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List of Abbreviations

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

Chapter 1

International Economic Developments and UAE External Sector



I.1. Growth Outlook of Major UAE Economic Partners

Global growth is expected to decline to 2.9% in 2023 from an estimated 3.4% in 2022

The contraction in global growth reflects tighter financial conditions and an intensification of geopolitical tensions

The GCC region is expected to maintain its growth momentum

Global

In its January 2023 WEO update, the IMF estimates global growth at 3.4% in 2022 and projects it to decelerate to 2.9% in 2023. The surge in policy rates to combat inflation, the conflict in Ukraine, and the resultant tighter financial conditions continue to restrain economic activity.

Advanced Economies

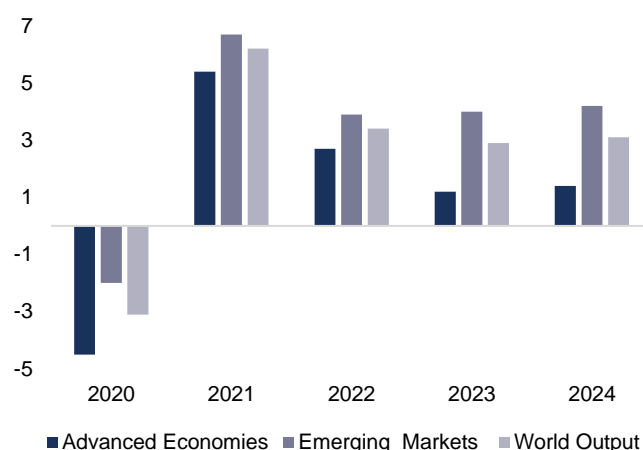
Growth in advanced economies is expected to drop from 2.7% in 2022 to 1.2% in 2023, reflecting a broad-based slowdown affecting almost 90% of the countries. Following a 3.2% Y-o-Y increase in Q3 2022, the US economy grew by 2.7% in Q4 2022 Y-o-Y. The rise in consumer and government expenditure as well as private inventory investments drove the expansion in Q4, which was partially offset by a decline in exports and housing investments.

Growth in the Eurozone declined to 1.9% in Q4 2022 Y-o-Y from 2.3% in Q3 Y-o-Y, posting the lowest growth since the beginning of the post-pandemic recovery. The slower growth highlights the ongoing strain that rising food and energy prices place on household real income, especially in Germany, France, and Italy. However, despite the worsening in the terms of trade associated with the conflict in Ukraine, Eurozone's economic growth was estimated to reach 3.5% in 2022.

The UK economy decelerated significantly in Q4 2022 to 0.4% Y-o-Y from 2.4% Y-o-Y in Q3. The economy is projected to contract in 2023, as households continue to struggle with high inflation, which has severely impacted their living standards. The service sector growth, in particular, remained flat on the back of declines in education, transport, and storage.

In Japan, rising living costs put pressure on household budgets and constrained private spending, resulting in a decline in growth from 1.5% in Q3 Y-o-Y to 0.6% in Q4 2022 Y-o-Y. Japan's slow recovery from the pandemic is also affected by concerns over the global economy and inflation.

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



Source: IMF WEO, January 2023

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

	2021	2022 E	2023 F	Q3 2022 (Y-o-Y)	Q4 2022 (Y-o-Y)
Global	6.2	3.4	2.9	-	-
AEs	5.4	2.7	1.2	-	-
USA	5.9	2.0	1.4	3.2	2.7
Eurozone	5.3	3.5	0.7	2.3	1.9
UK	7.6	4.1	-0.6	1.9	0.4
Japan	2.1	1.4	1.8	1.5	0.6

Sources: IMF WEO, January 2023 for the global growth. European Commission for the Eurozone, National statistics authorities for other individual countries

Emerging and GCC Economies

In Q4 2022, emerging markets were significantly impacted by high inflation, hikes in interest rates and the ongoing conflict in Ukraine. Growth is projected to marginally increase, from 3.9% in 2022 to 4.0% in 2023, yet most emerging market and developing economies are expected to experience lower growth in 2023 than in 2022.

China experienced a sharp growth slowdown from 3.9% in Q3 2022 Y-o-Y to 2.9% in Q4 2022, falling well short of the Government’s 2022 target of 5.5% . A series of long and widespread lockdowns to fight the spread of COVID-19 and a historic drop in the real estate market caused China to have one of its poorest economic performances in decades.

India’s growth rate declined Y-o-Y to 4.4% in Q4 2022 from 6.3% in the previous quarter, as a result of tighter financial conditions and growing geopolitical tensions. Moreover, the slowdown in the manufacturing industry continues to put a strain on India’s economic activity.

The growth outlook for other emerging markets in Latin America is projected to slow from 3.9% in 2022 to 1.8% in 2023, Eastern Europe is expected to have increased to 1.5% after bottoming out in 2022 at 0.7%. Similarly, growth in Asia is anticipated to drop to 4.3% in 2023 from a 5.2% in 2022. High inflation, tighter monetary policy in advanced economies, as well as the restrictions imposed on Russia affect the growth prospects of these regions.

Growth in the GCC region is expected to decline from 6.5% in 2022 to 3.6% in 2023, mainly due to lower oil production in accordance with the OPEC+ agreements and worsening global conditions, while non-oil growth is expected to remain strong. Data for the last few months of 2022 point to continued dynamism in the non-hydrocarbon sector, also in light of the positive spillovers from the FIFA World Cup in Qatar.

Growth was driven by the performance of the wholesale and retail sectors, while a robust rebound in travel and tourism fueled an expansion in a number of other service sectors.

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

	2021	2022E	2023F
EMDEs	6.7	3.9	4.0
Brazil	5.0	3.1	1.2
India	8.7	6.8	6.1
China	8.4	3.0	5.2
South Africa	4.9	2.6	1.2

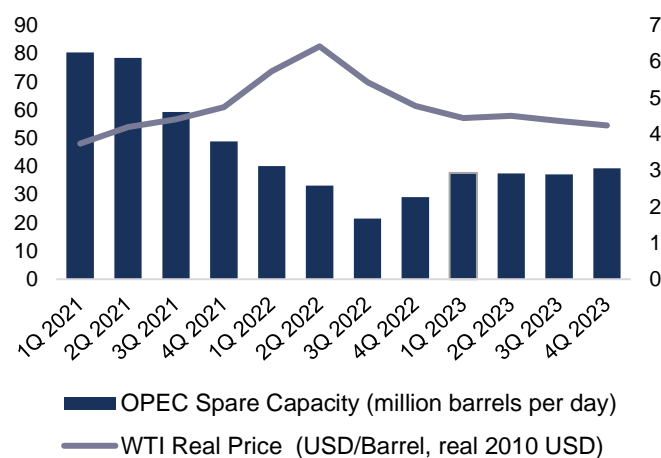
Source: IMF, WEO, January 2023

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

	2021	2022 E	2023F
GCC	3.1	6.5	3.6
UAE	3.9	7.6	3.9
Saudi Arabia	3.2	8.7	2.6
Qatar	1.6	3.4	2.4
Kuwait	1.3	8.7	2.6
Oman	3.0	4.4	4.1
Bahrain	2.2	3.4	3.0

Source: FCSC for 2021, and CBUAE estimates and forecasts for 2022-23, IMF WEO, January 2023, IMF, World Economic Outlook Database, October 2022 and IMF REO, October 2022

Figure 1.2. OPEC Oil Spare Capacity and oil prices



Source: U.S. International Energy Agency

I.2. Inflation and Monetary Policy Responses

The IMF estimates 7.3% inflation in advanced economies and 9.9% in emerging markets in 2022

Food Price Index declined by 1.0% Y-o-Y in December

Increase in interest rates by most of the advanced economies central banks

Global Inflation Outlook

In 2022 global inflation continued to increase significantly. However, according to the IMF January 2023 WEO update, it is expected to ease from 8.8% in 2022 to 6.6% in 2023 on the back of tighter monetary policy stances, weaker global demand, and lower international prices for both fuel and non-fuel commodities.

At the end of Q4 2022, the FAO Food Price Index (FFPI) averaged 132.3 points, a 2.7% decrease from an average of 136.0 points at the end of Q3. The FFPI fell due to a sharp dip in vegetable oil prices, along with some decreases in meat and cereal prices. This decline was partially offset by large increases in sugar and dairy prices. The overall FFPI decreased by 1% Y-o-Y in Q4 2022, compared to the 5.5% increase in Q3.

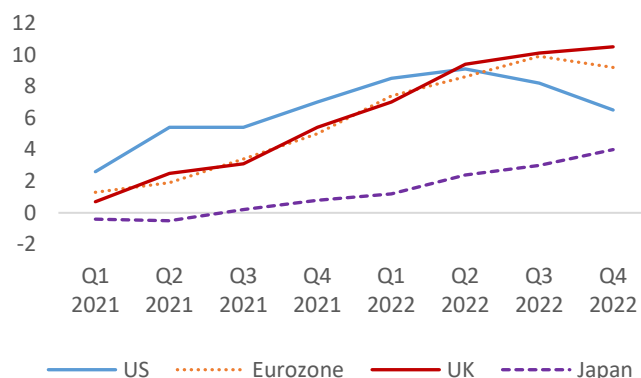
Advanced Economies Inflation and Policy Responses

Inflation in the US eased to 6.5% Y-o-Y at the end of Q4 2022, reflecting a decline in the growth rate of energy prices from 8.2% Y-o-Y in Q3 to 7.3% Y-o-Y in Q4. As inflation remains well above the 2% target, the Fed further tightened its monetary policy stance by lifting the Federal Funds rate by 50 bps to 4.5% on December 14, 2022.

The annual inflation rate in the Eurozone marginally decreased to 9.2% Y-o-Y in Q4 from 9.9% in Q3 2022, above the ECB target of 2%. The ECB's key rate for the main refinancing operations was raised by 50 bps to 2.5% on December 15, with other hikes expected in light of the increasing inflation.

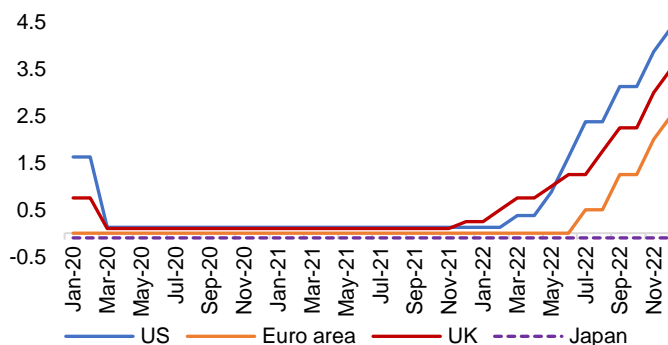
In the UK, inflation continued to increase and reached 10.5% Y-o-Y in Q4 2022, up from 10.1% in Q3 2022. The Monetary Policy Committee of the BoE raised its bank rate by 50 bps to 3.5% on December 15, 2022 in an effort to combat inflation amid worries about an impending recession.

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



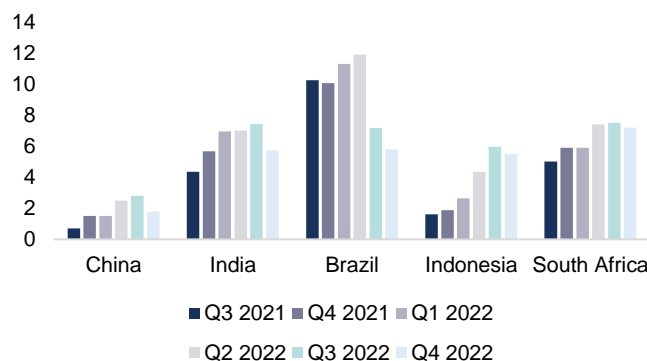
Source: Bloomberg

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

In Japan inflation increased to 4% Y-o-Y in December from 3% Y-o-Y in September 2022, the highest level in 32 years. This reflects rising import prices for raw materials and a weaker Yen. Price pressures increased across all CPI components, particularly for food and energy. Despite rising inflation, the Bank of Japan maintained its policy rate at -0.1% during its Monetary Policy meeting in December 2022.

Emerging and GCC Economies

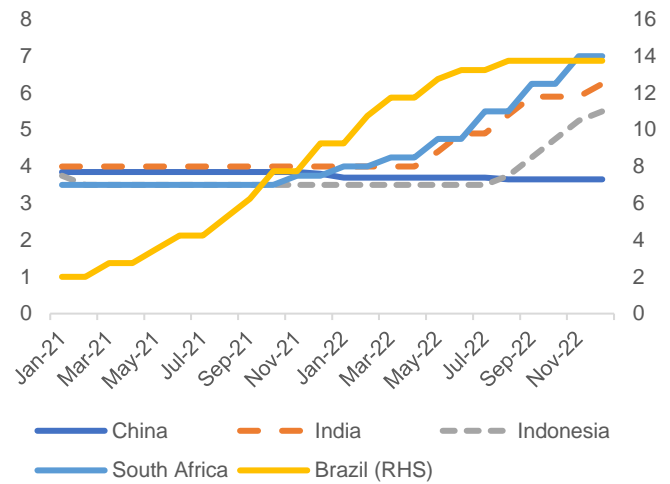
In December 2022, China's inflation declined to 1.8% Y-o-Y from 2.8% in September, mostly driven by slower economic activity, despite the COVID-19 outbreaks that depressed domestic demand. As inflation remains below the target of 3%, the PBoC kept its benchmark lending rate at 3.65% in December 2022. Similarly, the PBoC kept the rate on its one-year medium-term lending facility (MLF) at 2.75%.

India's annual inflation rate slowed from 7.4% in September to 5.7% in December 2022. For two consecutive months, inflation remained within the Reserve Bank of India (RBI)'s mandate of 2%-6%, mainly owing to lower food prices which dropped to 4.2% Y-o-Y in December 2022, from 8.6% Y-o-Y in September. After five consecutive hikes, with the last taking place in December 2022 by 35bps, the benchmark repo rate reached 6.25% by the end of the year.

Saudi Arabia's annual inflation rate in December 2022 reached 3.3% Y-o-Y, a slight increase from 3.1% in September. This was the highest inflation rate since June 2021, as a result of increases in housing, food, and transportation costs. In Qatar, annual inflation in December eased to 5.9% Y-o-Y, due to a drop in recreation and culture. Kuwait's inflation was 3.2% in December, unchanged from September 2022. Moreover, inflation eased to 1.9% and 3.6% in Oman and Bahrain, respectively.

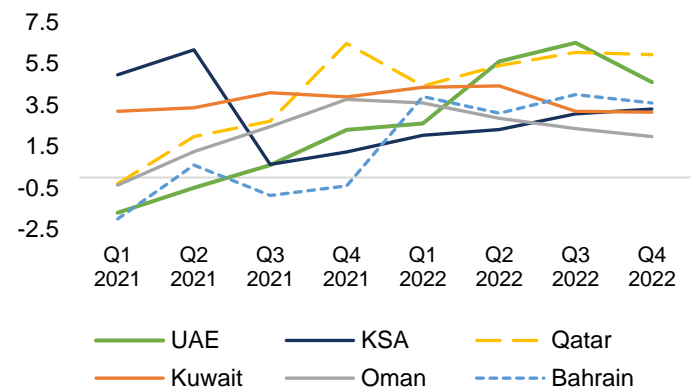
The GCC countries who peg their currency to USD (the UAE, Saudi Arabia, Qatar, Oman, and Bahrain) raised their base rates in line with changes in the Fed's Federal Funds rate. The Central Bank of Kuwait, which pegs its currency to an undisclosed basket of currencies, also raised the discount rate by 50 bps as well.

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



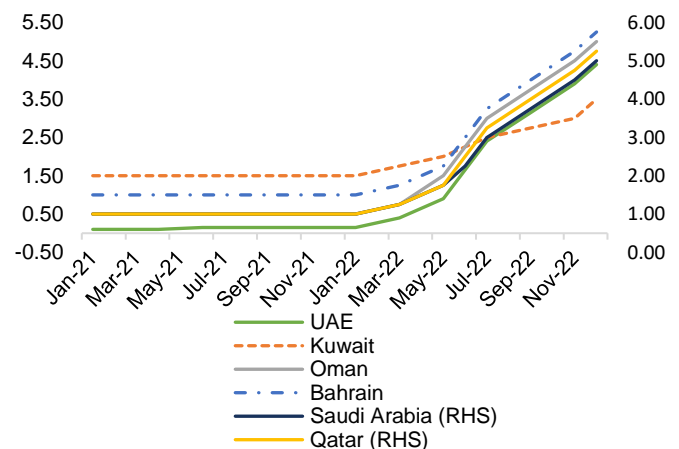
Source: Bloomberg

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

Volatile financial markets conditions

Ongoing volatility in international commodity prices

Sharp drop in oil prices as a result of weaker global demand

Global Financial Conditions

Global financial conditions improved slightly after being tight in June and September, reflecting a deceleration of global inflation and the depreciation of the USD in the last few months of the year. In the US, the Federal Reserve Bank of Chicago's Adjusted National Financial Conditions Index (ANFCI) also points to some loosening of financial conditions in December 2022. Although the uncertainty about future interest rate hikes increased, the relatively tight global financial conditions continue to reflect geopolitical tensions and persistent inflation.

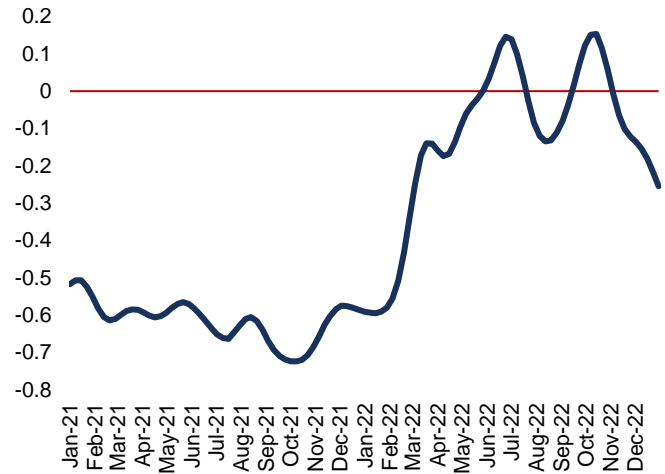
Commodities

Brent prices dropped from USD 89.8 per barrel in September 2022 to USD 80.9 in December 2022, as a result of the softening in economic activity in the US and weaker demand in China following COVID-19 outbreaks. In addition, the concerns of a global recession, persistently high inflation, and tighter monetary policy stances worldwide also weighed on the decline of oil prices in Q4.

The average price of natural gas fell from USD 8.8 per MMBtu in August to USD 7.9 per MMBtu at the end of Q3, then dropped further from USD 5.6 per MMBtu in October to USD 5.5 MMBtu at the end of Q4.

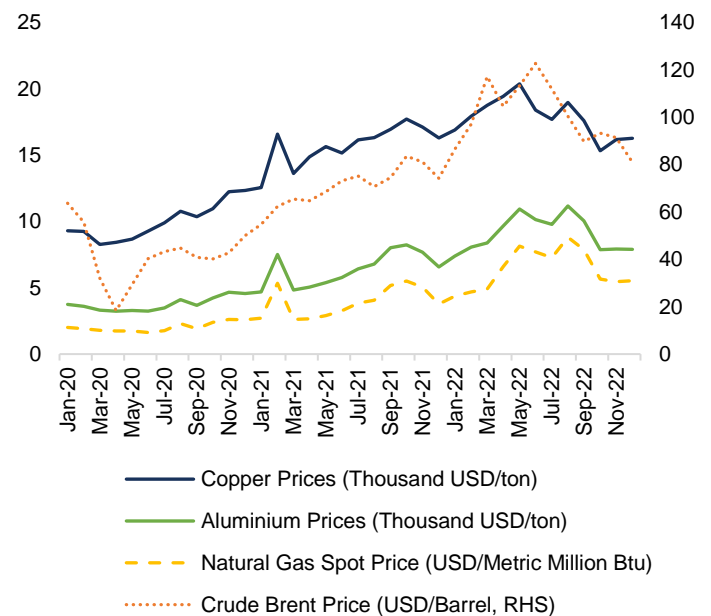
The price of other commodities, such as copper and aluminum, dropped Y-o-Y by 13.9% and 15.3%, respectively. The price of gold rose from USD 1,660 per ounce in September to USD 1,824 per ounce in December 2022.

Figure.1.9. Weekly Chicago Fed Adjusted National Financial Conditions Index



Source: Federal Reserve Bank of Chicago (<https://www.chicagofed.org/publications/nfci/index>)
Positive figures indicate tightening financial conditions

Figure. 1.10. Commodity Prices



Source: Bloomberg

UAE’s International Trade

In the first nine months of 2022, total non-oil exports of goods increased by 9.5% Y-o-Y reaching AED 265.9 billion. The UAE’s largest non-oil export partner was India, followed by Saudi Arabia and Switzerland, according to Q3 2022 data. 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 rose sharply by 22.7% to AED 407 billion. Saudi Arabia, with a share of 12.1%, is the top destination for UAE re-exports in the first nine months of 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.

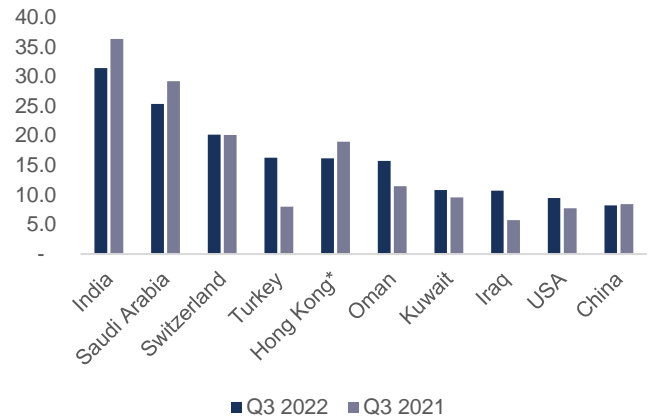
Due to the robust expansion in the non-hydrocarbon sector and the appreciation of the AED, total imports increased Y-o-Y by 21% in the first nine months of 2022 to reach AED 866.7 billion. Mineral oils, diamonds, jewels, stones, precious metals, as well as machinery, automobiles, and telecommunications equipment, topped the list of imported goods.

China is 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

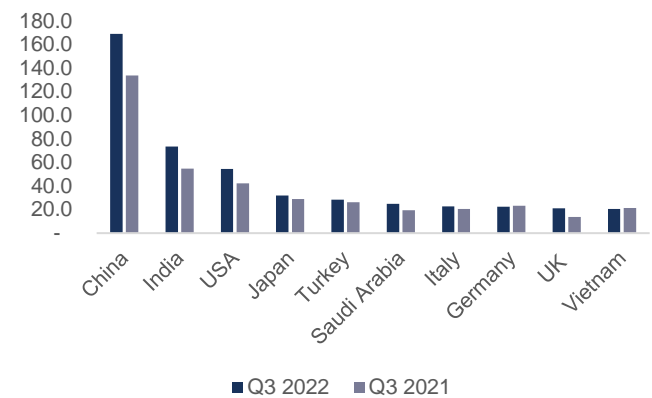
In Q4 2022, the average Nominal Effective Exchange Rate (NEER), which accounts for the multilateral exchange rates of the UAE’s trading partners, appreciated by 10.3% Y-o-Y, in line with the 10.2% reported in the previous quarter. This largely reflects the USD appreciation. Similarly, the average Real Effective Exchange Rate (REER), which accounts for inflation differentials between the UAE and its trading partners, appreciated by 11.7% in Q4 Y-o-Y compared to 11.3% in Q3 Y-o-Y, reflecting the lower inflation in the UAE compared to the average of its major trading partners.

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



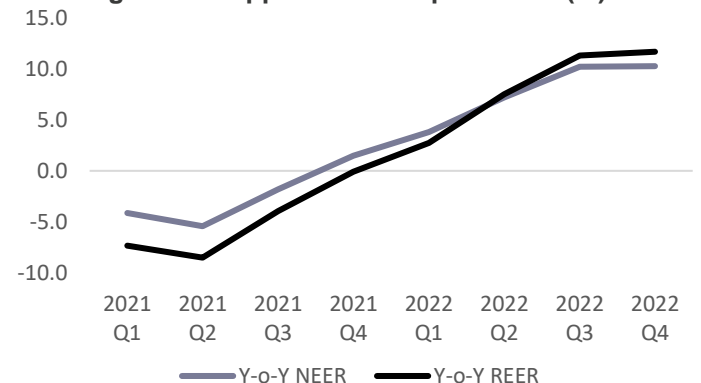
Source: FCSC
*Hong Kong Special Administrative Region

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 estimates growth at 7.6% in 2022, driven by strong growth in both the oil and non-oil sectors

The consolidated fiscal balance in Q3 2022 recorded an annualized surplus of 13.5% of 2021 GDP

Private consumption and investment continued growing in Q4 2022

Real GDP Outlook

After three quarters of high growth, the UAE's economy maintained a solid footing in Q4 2022, reflecting a strong performance of both the oil and the non-oil sectors. For the whole year, growth is estimated at 7.6%. In 2023, the CBUAE maintains its forecast unchanged at 3.9%. While oil production is expected to moderate in line with the OPEC+ agreements, the non-oil sector is expected to continue to support aggregate output, even if at a more modest pace.

Oil GDP

After the strong increase in the hydrocarbon sector in the third quarter of 2022, oil production averaged 3.1 million barrels per day in Q4 and the UAE hydrocarbon GDP is estimated to have grown by 10% Y-o-Y, in line with the OPEC+ agreements (10.1% for 2022). Starting in November 2022, the OPEC agreed to cut production by two million barrels per day, which resulted in downward revision of the CBUAE's projections for hydrocarbon real GDP growth. As a result, the CBUAE projects oil GDP to increase by 3.0% and 3.5% in 2023 and 2024, respectively, with the performance in both years subject to the evolution of the conflict in Ukraine, a faster-than-expected global economic growth deceleration, further OPEC+ cuts to oil production, and potential declines in production by the other OPEC members.

Non-Oil GDP

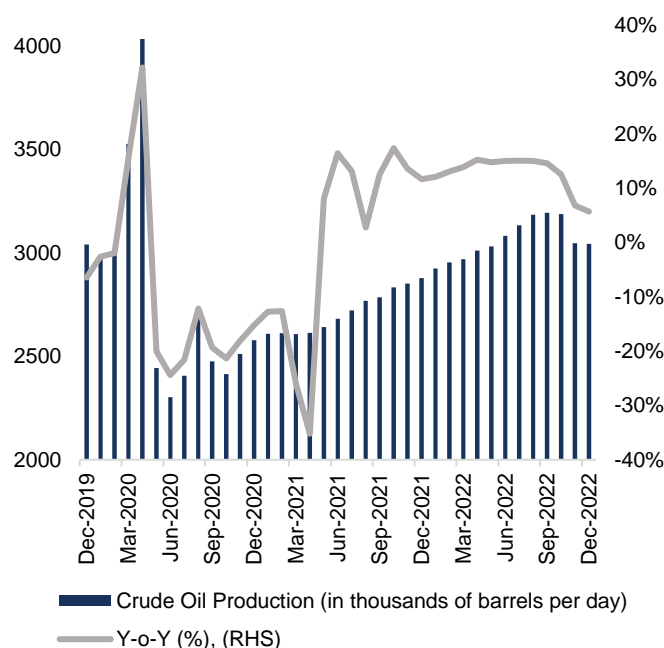
Following the robust growth in the previous quarter, the non-oil sector is estimated to have grown at a similar pace in Q4 2022. The CBUAE estimates non-oil GDP growth for 2022 at 6.6%. The main drivers of this strong performance include the real estate and construction sectors and a dynamic manufacturing sector, such as refineries and aluminum production. In addition, the FIFA World Cup in Qatar and other global events that took place in the region boosted travel and tourism to the UAE. For 2023 and 2024, the CBUAE projects the real non-oil GDP to expand by 4.2% and 4.6% respectively, in line with global growth trends.

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

	2020	2021	2022 E	2023 F	2024 F
Overall GDP	-5.0	3.9	7.6	3.9	4.3
Non-oil GDP	-5.4	5.8	6.6	4.2	4.6
Oil GDP	-3.8	-0.7	10.1	3.0	3.5

Source: FCSC for 2020-21, and CBUAE estimates and forecasts for 2022-24

Figure 2.1. Average UAE Crude Oil Production



Source: OPEC

Government Investment and Consumption

In Q3 2022 the consolidated fiscal balance recorded a surplus of AED 51.6 billion or 13.5% of the 2021 GDP, up from 10.8% of the 2020 GDP in Q3 2021. Government revenues increased in Q3 2022 by 17.3% Y-o-Y to AED 148.1 billion due to higher total tax receipts and social contributions. On the expenditure side, current spending rose Y-o-Y by 6.6% reaching AED 93.0 billion, significantly less than the 20.8% Y-o-Y increase observed over the same period in 2021. The increase in expenditures is attributed to higher spending in consumption of fixed capital, subsidies, social benefits and other expense, being partially offset by the drop in compensation of employees, use of goods and services, interest and grants. Meanwhile, capital spending, measured by net investment in non-financial assets decreased by 20.0% Y-o-Y in Q3 2022 to AED 3.5 billion. Total expenditures reached AED 96.5 billion or a 5.2% increase compared to Q3 2021.

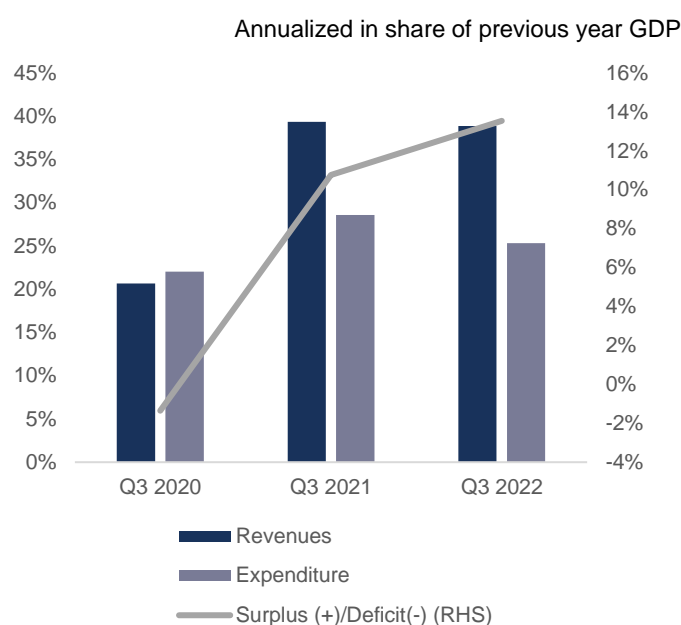
Private Investment and Consumption

The UAE is benefitting from a dynamic private sector taking advantage of multiple reforms and strategies to boost FDI inflows and attract talent from across the globe. The banking sector continued to support investment in the private sector, as credit to the private sector increased by 4.9% Y-o-Y in Q4 2022. The PMI increased for the 25th consecutive month, reaching 54.2 in December and averaging 55.3 for 2022.

The Composite Business Confidence Index (BCI), based on a survey produced for the Northern Emirates, reached 119.4 points for Q4 2022, up from 109.8 in the previous quarter, pointing at positive and improved business expectations. Firms in all sectors: trading, manufacturing and services sectors were resilient, with the respective sectors being in the expansion zone. Moreover, the SME Index showed expansion in Q4 2022, rising by 12.4 points, with the large company index improving significantly by 7.8 point and with reference to all parameters: volumes, prices, profits, hiring and new purchase orders. As a whole, the survey shows that the business outlook for Q4 2022 is quite optimistic with respondents citing a very positive business environment, with higher demand and sales.

Domestic consumption continued to be strong during Q4 2022, 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 Q4 2022, higher than their pre-COVID levels.¹

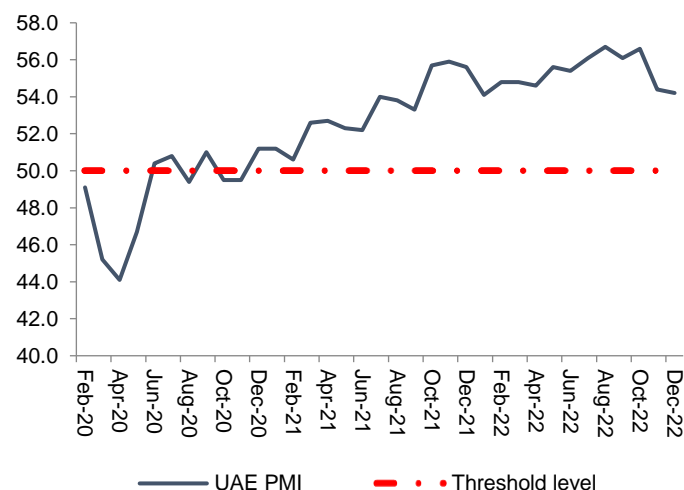
Figure.2.2. Consolidated Fiscal Stance



Source: UAE Ministry of Finance and FCSC

Figure 2.3. UAE PMI

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



Source: IHS Markit

¹ Based on the Wage Protection System (WPS).

II.2. Sectoral Analysis

Real estate continued its strong performance in Q4 2022

Tourism and hospitality returned to pre-pandemic occupancy rates despite an increase in the number of rooms

Abu Dhabi airports tripled traffic in 2022, while those in Dubai almost doubled

In this section, the three economic sectors real estate, tourism and hospitality, and transportation are analyzed, representing more than a quarter of the 2021 non-oil GDP.

Real Estate

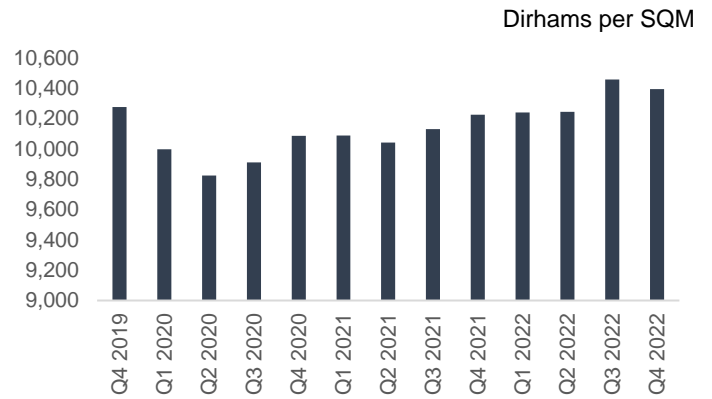
Despite the global slowdown and uncertainty, the UAE real estate sector continued its strong performance in Q4 2022, capping off a strong growth in activity. According to the REIDIN, a total of 11 new projects (almost 1,600 apartments) have been delivered in Abu Dhabi in the last three months of the year, the highest number since the beginning of the pandemic.

The price index for apartments in Abu Dhabi fell by 1.4% in Q4 Q-o-Q, but the price index for villas registered a 1.6% increase compared to the previous quarter. The average price per square meter recorded a 1.7% Y-o-Y increase in Q4 2022 in Abu Dhabi, while rents declined by 1.0% over the same period, leading to a rental yield of 6.4%.

Activity in the Dubai property market in Q4-2022 reached historic highs, as the value of transactions reached AED 214 billion, up 169% Q-o-Q, while the number of transactions increased by 52% Q-o-Q to 36,016.

The Emirate of Dubai remains one of the world's most attractive investment destinations, due to the UAE's stable economy, strong financial fundamentals and ability to find growth opportunities. In addition, the Dubai's real estate sector benefitted from the 2022 FIFA World Cup in Qatar. As per the Dubai Land Department (DLD), residential property sale prices in Dubai increased on average by 18.3% Y-o-Y in Q4 2022, while rents increased by 4.7% over the same period. The implied rental yield stood at an average of 3.2% in Q4 2022.

Figure 2.4. Average Abu Dhabi Residential Unit Sale Prices



Source: REIDIN

Figure 2.5. Average Dubai Residential Unit Sale Prices



Source: DLD

Tourism and Hospitality

The tourism and hospitality sector performed exceptionally well in Q4 2022. Hotel demand skyrocketed towards the end of the year in Dubai and Abu Dhabi on the back of multiple events in the region including Formula 1 event in the UAE’s capital and the FIFA World Cup in Qatar.

The number of tourists traveling to Dubai in 2022 reached 14.4 million, of which 30% visited in the fourth quarter. For the year as a whole, this is nearly twice the total number of visitors who arrived during 2021. The occupancy rate for hotels in Dubai climbed to 73% in 2022, up from 67% in 2021. Simultaneously, the city’s average daily room rate rose by 19% and 29% compared to 2021 and 2019, respectively.

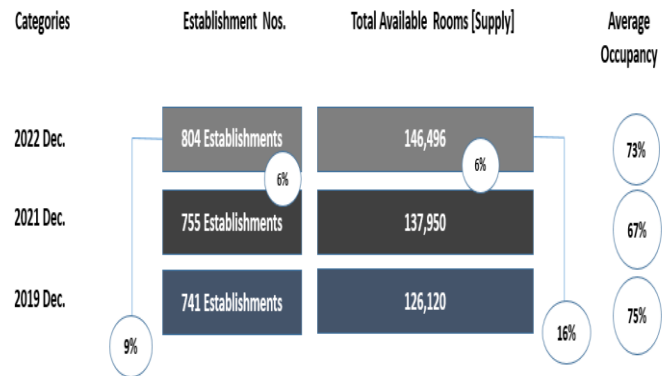
Meanwhile, Abu Dhabi’s occupancy rate climbed to 70% in 2022 and the average daily rate jumped by 19% to an average AED 373 for the year as a whole. Similarly, the number of hotel guests increased by 24% to reach 4.1 million over the same period.

Transportation

The last quarter of 2022 was one with the highest traffic for the UAE airports, especially those in Abu Dhabi and Dubai. This was due to both the seasonal influx of visitors and people attending multiple major events happening in the region.

Passenger traffic across the Emirate of Abu Dhabi’s five airports tripled in 2022 from the previous year. A total of 15.9 million passengers passed through the five airports in the Emirate, up from 5.3 million in 2021. The Abu Dhabi International Airport recorded 4.8 million passengers in Q4 2022, which is twice the number of passengers for the same period in 2021. In 2022, 21.8 million people travelled via the Dubai airports. This represents an increase of 81.3% of the number of passengers since 2021.

Figure 2.6. Accommodation Supply and Demand in Dubai – 2022



Source: Dubai Department of Economy and Tourism

Figure 2.7. Tourism Sector Performance in Abu Dhabi – 2022²



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

The UAE’s CPI inflation averaged 4.8% in 2022

Average headline inflation moderated to 4.6% in Q4 2022 from 6.5% in Q3

CBUAE projects inflation at 3.2% and 2.8% in 2023 and 2024, respectively

Inflation Drivers

The UAE’s consumer price index (CPI) increased by 4.6% in Q4 2022, compared to 6.5% in the previous quarter. While the rise in inflation is in line with global trends, it is significantly below the global average. CPI inflation averaged 4.8% for 2022, close to the CBUAE forecast of 4.9%.

Prices of the non-tradeable category increased by 4.0% in Q4 2022 Y-o-Y, down from 4.8% in the previous quarter. The housing sub-index, the category with the largest weight in the CPI basket (35.1%), recorded a 1.6% Y-o-Y increase in Q4 2022 after declining in the first half of the year and near zero growth in Q3, mainly resulting from the pickup in rents in Dubai.

The prices for all other items in the CPI basket increased Y-o-Y except tobacco products, with the prices of transportation rising by 11.0% in Q4 Y-o-Y. Food and beverages, the CPI category with the second largest weight (12.0%), increased by 7.1%, declining from the 8.5% growth in Q3 as global food prices normalize.

Inflation projections for the UAE

In 2023, inflation is projected to decelerate to 3.2%, on the back of softer price increases in all categories, especially transport and food and beverages. Imported inflation is expected to be modest owing to the disinflation trend worldwide, while rents and wages are also expected to contribute moderately. In 2024, inflation is projected to slow further at 2.8%, in line with global trends.

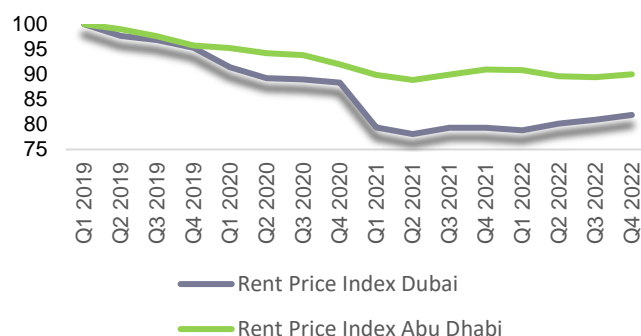
Table.2.2. UAE CPI Inflation (%)

	Weights	Q1 22	Q2 22	Q3 22	Q4 22
All Items	100	2.6	5.6	6.5	4.6
Non-tradeable	68.7	1.0	3.8	4.8	4.0
Tradeable	31.3	6.3	9.6	10.2	6.0
Housing, Water, Electricity, Gas	35.1	-1.9	-1.0	0.1	1.6
Transportation	12.7	21.1	30.3	30.2	11.0
Food and Beverages	12.0	5.0	8.2	8.5	7.1
Education	7.6	0.5	0.7	1.1	1.5
Communications	5.9	0.8	0.6	0.6	0.5
Textiles, Clothing and Footwear	5.2	2.5	1.6	3.3	4.1
Furniture and Household Goods	5.1	-0.6	-0.3	-0.2	1.1
Miscellaneous Goods and Services	4.9	0.1	3.0	3.0	2.6
Restaurants and Hotels	4.6	7.0	5.7	5.7	10.3
Recreation and Culture	3.1	-7.3	17.2	23.7	21.5
Medical Care	2.2	0.1	0.7	3.8	3.7
Insurance and Financial Services	1.3	-3.5	5.6	0.5	1.9
Tobacco	0.2	2.0	0.5	-0.8	-2.9

Source: FCSC, 2021 Base Year

Note: Non-tradeable and tradeable inflation are estimated by the CBUAE

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 Q4 2022 by 5.1%, 9.0% and 13.1% Y-o-Y, respectively

The CBUAE’s Base Rate increased by 125 bps in Q4, following the Fed tightening cycle

The spread between the 12-month EIBOR and overnight EIBOR narrowed to around 85 basis points indicating a flatter term structure

Monetary Aggregates

M1 rose by 5.1% Y-o-Y, standing at AED 737.4 billion at the end of December 2022. The increase was due to an 8.3% Y-o-Y increase in currency in circulation outside banks (13.8% of M1) and a 4.6% increase in monetary deposits (86.2% of M1). M2 increased by 9.0% Y-o-Y reaching AED 1,703.0 billion, owing to the increase in M1 and a rise in quasi-monetary deposits (56.7% of M2) by 12.1% Y-o-Y. As a result, M3 also grew by 13.1% Y-o-Y, reaching AED 2,100.1 billion at the end of December 2022. The rise in M3 also reflects a 35.3% increase in government deposits at commercial banks and CBUAE (18.9% of M3).

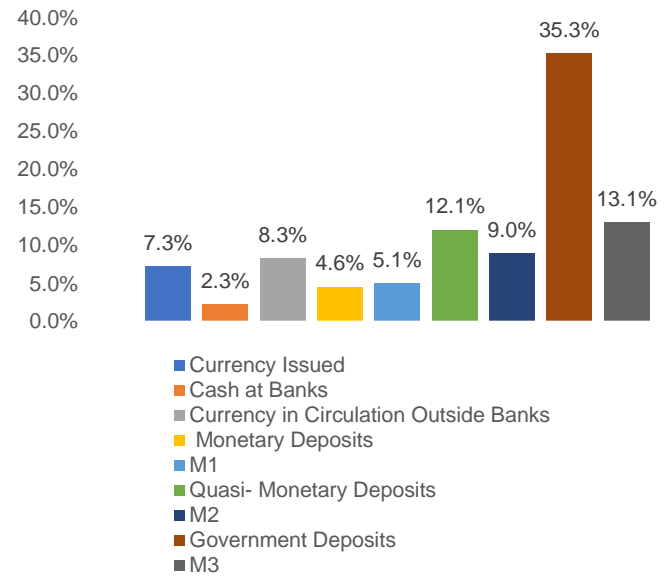
Interest Rates

Short-term interest rates in the UAE continued to rise in line with the Federal Funds rate in the United States. As a result of the Fed’s tightening of its monetary policy stance, the CBUAE’s main policy rate – the Base Rate – rose by 125 basis points in Q4, with the Base Rate reaching 4.40% by year end. Money market rates largely followed the increase in the Base Rate, though not entirely, with the spread between overnight rates and the Base Rate widening in late 2022 as overnight EIBOR tracked as much as 30 basis points below the Base Rate on occasion.

Such developments reflect in part a sizeable influx of liquidity through late 2022, as is evident in the expansion of the monetary base.

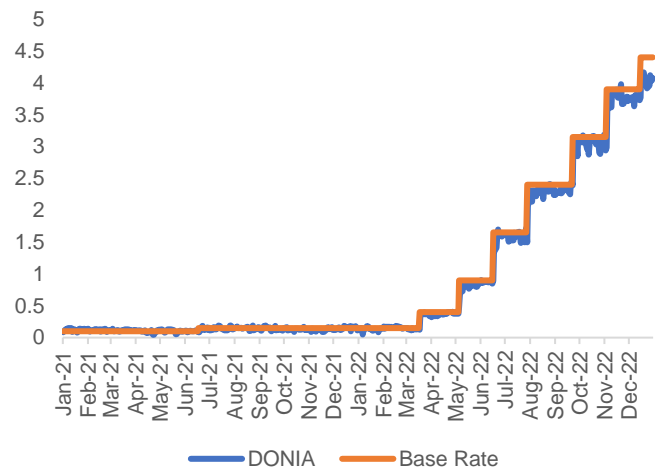
Changing expectations of future interest rates saw a shift in the term structure of domestic interest rates through late 2022, with the spread between 12-month EIBOR and overnight EIBOR narrowing to around 85 basis points by the end of the year. This was also evident in the M-Bills, with yields at the longer end of the curve flattening at the end of the year. Such developments are consistent with trends in US money markets, where the OIS and Fed Funds futures started to price in rate cuts in the latter part of Q4.

Figure 3.1. Y-o-Y % Change in Monetary Aggregates Components in December 2022



Source: CBUAE

Figure 3.2. DONIA and Base Rates (%)



Source: CBUAE

III.2. Banking Developments

Sustained credit growth at 4.9% Y-o-Y, with loans to the domestic private sector increasing by 4.7% Y-o-Y

Consistent household and corporate sectors' loan demand reflected in the credit sentiment survey

Strong deposit growth rate of 11.3% Y-o-Y, driven by domestic private sector and government deposits

Banking System Assets and Structure

The number of licensed banks in the UAE increased to 61 banks in 2022, of which two were digital banks. At the end of the year, the sector comprised 22 national banks and 39 foreign banks, reflecting the entrance of two new foreign banks in Q4 2022. As a result of the digitalization efforts in the UAE's financial system, the number of banks' physical branches declined by 22.3% in the past three years.

The UAE banking system recorded a 10.5% Y-o-Y increase in total assets to AED 3,670 billion in December 2022.

Banking System Credit and Deposits

The UAE banking system's lending grew 4.9% Y-o-Y. Domestic credit growth, which accounts for 87.8% of total loans, was driven by lending to private corporations (4.6% Y-o-Y), followed by retail loans (7.8% Y-o-Y). Within the retail sector, credit was particularly directed towards mortgage loans, personal loans, and credit cards. Cross-border lending by UAE-licensed banks (excluding lending by their subsidiaries abroad) was predominantly extended to corporate borrowers in the MENA region.

Growth in domestic and foreign credit was supported by robust liquidity, funding conditions and credit capacity in the UAE. The UAE banking system's total deposits growth remained strong at 11.3% Y-o-Y. Resident deposits, accounting for 90.4% of the total deposits, increased by 13.8% Y-o-Y. Meanwhile, non-resident cross-border deposits contracted by 7.8% Y-o-Y. The UAE's banking system maintains an ample credit capacity, as indicated by the loan-to-deposit ratio reaching a 7-year low.

The CBUAE Credit Sentiment Survey

The Credit Sentiment Survey published by the CBUAE in Q4 2022 reflected continued growth in household and corporate sectors' loan demand. Financial institutions' appetite to extend credit continued through H2 2022. During the last quarter, strong underlying economic conditions have offset the impact of the high-interest rate environment on loan demand.

Table 3.1. Assets and Credit at UAE Banks

Billions of AED

Item	Dec-21	Jun-22	Sep-22	Dec-22
Total Assets	3,322	3,449	3,583	3,670
(Y-o-Y change)	4.2%	7.5%	10.3%	10.5%
Gross Credit	1,794	1,866	1,873	1,881
(Y-o-Y change)	0.8%	5.5%	5.5%	4.9%
Domestic Credit	1,619	1,659	1,655	1,651
(Y-o-Y change)	1.4%	4.0%	3.3%	2.0%
Government	236	222	213	212
(Y-o-Y change)	-4.1%	-9.5%	-13.3%	-10.3%
GREs	245	260	256	253
(Y-o-Y change)	9.6%	16.3%	14.8%	3.2%
Private Sector	1,121	1,163	1,174	1,174
(Y-o-Y change)	0.7%	4.5%	4.9%	4.7%
NBFIs	17	14	14	13
(Y-o-Y change)	20.0%	1.5%	-8.2%	-25.0%
Foreign Credit	175	207	218	230
(Y-o-Y change)	0.6%	19.2%	25.0%	31.2%

Source: CBUAE

Note: Data as of end of period

Table 3.2. Total Deposits at UAE Banks

Billions of AED

Item	Dec-21	Jun-22	Sep-22	Dec-22
Bank Deposits	1,997	2,092	2,187	2,222
(Y-o-Y change)	5.0%	9.6%	12.6%	11.3%
Resident Deposits	1,766	1,844	1,958	2,009
(Y-o-Y change)	5.0%	9.5%	15.3%	13.8%
Government Sector	288	317	402	397
(Y-o-Y change)	0.4%	12.7%	35.3%	37.7%
GREs	248	213	232	217
(Y-o-Y change)	-3.2%	-6.4%	5.5%	-12.5%
Private Sector	1,191	1,265	1,275	1,349
(Y-o-Y change)	8.3%	11.6%	11.2%	13.2%
NBFIs	38	48	50	47
(Y-o-Y change)	-4.8%	18.7%	38.7%	22.0%
Non-Resident Deposits	231	248	229	213
(Y-o-Y change)	14.4%	10.1%	-6.0%	-7.8%

Source: CBUAE

Note: Data as of end of period

III.3. Financial Developments

The UAE banking system exhibits adequate liquidity, funding, and capital buffers

In Q4, share prices rose by 9.4% in Dubai and 25.2% in Abu Dhabi Y-o-Y

CDS premium for Abu Dhabi and Dubai declined compared to the previous quarter

Financial Soundness Indicators

The UAE banking system remained well capitalized, with capital ratios well above the minimum regulatory requirements. Aggregate Capital Adequacy Ratio, Tier 1 Capital Ratio, and Common Equity Tier 1 Ratio were 17.3%, 16.1%, and 14.4%, respectively.

The robust deposit growth of the UAE banking system supported favourable liquidity and funding conditions. As a result, the Advances to Stable Resources Ratio and Eligible Liquid Assets Ratio improved further, reflecting ample liquidity and funding buffers.

Stock Exchanges (Equity Markets)

The Abu Dhabi Securities Exchange (ADX) average share price index increased by 25.2% Y-o-Y in Q4 2022 and the market capitalization reached AED 2.6 trillion in December 2022. The Dubai Financial Market (DFM) average share price index rose by 9.4% Y-o-Y in the fourth quarter of 2022 and the market capitalization reached AED 577.6 billion in December 2022.

Credit Default Swaps (CDS)

For the government of Abu Dhabi, the CDS premium fell from 56.8 bps in Q3 2022 to 52.6 bps in Q4 2022. During October and November 2022, it stood at 61.7 bps and 50.6 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 125.8 bps in Q3 2022 to 106.7 bps in Q4 2022, and reached 126.2 bps and 105.4 bps in October and November 2022, respectively.

Table 3.3. UAE Financial Soundness Indicators

Indicator	Dec-21	Jun-22	Sep-22	Dec-22
Advances to Stable Resources Ratio	77.3%	79.1%	76.4%	75.6%
Loan-to-deposit Ratio	89.9%	89.2%	85.7%	84.7%
Eligible Liquid Assets Ratio	19.6%	18.0%	17.3%	19.1%
Capital Adequacy Ratio	17.2%	16.9%	17.5%	17.3%
Tier 1 Capital Ratio	16.1%	15.8%	16.3%	16.1%
Common Equity Tier 1 Ratio	14.2%	14.0%	14.5%	14.4%

Source: CBUAE

Note: Data as of end of period

Table 3.4. UAE Stock Exchanges (Equity Markets)

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

Source: SCA

Note: *Average values

**Values during the whole quarter

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

	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
Abu Dhabi	41.9	42.9	50.4	59.6	56.8	52.6
Dubai	90.4	92.1	98.9	112.7	125.8	106.7

Source: SCA

Note: Average of the quarter

III.4. Insurance Sector Developments

5.4% Y-o-Y growth of gross written premiums, and 1.0% increase in the gross paid claims in 2022

0.2% Y-o-Y increase in the total number of insurance policies in Q4 2022

14.2% and 8.0% Y-o-Y increase in gross written premiums of property and health insurances in Q4 2022

Insurance Sector Activity

The UAE's insurance sector continued to grow in Q4 2022, as reflected by the increase in number of insurance policies in line with the increase in the gross written premiums.

Gross Written Premiums (GWP)

GWP increased by 6.5% Y-o-Y in Q4 2022 to AED 47.2 billion, mostly reflecting the increase in property and liability insurance premiums by 14.8% Y-o-Y and in health insurance premiums by 9.5%. On the other hand, premiums of insurance of persons and fund accumulation decreased by 14.6% Y-o-Y in Q4 2022.

Number of Insurance Policies

The total number of insurance policies increased by 0.5% Y-o-Y in Q4 2022 to 8.8 million policies compared to 8.7 million policies in Q4 2021. The increase was mostly due to increased property and liability insurance policies especially in motor insurance, engineering insurance, and miscellaneous insurances.

Paid Claims

Gross paid claims of all types of insurance plans increased Y-o-Y by 2.2% to AED 27.3 billion in Q4 2022. This was mainly driven by the increase in claims paid in property and liability insurance by 15.2%, and those in the health insurance Y-o-Y by 6.4%, while the claims paid in insurance of persons and fund accumulation decreased Y-o-Y by 31.1% compared to Q4 2021.

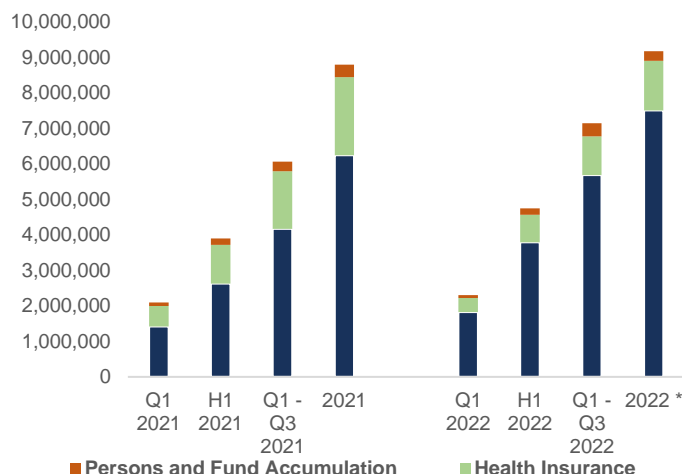
Technical Provisions

The total technical provisions³ decreased Y-o-Y by 3.0% to AED 69.0 billion in Q4 2022 compared to AED 71.1 billion in Q4 2021, mostly due to decline in the premiums of insurance of persons and fund accumulation of the insurance companies.

Investments

The volume of invested assets in the insurance sector amounted to AED 71.4 billion (58.9% of total assets) at the end of Q4 2022 compared to AED 78.9 billion (64.3% of total assets) in Q4 2021.

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	2021				2022			
	Q1	H1	Q1-Q3	2021	Q1	H1	Q1-Q3*	2022*
1- Gross Written Premiums	15.1	25.6	34.9	44.3	15.6	26.8	36.7	47.2
•Property & Liability	4.9	8.8	12.1	15.5	5.6	9.8	14.6	17.8
•Health Insurance	7.9	12.3	16.1	19.9	8.1	11.4	16.4	21.8
•Persons and Fund Accumulation	2.3	4.5	6.7	8.9	1.9	5.5	5.7	7.6
2- Gross Claims Paid	6.4	13.3	19.7	26.6	6.5	13.1	18.7	27.3
•Property & Liability	1.4	3.1	4.7	6.5	1.9	3.5	5.2	7.6
•Health Insurance	3.8	7.8	11.7	15.6	4.0	7.1	11.8	16.6
•Persons and Fund Accumulation	1.2	2.4	3.3	4.5	0.6	2.5	1.7	3.1
3- Technical Provisions	71.9	73.1	71.5	71.1	68.4	70.3	68.8	69.0

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

³ 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.
<https://www.centralbank.ae/media/oe5kkapw/financial-regulations-for-insurance-companies.pdf>

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