



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

United Arab Emirates
Monetary, Banking & Financial Markets Developments

2019 – 3rd Quarter Report

November 2019

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 2019, in comparison to the third quarter of the previous year. The report also reviews ratios of annual change over the period from September 2018 to September 2019.

Monetary Developments

Money Supply M_1 , which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, improved by 0.8% during the third quarter of 2019, compared to a 2.3% quarterly reduction during the same period last year. On an annual basis, there was a 5.7% rise in the monetary aggregate M_1 , reaching AED 511.9 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 0.8% during the third quarter of 2019, compared to a 0.7% quarterly drop during the same period last year. On an annual basis, there was a 5.4% increase in Money Supply M_2 , reaching AED 1361.3 billion.

Money Supply M_3 (M_2 plus government deposits at banks and at the Central Bank) climbed by 2.1% during the third quarter of 2019 as compared to a 1.7% rise during the third quarter of 2018. On an annual basis, there was a 6.3% expansion in Money Supply M_3 , reaching AED 1679.9 billion.

Typically, the 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 2019, there was an increase in M_2 , compared to a decrease during the same period of 2018. The rise in M_2 during the third quarter of 2019 was mainly due to the quarterly increase in non-government resident deposits by 0.9% expanding to 1284.7 billion, compared to a reduction of 0.6% (reaching AED 1222.2 billion) during the same period of the previous year.

Table 1 - Monetary Developments in the UAE

(In Billions Dirhams - End of Period)

	2018								2019				
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Second Quarter		Third Quarter*		
	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Change (%)	
												Quarterly	Annual
Money Supply (M ₁)	510.6	3.7%	495.5	-3.0%	484.2	-2.3%	485.7	0.3%	507.9	-0.8%	511.9	0.8%	5.7%
Money Supply (M ₂)	1293.8	1.4%	1300.1	0.5%	1291.1	-0.7%	1308.5	1.3%	1351.0	1.7%	1361.3	0.8%	5.4%
Money Supply (M ₃)	1526.7	2.7%	1553.6	1.8%	1579.8	1.7%	1602.4	1.4%	1645.4	0.8%	1679.9	2.1%	6.3%

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 decreased to 21 banks at the end of the third quarters of 2019 compared to 22 banks at the end of the third quarter of 2018. This reduction in the number of locally incorporated banks is due to the merger of Union National Bank and Abu Dhabi Commercial Bank, forming Abu Dhabi Commercial Bank. The branches of these locally incorporated banks decreased from 751 at the end of the third quarter of 2018 to 664 at the end of the same period of 2019. The number of electronic service units of these banks increased at the end of the third quarter of 2019 to 33 from 32 at the end of September 2018. The number of Cash Offices fell from 36 offices at the end of September 2018 to 31 offices at the end of September 2019.

The number of GCC banks remains steady during the third quarter of 2019 at 6 banks, with 4 branches. The number of other foreign banks also remains unchanged at 21 banks at the end of the third quarters of 2018 and 2019. However, their branches decreased from 77 branches, at the end of September 2018, to 75 branches during the same period of 2019. The number of electronic service units of these banks remains the same at 21 units at the end of the third quarters of 2018 and 2019. The number of cash offices also remains invariable at one cash office during the third quarters of 2018 and 2019.

The changes in banks' branches, electronic banking service units and cash offices reflect technological and structural advancements in the UAE financial sector and the increasing trend of mobile banking applications, online banking and ease in the use of automated teller machines (ATM).

At the end of the third quarter of 2019, the number of financial institutions licensed by the Central Bank, i.e., Wholesale Banks, Representative Offices, Finance Companies, Moneychangers and Offices for Intermediating in Currency Trading & Money Market Operations reached 11, 87, 23, 123 and 9, respectively.

The total number of ATM of banks operating in the UAE reached 5,187 by the end of September 2019, compared to 5,293 at the end of September 2018.

Table-2 Banks, Other Financial Institutions & ATM							
2018 - 2019							
	2018				2019		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep*
Locally Incorporated Banks							
Main Branches	22	22	22	22	22	22	21
Additional Branches	761	755	751	743	733	713	664
Electronic Banking Service Units	32	32	32	33	33	34	33
Cash Offices	48	48	36	34	34	33	31
GCC Banks							
Main Branches	6	6	6	6	6	6	6
Additional Branches	4	4	4	4	4	4	4
Foreign Banks							
Main Branches	21	21	21	21	21	21	21
Additional Branches	77	77	77	76	75	75	75
Electronic Banking Service Units	21	21	21	21	21	21	21
Cash Offices	1	1	1	1	1	1	1
Wholesale Banks	12	12	12	11	11	11	11
Representative Offices	102	99	99	99	97	98	87
Finance Companies	27	26	26	26	24	23	23
Moneychangers	130	128	128	123	123	123	123
Offices for Intermediating in Currency Trading & Money Market Operations	11	11	11	11	9	9	9
ATM	5,274	5,261	5,293	5,303	5,279	5,229	5,187

Source: Banking Supervision Department and UAESWITCH

*Estimates, subject to revision

2- Bank Assets and Loans

At the end of the third quarter of 2019 total assets of banks operating in the UAE increased by 2.2%, touching AED 3022.7 billion, compared to the 3.2% quarterly increase at the end of the third quarter of 2018. During the period between September 2018 and September 2019, the total assets of banks operating in the UAE increased by 6.5%.

Gross credit also increased by 1.7% at the end of September 2019, reaching 1720.8 billion. On an annual basis, gross credit increased by 5%.

3- Customer Deposits

At the end of the third quarter of 2019, total deposits of resident and non-resident customers with banks operating in the UAE grew by 1.6%, reaching AED 1802 billion, compared to an increase of 2.6% (AED 1728.2 billion) at the end of the third quarter of 2018. Resident deposits increased by 2.2%, reaching AED 1612.2 billion at the end of the third quarter of 2019, compared to an increase of 1.9% at the end of the third quarter of 2018 reaching AED 1522.8 billion. Non-resident deposits decreased by 3.5%, reaching AED 189.8 billion by the end of September 2019, compared to a rise of 8% at the end of the same period of 2018. On an annual basis, Resident deposits increased by 5.9% and Non-resident deposits decreased by 7.6%.

4- Capital and Reserves

Aggregate Capital and Reserves of banks operating in the UAE increased by 3.4%, reaching AED 377.3 billion at the end of the third quarter of 2019 compared to a 3.8% quarterly increase at the end of the same period of 2018. During the third quarter of 2019, Total Capital Adequacy Ratio stood at 17.7%, remaining well above the 13% Capital Adequacy Ratio, including the 2.5% Capital Conservation Buffer requirement and the 8.5% Tier1 Ratio, prescribed by the Central Bank regulations in compliance with the Basel III guidelines. The Total Capital Adequacy Ratio during the third quarter of 2018, settled at 18.2%.

Capital adequacy ratios measure the amount of a bank's capital expressed as a percentage of its risk weighted exposures. A high capital adequacy ratio provides protection to depositors and promotes the stability and efficiency of the financial system of an economy. Effective December 2017, banks in the UAE follow Basel III principles for calculating the Capital Adequacy Ratios in line with the Guidelines issued by the Central Bank.

Table- 3: Banking Indicators

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

	2018						2019				% Annual Change
	Jun	Quarterly Change (%)	Sep	Quarterly Change (%)	Dec	Quarterly Change (%)	Jun	Quarterly Change (%)	Sep*	Quarterly Change (%)	
Total Assets	2748.9	1.1%	2838.2	3.2%	2868.5	1.1%	2958.6	2.2%	3022.7	2.2%	6.5%
Banks' Investments in Central Bank CDs	125.2	-6.8%	121.4	-3.0%	138.2	13.8%	155.8	11.9%	153.8	-1.3%	26.7%
Shariah Compliant Certificates of Deposits	34.4	-20.0%	32.4	-5.8%	36.3	12.0%	32.6	-6.6%	36.1	10.7%	11.4%
Gross Credit ⁽¹⁾	1622.3	0.9%	1638.3	1.0%	1656.2	1.1%	1692.7	1.1%	1720.8	1.7%	5.0%
Personal Loans to Residents	337.3	0.2%	338.4	0.3%	337.4	-0.3%	332.2	-0.4%	333.6	0.4%	-1.4%
Total Deposits ⁽²⁾	1684.3	1.3%	1728.2	2.6%	1755.6	1.6%	1774.3	1.5%	1802.0	1.6%	4.3%
Capital & Reserves ⁽³⁾	330.2	4.4%	342.9	3.8%	355.2	3.6%	364.8	4.2%	377.3	3.4%	10.0%
Capital Adequacy Ratio ⁽⁴⁾	18.1%	3.4%	18.2%	0.6%	17.5%	-3.8%	17.9%	0.0%	17.7%	-1.1%	-2.7%
Tier-1 Ratio	16.6%	3.8%	16.8%	1.2%	16.2%	-3.6%	16.7%	0.6%	16.5%	-1.2%	-1.8%
Common Equity Tier 1 (CET 1) Capital Ratio	14.6%	5.0%	14.9%	2.1%	14.3%	-4.0%	14.9%	2.1%	14.7%	-1.3%	-1.3%

⁽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.

⁽⁴⁾ Total Capital Ratio , Tier 1 Ratio and CET 1 Ratio for the period starting from Dec 2017 are calculated according to the Basel III Guidelines issued by CBUAE vide Circular 52/2017 .Whereas CAR for period prior to Dec 2017 are according to Basel II Guidelines.

*Estimates, subject to revision

5- Foreign Assets of the Central Bank

At the end of the third quarter of 2019, the Central Bank's foreign assets fell by 0.8%, reaching AED 374.3 billion, compared to a 1.1% decrease at the end of the third quarter of 2018. This reduction was mainly ascribed to an 84.8% decline in Foreign Securities (a decrease of AED 33.3 billion), overriding the increases in Current Account Balances & Deposits with banks abroad by 8.5% (an increase of AED 27.5 billion) and Other Foreign Assets by 20.4% (an increase of AED 3 billion).

From September 2018 to September 2019, Central Bank Foreign Assets increased by 14.4%.

6- Abu Dhabi and Dubai Financial Markets Values

Abu Dhabi's quarterly average Financial Market Index rose by 2% during the third quarter of 2019 compared to an increase of 6.8% in the third quarter of 2018. The quarterly average Market Capitalization of companies listed at the Abu Dhabi Securities Exchange (ADX) increased by AED 10.7 billion reaching AED 538.6 billion at the end of the third quarter of 2019 compared to AED 22.6 billion increase at the end of the third quarter of 2018, reaching AED 515 billion. The Quarterly Trading Value decreased by 12.6% during the third quarter of 2019 reaching AED 11.1 billion compared to AED 8.2 billion during the third quarter of 2018 (4.7% quarterly decrease). On an annual basis, the Abu Dhabi Financial Market Index rose by 9.5%.

Dubai's quarterly average Financial Market Index showed further improvement by 5.1% during the third quarter of 2019, compared to a 2.5% reduction during the same period in 2018. The quarterly average Market Capitalization of companies listed on the Dubai Financial Market (DFM) increased by AED 13 billion reaching AED 368.2 billion at the end of the third quarter of 2019 compared to AED 4.4 billion fall at the end of the third quarter of 2018. Quarterly Trading Value increased by 8.6% during the third quarter of 2019 reaching AED 13.9 billion compared to AED 11 billion during the third quarter of 2018 (30.4% quarterly decrease). On an annual basis, the Dubai Financial Market Index fell by 14.2%.

Table 4: Abu Dhabi Securities Exchange (ADX) Indicators

	2017				2018				2019		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Number of listed Companies	67	67	67	69	69	68	70	70	70	70	70
General Share Price Index**	4514.8	4458.4	4477.3	4318.4	4595.1	4611.5	4927.2	4862.3	5085.8	5080.5	5180.3
<i>Quarterly Variation (%)</i>	3.0%	-1.2%	0.4%	-3.5%	6.4%	0.4%	6.8%	-1.3%	4.6%	-0.1%	2.0%
<i>Annual Variation Y-o-Y (%)</i>	0.2%	1.5%	2.0%	1.0%	0.1%	0.8%	3.5%	6.9%	9.2%	10.9%	9.5%
Market Capitalization (Billion AED)**	467.4	460.7	459.2	460.9	503.1	492.4	515.0	512.3	520.0	527.9	538.6
Quarterly Traded Values (Billion AED)	17.4	10.9	9.9	9.9	9.0	8.6	8.2	13.7	10.9	12.7	11.1

Source: Abu Dhabi Securities Exchange (ADX)

Table 5: Dubai Financial Markets (DFM) Indicators

	2017				2018				2019		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Number of listed Companies*	62	62	62	65	67	67	67	67	67	67	67
General Share Price Index**	3584.5	3382.1	3611.6	3475.4	3249.0	2950.4	2877.0	2661.0	2612.7	2682.0	2819.4
<i>Quarterly Variation (%)</i>	5.2%	-5.6%	6.8%	-3.8%	-6.5%	-9.2%	-2.5%	-7.5%	-1.8%	2.7%	5.1%
<i>Annual Variation Y-o-Y (%)</i>	-3.6%	1.5%	4.8%	4.4%	-1.0%	-4.2%	-10.3%	-16.5%	-19.1%	-18.5%	-14.2%
Market Capitalization (Billion AED)**	387.0	356.9	377.3	386.2	393.7	379.4	375.0	354.6	347.4	355.2	368.2
Quarterly Traded Values (Billion AED)	48.2	21.6	16.7	28.2	20.4	15.8	11.0	11.8	11.3	12.8	13.9

**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.

***The annual variation of the Share Price Indices are measured as the yearly averages of monthly observations.