assets of banks operating in the UAE increased by 5.3%, reaching AED 2,550.1 billion by the end of September 2016.

This hike was mainly brought about by 5.9% increase in credit, reaching AED 1,566 billion by the end of September 2016.

3- Customer Deposits

By the end of the third quarter of 2016, total deposits of resident and non-resident customers with banks operating in the UAE also increased by 5%, reaching AED 1,508.7 billion, compared to AED 1,436.8 billion at the end of the third quarter of 2015. Resident deposits increased by 3.4%, reaching AED 1,321.8 billion at the end of the third quarter of 2016, compared to AED 1,278.3 billion at the end of the third quarter of 2015. Non-resident deposits also increased by 17.9%, reaching AED 186.9 billion by the end of September 2016, compared to AED 158.5 billion at the end of the same period of 2015.

4- Capital and Reserves

The aggregate capital and reserves of banks operating in the UAE increased by 7.8% rising from AED 314.9 billion at the end of the third quarter of 2015 to AED 339.4 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 Indicators

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

	2014		2015						2016						% Annual Change		
	Dec	Quarterly Change (%)	Mar	Quarterly Change (%)	Jun	Quarterly Change (%)	Sep	Quarterly Change (%)	Dec	Quarterly Change (%)	Mar	Quarterly Change (%)	Jnn	Quarterly Change (%)		Sep *	Quarterly Change (%)
Total Assets	2,304.9	-0.3%	2,379.9	3.3%	2,419.5	1.7%	2,422.2	0.1%	2,478.2	2.3%	2,491.1	0.5%	2,518.5	1.1%	2,550.1	1.3%	5.3%
Banks' Investments in Central Bank CDs	99.5	-15.8%	111.7	12.3%	101.3	-9.3%	97.4	-3.8%	139.8	43.5%	115.4	-17.5%	109.1	-5.5%	103.8	-4.9%	6.6%
Shariah Compliant Certificates of Deposits	19.8	-24.4%	22.1	11.6%	21.2	-4.1%	20.5	-3.5%	20.9	2.2%	27.1	29.7%	21.9	-19.2%	16.7	-23.7%	-18.3%
Gross Credit ⁽¹⁾	1,378.1	-0.3%	1,410.2	2.3%	1,446.7	2.6%	1,478.5	2.2%	1,485.0	0.4%	1,517.5	2.2%	1,543.4	1.7%	1,566.0	1.5%	5.9%
Personal Loans to Residents	299.8	-2.3%	309.8	3.3%	319.3	3.1%	329.7	3.3%	330.7	0.3%	336.1	1.6%	341.9	1.7%	345.8	1.1%	4.9%
Total Deposits ⁽²⁾	1,421.3	0.5%	1,449.3	2.0%	1,444.3	-0.3%	1,436.8	-0.5%	1,471.6	2.4%	1,502.6	2.1%	1,493.0	-0.6%	1,508.7	1.1%	5.0%
Capital & Reserves ⁽³⁾	299.1	3.0%	299.9	0.3%	310.1	3.4%	314.9	1.5%	324.8	3.1%	316.6	-2.5%	330.5	4.4%	339.4	2.7%	7.8%
Capital Adequacy Ratio	18.2%	-0.5%	18.2%	0.0%	18.3%	0.5%	18.3%	0.0%	18.3%	0.0%	18.0%	-1.6%	18.4%	2.2%	18.6%	1.1%	1.6%
Tier-1 Ratio	16.2%	-0.6%	16.2%	0.0%	16.5%	1.9%	16.5%	0.0%	16.6%	0.6%	16.3%	-1.8%	16.8%	3.1%	16.9%	0.6%	2.4%

⁽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 current year profit & including subordinated borrowings/deposits

*Estimates, subject to revision

5- Foreign Assets of Central Bank

Central Bank's foreign assets increased by 12.9% from AED 267.1 billion at the end of the third quarter of 2015 to AED 301.6 billion at the end of the third quarter of 2016. This increase was mainly attributed to an increase in Held-to-Maturity Foreign Securities by 57.8% (increase of AED 61.91 billion) and an increase in Other Foreign Assets by 54.4.0% (increase of AED 1.98 billion), overshadowing a decrease in Current Account Balances & Deposits with banks abroad by 18.8% (decrease of AED 29.42 billion).

6- Values in Abu Dhabi and Dubai Financial Markets

The Abu Dhabi's quarterly average financial market index increased by 1.7%, during the third quarter of 2016 compared to second quarter of 2016. Similarly, the quarterly average market capitalization of companies listed in Abu Dhabi Securities Exchange (ADX) increased by 5.8% rising from AED 449.4 billion to AED 475.5 billion during the third quarter of 2016. However, quarterly trading value fell from AED 10.7 billion during the second quarter of 2016 to AED 8.5 billion during the third quarter of 2016.

On the other hand, the Dubai's quarterly average financial market index increased by 3.4%, during the third quarter of 2016 compared to second quarter of 2016. The quarterly average market capitalization of companies listed in Dubai Financial Market (DFM) increased by 1.4% rising from AED 332.4 billion to AED 337 billion during the third quarter of 2016, while the quarterly trading value fell from AED 28.9 billion during the second quarter of 2016 to AED 21.7 billion during the third quarter of 2016.

Table 4: Abu Dhabi Securities Exchange (ADX) Indicators

	2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Number of listed Companies	69	69	69	70	69	69	69
Quarterly Share Price Index *	4,537.0	4,632.7	4,610.3	4,288.6	4,265.4	4,430.5	4,507.6
Quarterly Variation (%)	-3.2	2.1	-0.5	-7.0	-0.5	3.9	1.7
Quarterly Market Capitalization (Billion AED) *	423.7	433.2	443.0	436.9	441.1	449.4	475.5
Quarterly Traded Values (Billion AED)	13.4	16.3	13.3	13.7	14.8	10.7	8.5

Source: Abu Dhabi Securities Exchange (ADX)

Table 5: Dubai Financial Markets (DFM) Indicators

	2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Number of listed Companies	59	59	59	60	60	60	60
Quarterly Share Price Index *	3,684.5	4,079.7	3,799.7	3,286.3	3,197.7	3,372.2	3,487.7
Quarterly Variation (%)	-	10.7	-6.9	-13.5	-2.7	5.5	3.4
Quarterly Market Capitalization (Billion AED) *	331.7	366.2	360.4	323.3	312.4	332.4	337.0
Quarterly Traded Values (Billion AED)	38.2	65.2	28.9	19.1	40.6	28.9	21.7

Source: Dubai Financial Markets (DFM)

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