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List of Abbreviations

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

Chapter 1

International Economic Developments and UAE External Sector



I.1. Growth Outlook for Major UAE Economic Partners

Global growth was revised downward by the IMF for 2022 to 3.2% from a projection of 6.1% last year

Tightening financial conditions and geopolitical uncertainties cause global contraction

GCC region sustained its growth momentum amid rising oil prices

Global Growth¹

The global economy is experiencing sharper-than-expected slowdown in 2022 and this trend is envisaged to continue in 2023. In its October 2022 World Economic Outlook (WEO), the IMF revised its forecast for 2022 to 3.2% and 2.7% for 2023, significantly below the 6.0% growth achieved in 2021. Risks, such as higher inflation worldwide, continued tightening of global financial conditions, deceleration of growth in China, and uncertainties related to the conflict in Ukraine, continue to intensify the global slowdown.

Advanced Economies

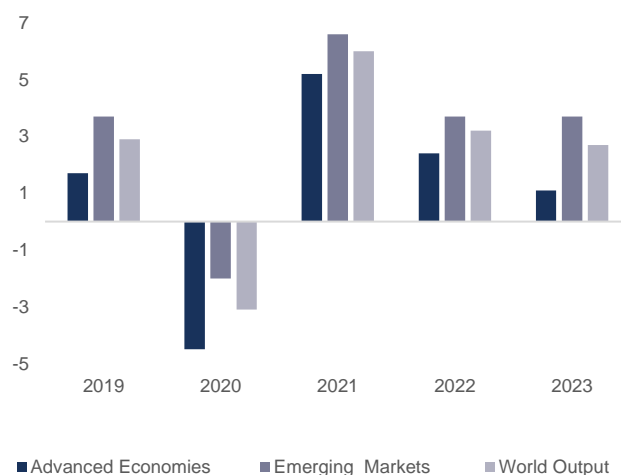
The outlook for advanced economies shows slower growth for 2022 and 2023. Over 2022, the US economy rebounded in Q3 to 2.9% growth Y-o-Y, after contracting in Q1 and Q2. This improvement in Q3 is driven by a rise in net trade, with increased exports and decreased imports, improvement in consumer spending, federal government spending, and non-residential fixed investment, despite a partial drag caused by a drop in residential fixed investment.

However, the Eurozone slowed down from an annualized growth of 4.3% in Q2 to 2.1% in Q3 2022, particularly due to the substantial deceleration in France, Italy and Germany. The lower growth revealed the persistent pressure on household real incomes caused by soaring food and energy prices. This triggered the announcement of a range of policy measures by many Eurozone governments to dampen energy and food prices' effect on households and businesses, and support growth.

The annualized UK GDP growth rate also declined in the third quarter to 2.4%, down from 4.4% in Q2, due mainly to the sharp slowdown of households spending and government consumption stagnation, despite a significant increase in exports by 18% and a relatively slower increase in imports.

Japan's GDP Y-o-Y growth is estimated to have slowed down by 2.1% in Q3 2022, losing 1.4 percentage points from the previous quarter. The downward trend reflects mainly external factors, particularly geopolitical tensions, higher energy import prices, worldwide monetary tightening, and the continued lockdowns in China. Despite this, the annual GDP growth pace is expected to be stable across the 2022-2023 period.

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



Source: IMF WEO, October 2022

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

	2021	2022 F	2023F	Q2 2022 (Y-o-Y)	Q3 2022 (Y-o-Y)
Global	6.0	3.2	2.7	-	-
USA	5.7	1.6	1.0	-0.6	2.9
Eurozone	5.2	3.1	0.5	4.3	2.1
France	6.8	2.5	0.7	4.2	1.0
Germany	2.6	1.5	-0.3	1.7	1.1
Italy	6.7	3.2	-0.2	4.9	2.6
UK	7.4	3.6	0.3	4.4	2.4
Japan*	1.7	1.7	1.6	3.5	2.1

Sources: IMF WEO, October 2022 for the global growth. European Commission for the Eurozone, National statistics authorities for other individual countries.

* Japan annualized Quarterly growth (Source: Japan Center for Economic Research)

¹ The cut-off date of the analyses in the report is 31/10/2022 based on available data.

Emerging and GCC Economies

The macroeconomic outlook for emerging markets (EMs) continues to be affected considerably due to slowing global growth, heightened inflationary pressure and rising interest rates. The conflict in Ukraine continues to weigh on the slowdown in most EMs, contributing to supply chain disruptions and uncertainties.

The Chinese economy grew by 3.9% Y-o-Y in Q3 2022, higher than the 0.4% increase in Q2, but remains below the government 2022 target of 5.5%. Various government measures have boosted recovery. However, the pick-up is still not strong enough due to factors such as continuous lockdowns in major cities.

The annual economic outlook in India has been revised to 6.8% in October 2022, down by 1.4 percentage points from the IMF April projections. The downward revision reflects weaker recovery in Q2 and slower external demand, as well as continued geopolitical uncertainties and monetary tightening.

Other emerging markets in Asia, Eastern Europe and Latin America are also showing signs of slowdown, particularly due to higher inflation, dollar appreciation, as well as monetary policy tightening in major advanced economies, leading to capital outflows and depreciation of emerging market currencies.

Growth prospects are different in the GCC, where the outlook has been revised upward for all countries. Real GDP growth is expected to peak in 2022, with Kuwait and Saudi Arabia GDPs expected to increase by 8.7% and 7.6%, respectively.

Private sector data, including the GCC monthly PMIs, remain strong, indicating a sustained non-hydrocarbon growth in 2022. Moreover, FIFA World Cup and other planned events in Q4 2022 are predicted to boost tourism across the region. OPEC+ production cuts may result in higher oil prices, but expected global slowdown in 2023 would reduce global oil demand and weigh on other economic sectors such as tourism and non-oil exports, causing a relative growth slowdown in 2023.

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

	2021	2022F	2023F
Brazil	4.6	2.8	1.0
India	8.7	6.8	6.1
China	8.1	3.2	4.4
South Africa	4.9	2.1	1.1

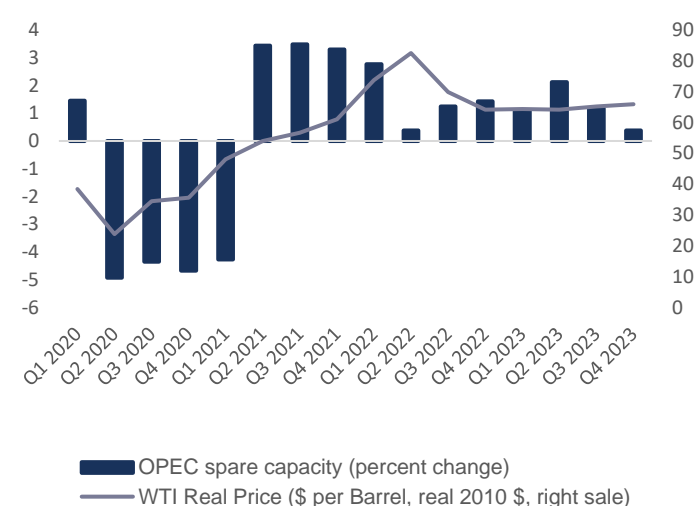
Source: IMF, WEO, October 2022.

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

	2021	2022F	2023F
Saudi Arabia	3.2	7.6	3.7
Qatar	1.6	3.4	2.4
Bahrain	2.2	3.4	3.0
Kuwait	1.3	8.7	2.6
Oman	3.0	4.4	4.1

Source: IMF, WEO, October 2022.

Figure 1.2. OPEC Oil Spare Capacity and oil prices



*Excludes Iran

Source: International Energy Agency, November 2022.

I.2. Inflation and Monetary Policy Response

Inflation projections for 2022 by the IMF are 7.2% in advanced economies and 9.9% in emerging markets

Food Price Index increased by 5.5% Y-o-Y in September

Monetary tightening around the world leads to higher interest rates

Global Inflation Outlook

Inflation continued to rise rapidly in Q3 2022. The latest IMF projections (October 2022 WEO) estimate inflation to rise from 4.7% in 2021 to 8.8% in 2022. Some factors that led to intensifying inflation since the second half of 2022 continue to persist, recovery in demand post COVID-19, and increase in the price of energy, fertilizers, transport, and food, intensified by the conflict in Ukraine.

The FAO Food Price Index (FFPI), published by UN Food and Agriculture Organization, averaged 136.3 points in September 2022, down by 1.1% from August. The FFPI's decline was driven by a fall in prices of vegetable oil, sugar, meat, and dairy products, more than offsetting a rebound in the cereal price sub-index. Despite the Q3 2022 decline, the FFPI increased 5.5% Y-o-Y.

Advanced Economies' Inflation and Policy Responses

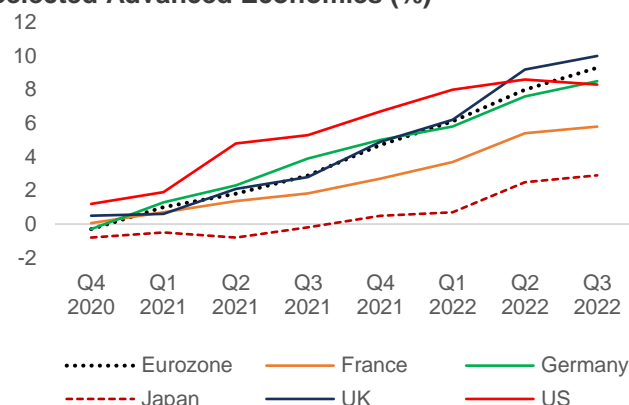
The inflation rate in the US increased by 8.2% Y-o-Y in September 2022, with the energy index rising by 19.8% Y-o-Y. However, it is still lower than the 9.1% in June. Hence, the Federal Reserve continued to tighten its monetary policy by increasing its Federal Funds policy rate to 2.5% at its FOMC meeting on 27th July, 2022, and to 3.15% on 21st September 2022, its third consecutive 75bps hike.

In the Eurozone, the annual inflation reached 9.9% in September Y-o-Y increasing from 8.6% in June 2022, far above the ECB target of 2%. The ECB increased its three key interest rates by 50 basis points on 21st July 2022 and committed to continue tightening to fight inflation. Indeed, on 8th September 2022, ECB increased interest rates by 75 bps, bringing the policy rate up to 1.25%.

The annual inflation rate in the UK reached 10.0% in September, an increase from 9.2% in June 2022, and 2.8% in September 2021. On 22nd September 2022, the Bank of England's Monetary Policy Committee increased its key rate by 0.5 percentage points, to 2.25%.

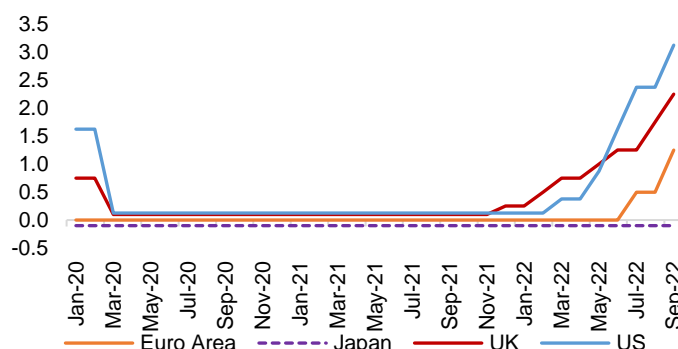
In Japan, inflation reached 2.9% Y-o-Y in September 2022 up from 2.5% Y-o-Y in June, the highest since 1991, remaining above the Bank of Japan's (BoJ) 2% target. Despite that, the BoJ kept its policy rate unchanged at -0.1%. In October 2022, inflation reached 3.6% Y-o-Y, the highest in 40 years.

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



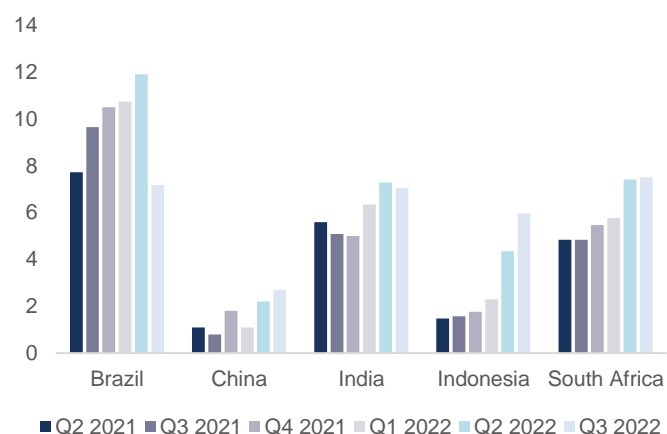
Source: Bloomberg

Figure. 1.4. Policy Rates in Selected Advanced Economies (%)



Source: BIS Statistics

Figure.1.5. Y-o-Y Average Headline Inflation in Selected Emerging Economies (%)



Source: Bloomberg.

Emerging and GCC Economies

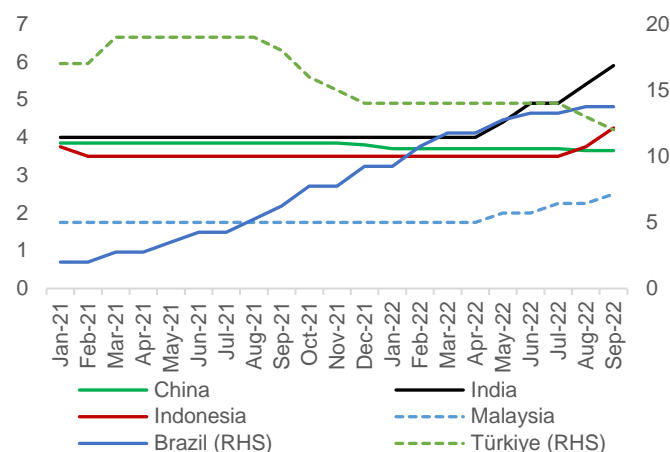
China's inflation rate reached 2.7% Y-o-Y in September, up from 2.2% at the end of June 2022, the highest level since April 2020. The increase is mainly due to a sharp rise in food prices. China has set a target of CPI at around 3% for 2022, the same as in 2021. However, China's Central Bank cut its key interest rates by 10 basis points on 15th August 2022, against the global tightening trend, as the country's economy showed weaker-than-expected growth. The People's Bank of China lowered the rate on 400 billion yuan worth of one-year medium-term lending facility (MLF) loans by 10 basis points to 2.75%.

In India, the annual inflation was 7.0% Y-o-Y in September 2022, up from 7.3% Y-o-Y in June 2022, marking the ninth straight month when prices rose above the RBI's mandate of 2% to 6%. Food prices remained the main driver of the rising inflation, as they rose by 8.6% Y-o-Y. The recent hike in price growth was expected to moderate as the government had taken several measures that helped to outweigh the ongoing hike in global commodity prices. The Reserve Bank of India (RBI) increased its benchmark repo rate by 50 bps, taking it to 5.9% on 30th September 2022.

The annual inflation rate in Saudi Arabia was 3.1% in September, up from 2.3% in June 2022, mainly due to the rise in prices of food and beverages by 4.3%. The inflation rate in Kuwait fell to 3.2% in September from 4.5% in June 2022. Bahrain's annual inflation rate rose to 4.0% in September from 3.1% in June, the highest since December 2013, due mainly to the rise in prices of food and beverages by 10.7% Y-o-Y. In Qatar, the annual inflation rate reached 6.0% in September, up from 5.4% in June. The main pressures came from prices of recreation and culture. Finally, in Oman inflation declined to 2.4% in September from 2.9% in June.

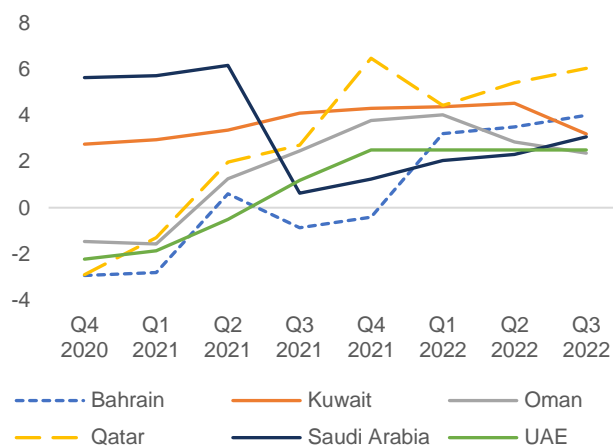
The GCC countries followed the Federal Reserve's rate increase on 21st September 2022. The central banks of the UAE, Bahrain, Oman, Qatar, Saudi Arabia, and Kuwait raised their base rates by 75 bps.

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

I.3. Global Markets' Developments

Volatility and uncertainty in financial markets are on the rise

International energy prices surged

The Emirati Dirham continued appreciating in real and nominal terms

Global Financial Conditions

Global financial conditions are at their tightest levels since the 2008 recession and interest rates are expected to be further increased by the world's major central banks, at least until the end of 2022, to counter the inflationary pressures.

The Federal Reserve Bank Chicago Adjusted National Financial Conditions Index (ANFCI), which provides a comprehensive update on U.S. financial conditions, have started to move upward showing relatively tight conditions in June and September 2022.

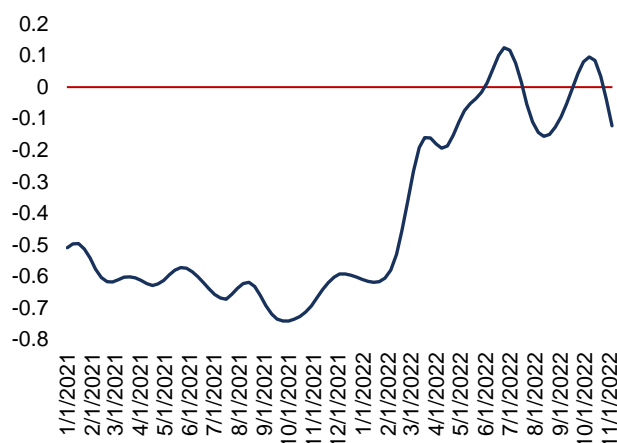
Commodities

Due to the high supply of crude oil from the US, combined with an economic slowdown and lower Chinese fuel demand during Q3 2022, Brent prices fell from USD 122.7 in June 2022 to USD 89.7 in September 2022, before starting to increase in October, in response to the OPEC+ decision agreement to cut production by 2 million barrels per day starting in November.

Natural gas prices increased on average from USD 7.7 per MMBtu at the end of Q2 to USD 8.8 in August per MMBtu before declining to USD 7.8 MMBtu at the end of Q3 and to USD 5.7 MMBtu in October 2022.

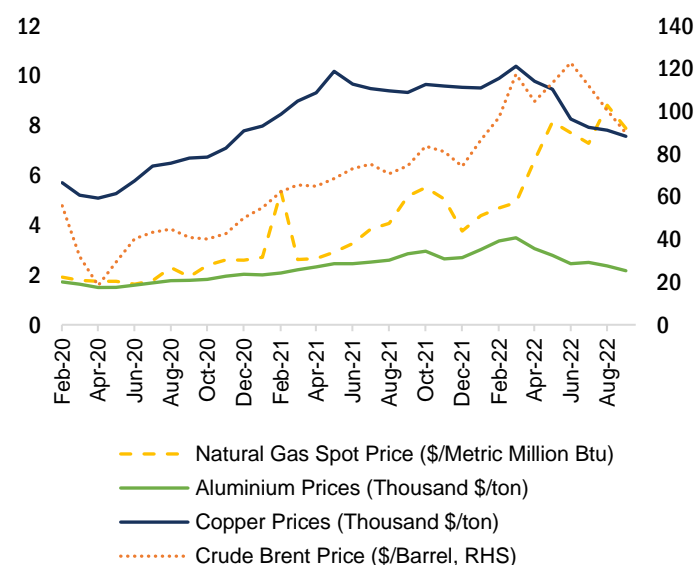
Meanwhile, prices of other commodities such as aluminum and copper declined by 11.9% and 8.5%, respectively. Gold price fell to USD 1,654.8 per oz in September 2022 from USD 1,817.7 at the end of Q2 of this year, impacted by a variety of factors such as the appreciation of the USD, higher US real yields and prospects of further tightening of the US monetary policy.

Figure.1.8. 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. 1.9. Commodity Prices



Source: Bloomberg

Trade

Total non-oil exports increased Y-o-Y by 6.2% in the first half of 2022 and reached AED 172.7 billion. Non-oil exports data in H1 2022 highlighted India's top position as the UAE's major export partner, followed by Switzerland and Saudi Arabia. The most exported goods are pearls, stones, precious metals, metals and articles of base metal, plastics, rubber, and articles thereof.

Meanwhile, re-exports increased significantly by 24.4% to reach AED 266.2 billion. The primary UAE re-export destinations are Saudi Arabia with a share of 12.3%, followed by Iraq (11.7%), India (9.3%), the US (4.6%), and Kuwait (4.1%). The most re-exported products are machinery, sound recorders and reproducers, vehicles of transport, mineral products, and products of the chemical or allied industries, and textiles.

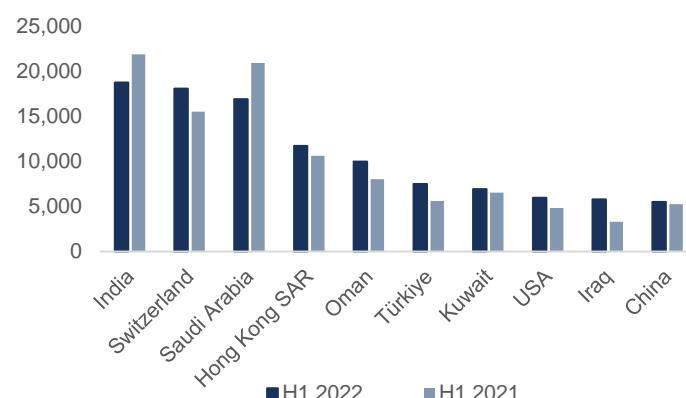
Total imports rose by 17.9% Y-o-Y in H1 2022 to reach AED 556.2 billion, as result of the strong growth in the non-hydrocarbon sector. The major imported goods are pearls, stones, precious metals and other articles, vehicles of transport, products of the chemical or allied industries.

By import destinations, the top five major imports partners are China with a share of 18.5%, followed by India (8.7%), the US (6.2%), Japan (3.8%), Türkiye (3.6%), and Saudi Arabia (2.9%).

Exchange rate

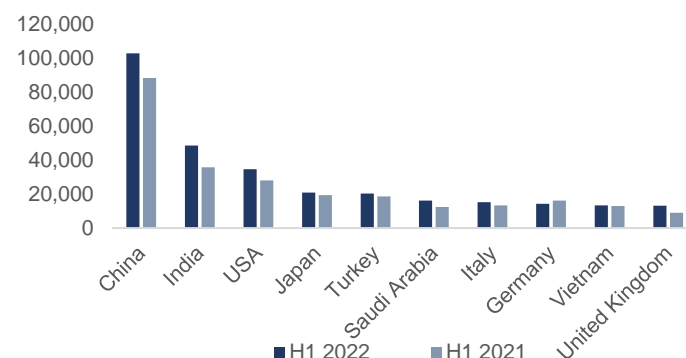
The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the multilateral exchange rates of the UAE's trading partners, appreciated Y-o-Y by 11.1% in Q3 2022, up from an appreciation by 8.0% in the previous quarter, in line with the appreciation of the US dollar. The Dirham's Real Effective Exchange Rate (REER), which takes into account inflation differentials between the UAE and its trading partners, appreciated by Y-o-Y by 7.2% in Q3 compared to 4.3% in Q2.

Figure 1.10. UAE Non-oil Exports to Major Trading Partners (In billions of Dirham)



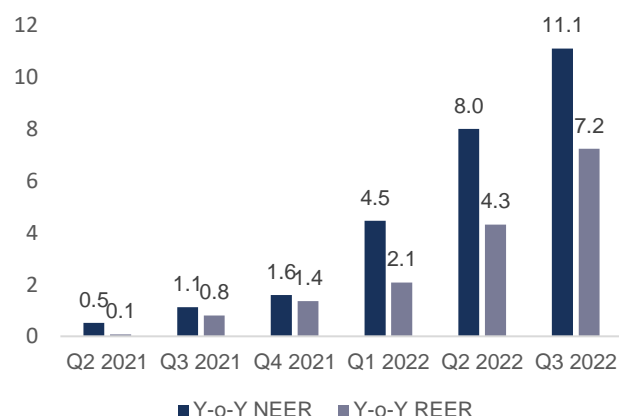
Source: FCSC

Figure 1.11. UAE Imports from Major Trading Partners (In billions of Dirham)



Source: FCSC

Figure. 1.12. Y-o-Y Nominal and Real Effective Exchange Rates AED Appreciation (%)



Source: BIS, CBUAE calculations

Chapter 2

Domestic Economic Developments



II.1. Growth in the UAE

CBUAE forecasts real GDP to grow by 7.6% in 2022 driven by both oil and non-oil sectors

The consolidated fiscal balance in H1 2022 recorded an annualized surplus of 15.5% of GDP

Private consumption and investment kept on expanding in Q3 2022

Real GDP Outlook

Overall real GDP continued to grow at a strong pace in Q3 2022, after a robust increase in the first half of the year. It was driven by a further rise in oil production, as well as significant improvement in the real non-oil GDP. The CBUAE has revised its forecast for real output growth in 2023, as the non-oil sector is expected to perform better, continuing the trend set in 2022, while hydrocarbon production is expected to be lower. For 2022 and 2023, overall real GDP is projected to grow by 7.6% and 3.9%, respectively. There are increased chances for growth being stronger in 2022 due to mainly better-than-expected performance in some of the non-oil sectors such as tourism and hospitality, real estate, transportation, and manufacturing.

Oil GDP

Following the steady Y-o-Y increase in real oil GDP in Q2 2022, in Q3 oil production averaged 3.17 million barrels per day and the UAE hydrocarbon GDP is estimated to have grown by around 13.0% Y-o-Y, in line with the OPEC+ agreements (14.3% year-to-September compared to the same period a year ago). Starting November 2022 OPEC agreed to cut production by 2 million barrels per day, which resulted in revision of CBUAE's forecasts for the current and following years. Real oil GDP is projected to grow by 11.0% and 3.0% in 2022 and 2023, respectively, with performance in both years depending on the evolution of the Russia-Ukraine conflict, potential global economic slowdown, further OPEC+ decisions to change production levels, potential reduction in output by some of the other OPEC members, and further post-COVID recovery.

Non-Oil GDP

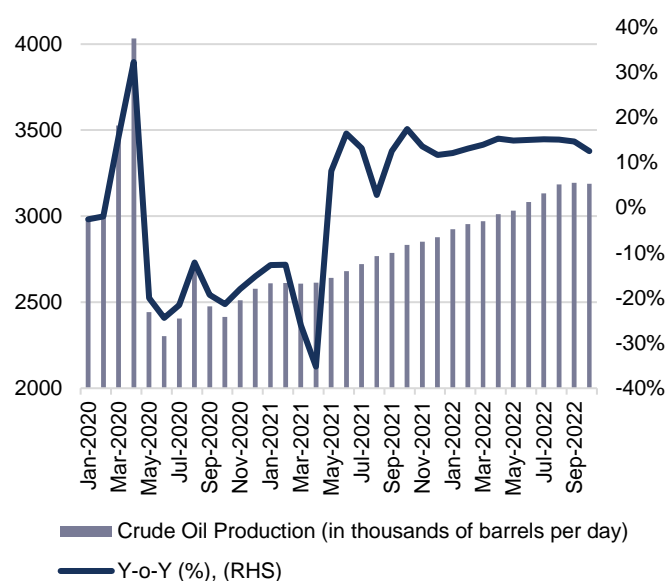
After another significant rise in the non-hydrocarbon sector in Q2 2022, the sector is estimated to have grown compared to a year ago slightly less in Q3. It gained from the removal of most COVID-19 related restrictions and from the recovery in global travel and tourism, the booming real estate and construction sectors, expanding manufacturing activities, and from world class events, such as the FIFA World Cup in Qatar in Q4 2022. For 2022 and 2023, CBUAE projects the real non-oil GDP to expand by 6.1% and 4.2%, respectively.

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

	2019	2020	2021	2022F	2023F
Overall GDP	1.1	-5.0	3.9	7.6	3.9
Non-oil GDP	2.7	-5.4	5.8	6.1	4.2
Oil GDP	-2.6	-3.8	-0.7	11.0	3.0

Source: FCSC for 2019-2021, and CBUAE forecasts for 2022-23.

Figure 2.1. Average UAE Crude Oil Production



Source: OPEC

Government Investment and Consumption

Government revenues increased Y-o-Y in the first half of 2022 by 46.7% to AED 305.6 billion due to an increase in taxes and social contributions. On the expenditure side, current spending rose Y-o-Y by 6.1% in H1 2022 standing at AED 180.1 billion, compared to 5.0% during the same period of the previous year. The increase in expenditures is attributed to higher spending in all categories, except subsidies and social benefits. Meanwhile, capital spending, measured by the net investment in non-financial assets decreased Y-o-Y in H1 2022 to AED 7.4 billion.

The total expenditures reached AED 187.6 billion, representing a 4.9% increase compared to H1 2021. As a result, the consolidated fiscal balance recorded a surplus of AED 118.0 billion or annualized 15.5% of the 2021 GDP, compared to AED 29.5 billion or 4.6% of the 2020 GDP.

Private Investment

The UAE is benefitting from a dynamic private sector, with multiple reforms and strategies to grow FDI inflows and attract top talents. The banking sector kept supporting private sector investment, as credit to the private sector increased by 4.9% Y-o-Y in September 2022.

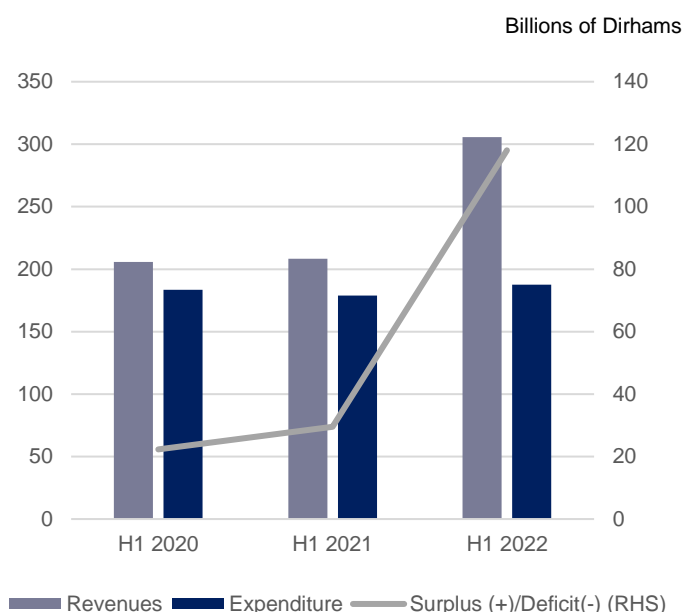
UAE's PMI rose to 56.7 in October compared to 55.4 in June, which marked the 23rd straight month of growth in the non-oil private sector with an average level of the index YTD in October of 55.5. There was a sharp expansion in the non-oil business activity with companies reporting that higher client demand had boosted output.

The Composite Business Confidence Index (BCI), based on a survey produced for the Northern Emirates, reached 109.8 points for Q3 2022, pointing at positive and improved business expectations. Firms in the manufacturing and services sectors were resilient, with the respective sectors being in the expansion zone, while the trading sector BCI standing around the "no change" point. Moreover, the SME index showed expansion in Q3 2022, rising by 1.7 points, with the large company index indicating a significant degree of confidence with reference to all parameters: volumes, prices, profits, hiring and new purchase orders. Manufacturing firms remained quite optimistic with 61% affirming improved economic conditions in Q3 2022.

Private Consumption

Domestic consumption has been strong during Q3 2022, supported by the significant rise in employment and wages. Based on the Wage Protection System (WPS), the 3-months moving average number of employees and the 3-months moving average total amount of wages paid in the private sector increased significantly Y-o-Y in September 2022, above their pre-COVID levels².

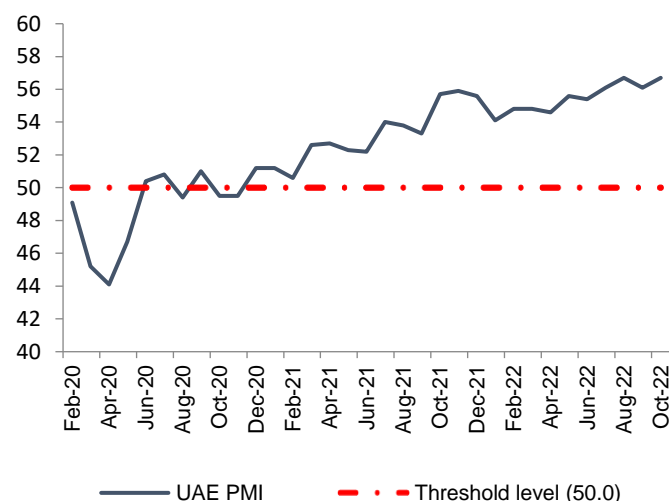
Figure 2.2. Consolidated Fiscal Stance



Source: UAE Ministry of Finance

Figure 2.3. UAE PMI

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



Source: IHS Markit

² This could be also partially due to the addition of new companies to the WPS.

II.2. Sectoral Analysis

Transportation, trade and manufacturing contributed most to Q1 2022 non-oil growth

Real estate prices kept on increasing on an annual basis during Q3 2022

Tourism and hospitality reached its 2019 levels of occupancy, albeit the number of rooms has increased

Contributions of sectors growth rates to total growth

Sectoral contributions to growth can be driven by the high share and/or high growth rate of the sector. The top three sectors that contributed to Q1 2022 non-oil GDP growth, the latest published by the FCSC, are transportation and storage, wholesale and retail trade, and manufacturing by 1.72, 1.37 and 1.18 percentage points, respectively.

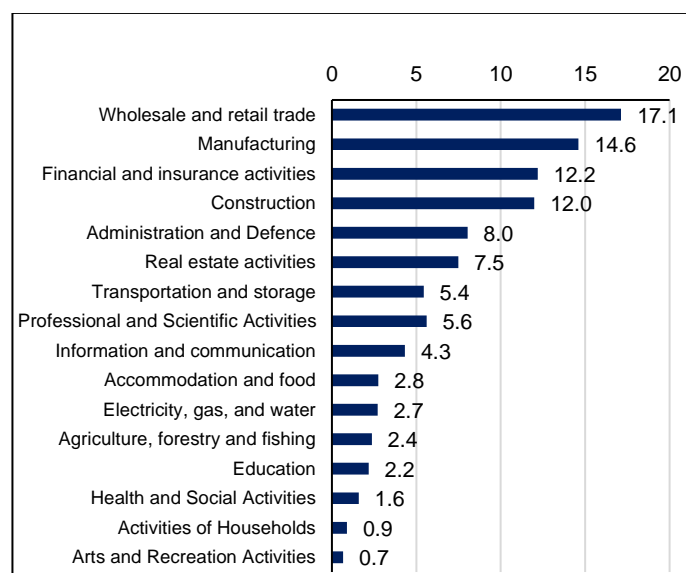
Higher contribution is driven by higher growth rates as is the case for transport and storage (31.6%), and high shares as for the case of wholesale and retail, and manufacturing (17.1% and 14.6% respectively). However, accommodation and food, which has the highest growth rate (35.3%), contributed only by 0.97 percentage points due to its modest weight (2.8%).

The manufacturing sector in Abu Dhabi benefited from a set of government reforms and programs seeking to provide an attractive business environment:

- The “Abu Dhabi Local Content program” and “Golden List” project aim is to direct government spending towards the development of local products and to strengthen supply chains supporting locally manufactured products.
- The “Electricity Tariff” is designed to encourage competitiveness and investment in Abu Dhabi, benefiting 60 factories so far.
- The “Financial Ecosystem Program” is facilitating access of local factories to access financing, which contributes to promoting the diversification of the local economy. Under this program, AED 85 million funding request were received in 2022.
- The “Industrial Land Program”, stimulating the industrial sector through renting industrial lands, is benefiting 46 factories in 2022.
- The “Industrial Sustainability Program” is setting guidance and best practices for industrial sector to achieve sustainable manufacturing.
- The “Smart Manufacturing Program” aims to accelerate the pace of transformation of the industrial sector towards the Fourth Industrial Revolution technologies, in order to promote sustainable production.

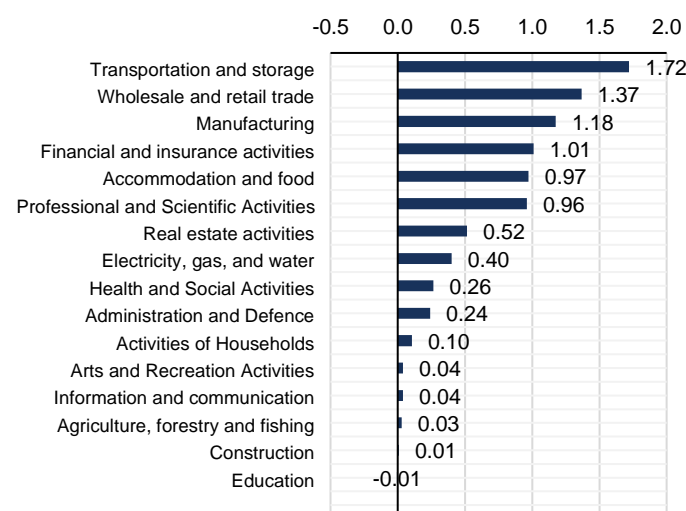
As a result, the number of new Rowad³ licenses grew in Q3 2022 by 37% compared to the same period in 2021, while the industrial value added rose by 4% and purchases increased by 13% Y-o-Y.

Figure 2.4. Non-oil GDP sectors' shares (%)



Source: FCSC, CBUAE calculations

Figure 2.5. Contributions to Non-oil GDP Growth (percentage points)



Source: FCSC, CBUAE calculations

³ Rowad license is for businesses that are practicing industrial activities.

Real Estate

In Abu Dhabi's real estate market up to 80% of the acquisitions are done by Emiratis or residents. However, the share of foreign investors started increasing as the Emirate is becoming a competitive metropolis for business and investment. The Emirate is experiencing a surge in demand for new constructions, particularly townhouses and villas. According to REIDIN house price index, the average price per square meter recorded a 3.2% Y-o-Y increase in Q3 2022 in Abu Dhabi, while rents declined by 0.5% over the same period, leading to a rental yield of 6.3%.

Dubai's property market has picked this year as the Emirate's economy continues to make a strong recovery. The strong sales performance in September also encapsulates the sharp rise in Dubai's off-plan and secondary property sales in Q3 2022. Transactions in the July to September period, both in terms of volume and value, climbed to a 12-year high.

As per the Dubai Land Department (DLD), residential property sale prices in Dubai increased on average by 25.5% Y-o-Y in Q3 2022, while rents increased by 4.7% over the same period. The implied rental yield stood at 5.3% in Q3 2022.

Tourism and hospitality

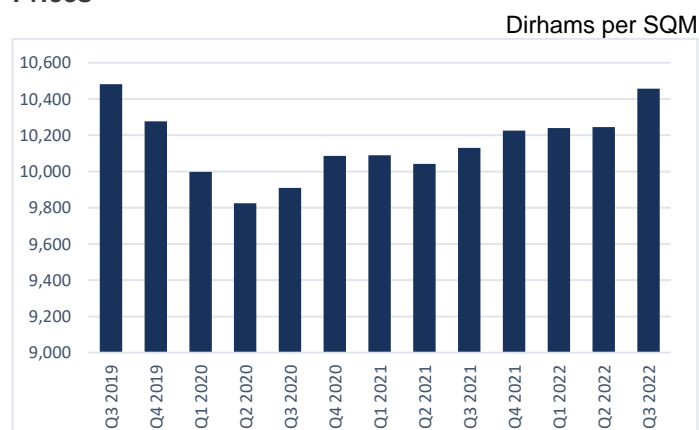
The sector performed well in Q3 2022 and is likely to continue this strong pace of growth in the coming months, benefiting from upcoming major events in the UAE and the region with anticipated spillover effects for the UAE.

Dubai received 10.1 million international guests in the first three quarters of 2022 – a significant jump compared to the 3.9 million recorded for the same period last year. Similarly, Abu Dhabi witnessed a 24% increase in overnight guests to 2.9 million. Moreover, Dubai's occupancy levels were at 71% YTD in September 2022, same as in 2019, but with more establishments open, and a notable jump compared to the same period in 2021 (62%). In Abu Dhabi, occupancy levels for the same period reached 69%, higher than last year.

Transportation

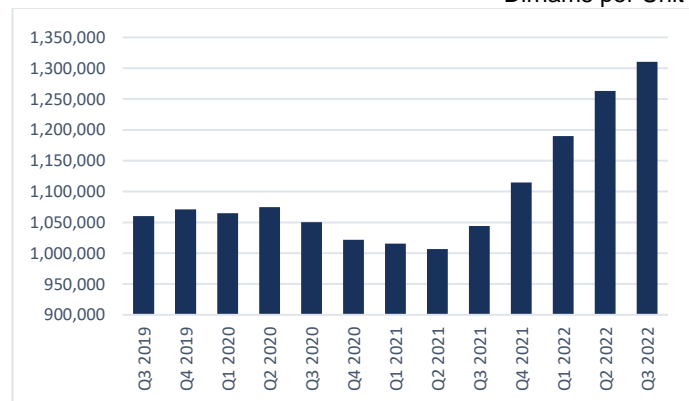
The transportation sector continues its recovery driven by a strong demand for air transport across the world, with Emirates Group ending Q3 with a record profit of AED 4.2 billion in the period of April-September 2022, compared to a loss of AED 5.7 billion over the same period of 2021. Over the same period, Emirates' revenues went up by 131% to AED 50.1 billion and it carried 20 million passengers (up by 228%) in line with tourism recovery and strong demand with continued easing and removal of travel restrictions.

Figure 2.6. Average Abu Dhabi Residential Unit Sale Prices



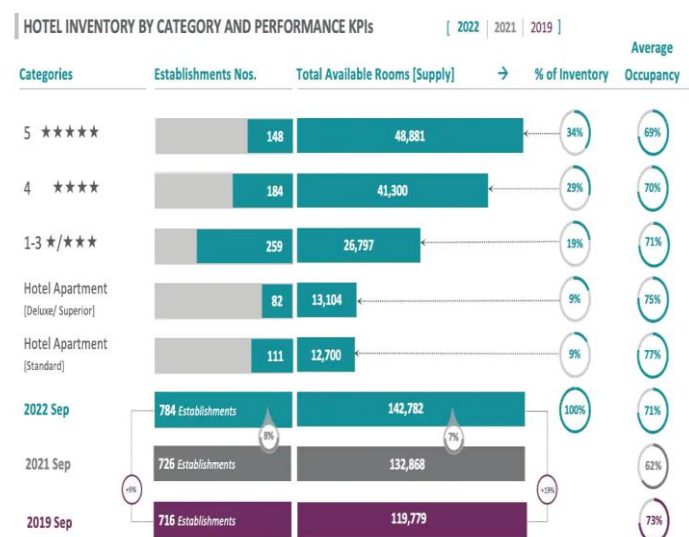
Source: REIDIN

Figure 2.7. Average Dubai Residential Unit Sale Prices



Source: DLD

Figure 2.8. Accommodation Supply and Demand in Dubai – YTD August 2022



Source: Dubai Tourism

II.3. Inflation

UAE CPI inflation for 2022 projected at 4.9%

Inflation in Dubai increased during Q3 2022 to 6.2% Y-o-Y

Inflation is driven by energy prices, imported inflation, and rising employment

Inflation drivers in Dubai

The Dubai consumer price index (CPI) rose further in Q3 2022 in line with global trends but remained below the global average. As per the Dubai Statistics Center (DSC), CPI headline inflation averaged 6.2% in Q3 2022, compared to 5.1% in the previous quarter.

While the lower increase in prices of the non-tradeable category was moderating the headline inflation during the first two quarters of the year, it picked up to 4.9% in Q3 2022, which was the main accelerator for the overall inflation. The housing sub-index, the most dominant category with 40.7% of the CPI basket's weight, recorded the first quarterly Y-o-Y increase in Q3 2022 since Q3 2017, resulting from the pickup in rents.

Similarly, all other items of the CPI basket increased Y-o-Y, except tobacco products, with average prices of transportation (9.3% of the consumer basket) rising by 27.9% in Q3 2022. Food and beverages, the CPI group with second highest weight, representing 11.7% of the basket, increased by 7.6%, lower than the 8.7% in Q2, as global food prices normalized after reaching their highest levels in many years in Q2.

Restaurants and hotels' inflation was at 5.7%, and recreation, sports and culture recorded positive inflation of 38.0%. Inflation in education, and in information and communication increased as well by 0.5% and 1.5%, respectively due to the prices of some imported goods and services used in providing those services. The remaining components of the basket were also impacted by imported global inflation, but to a much lesser extent.

Inflation projections for the UAE

The CBUAE revised its projection for the UAE headline inflation downwards to 4.9% in 2022. This reflects the latest developments in oil prices, with CBUAE forecasting average Brent prices to be around USD 102 in 2022, less than previously expected, in addition to a moderation in food prices, compared to a quarter ago.

Housing is not expected to be an important contributor to inflation. Even if average rents in Dubai have increased in Q3 2022, Abu Dhabi rents fell over the same period and the housing component inflation remained muted at 1.9%.

The impact of imported inflation is expected to be mitigated, as the UAE dirham has appreciated against most currencies, in line with the continuous appreciation of the USD. Moreover, UAE's major trading partners, such as China, Japan and India are having a much lower inflation, compared to the global trends.

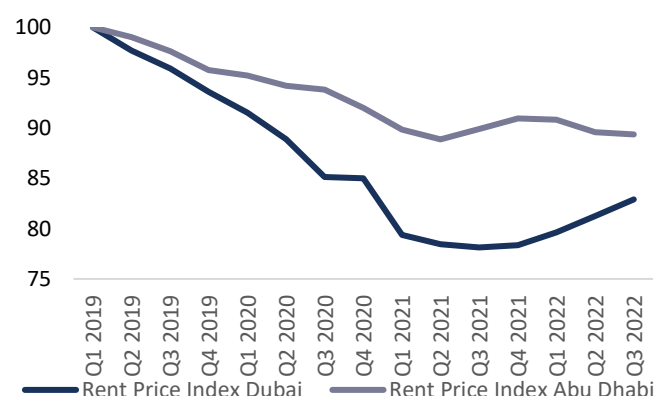
Table.2.2. Dubai CPI Inflation (%)

	Weights	Q1 22	Q2 22	Q3 22
All Items	100.0	2.6	5.1	6.2
Non-tradeable	72.3	0.6	3.1	4.9
Tradeable	27.7	7.4	9.5	9.6
Housing, water, electricity, gas & other fuels	40.7	-2.9	-0.6	1.9
Food & beverages	11.7	6.0	8.7	7.6
Transportation	9.3	21.4	29.8	27.9
Education	8.2	0.0	0.3	0.5
Restaurants & accommodation services	6.1	6.1	4.6	5.7
Information & communication	5.7	1.5	1.5	1.5
Personal care, social protection & miscellaneous goods & services	5.1	1.6	2.5	3.7
Clothing & footwear	5.0	5.5	1.5	5.8
Furnishings, household equipment & routine household maintenance	3.5	1.0	2.4	2.6
Recreation, sport & culture	2.4	6.4	26.9	38.0
Insurance & financial services	1.4	-	-	-
Health	0.9	0.7	0.9	0.7
Tobacco	0.3	0.7	1.0	-0.6

Source: DSC, 2021 Base Year

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

Figure 2.9. 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 September 2022 by 8.2, 10.7% and 14.6% Y-o-Y, respectively

CBUAE's main policy rate, the Base Rate, increased by 75 bps in line with the Fed's Interest on Reserve Balances rate

The expected timing of the peak in the current interest rate cycle was pushed back according to market-based expectations

Monetary Aggregates

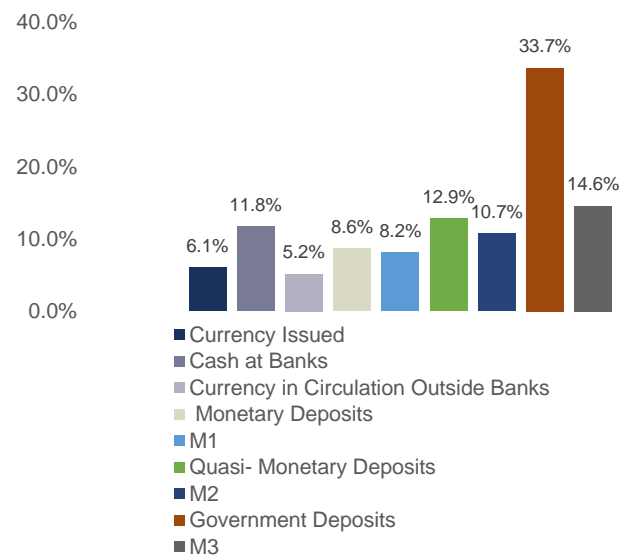
The monetary aggregate M1 rose by 8.2% Y-o-Y, standing at AED 723 billion at the end of September 2022. The increase was due to a Y-o-Y increase in currency in circulation outside banks (13.6% of M1) by 5.2% and in monetary deposits (86.4% of M1) by 8.6%. The monetary aggregate M2 increased by 10.7% Y-o-Y reaching AED 1,645.6 billion, due to an elevated M1 and an increase in quasi-monetary deposits (56.1% of M2) by 12.9% Y-o-Y. Consequently, M3 also grew by 14.6% Y-o-Y, reaching AED 2,048.1 billion at the end of September 2022. The rise in M3 was also due to 33.7% growth in government deposits at commercial banks and CBUAE (19.7% of M3).

Interest Rates

As evident in other markets, short-term interest rates continued to increase between August and October as globally monetary policy regimes continued to tighten. Between the start of August and end of October, the CBUAE's main policy rate, the Base Rate, increased by 75 bps in line with movements in the US Federal Reserve's Interest on Reserve Balances (IORB) rate. Interbank volumes remain subdued as a large surplus liquidity position persists, while those trades that have taken place in the interbank market have generally tracked below the base rate, by around 11 bps on average.

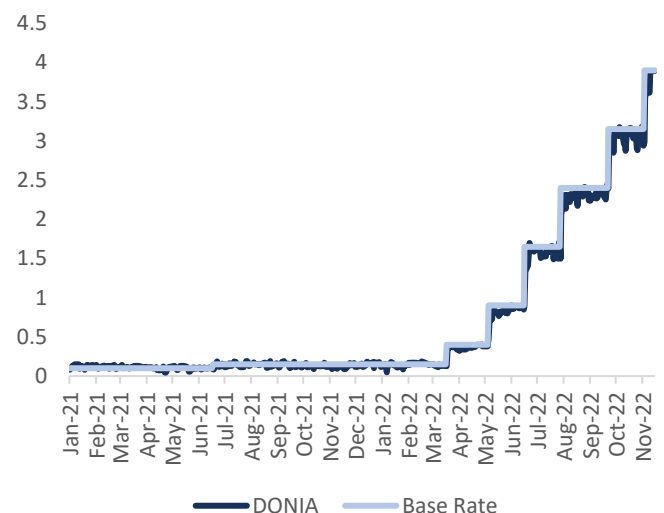
Term rates also increased between August and October, with 12-month EIBOR up 132 bps as at the end of October. Underpinning the uptick in term rates in the UAE are expectations that the US Federal Reserve would increase interest rates more aggressively to counteract inflationary pressure. Similarly, the expected timing of the peak in the current interest rate cycle was pushed back according to market-based expectations. This was evident both from the pricing of US Futures and of domestic currency instruments, including Monetary Bills and UAE Treasury Bonds.

Figure 3.1. Y-o-Y % Change in Monetary Aggregates Components at the end of September 2022



Source: CBUAE

Figure 3.2. DONIA and CBUAE Base Rates (%)



Source: CBUAE

III.2. Banking Developments

Credit growth remained strong at 5.5% Y-o-Y with loans to the domestic private sector increasing by 4.9%

Robust demand for business and retail loans, as reflected in the credit sentiment survey

Robust deposit growth of 12.6% Y-o-Y, led by private sector corporate deposits

Banking System Assets and Structure

The UAE banking system's total assets expanded by 10.3% Y-o-Y, reaching AED 3,583 billion in September 2022. The number of licensed banks in the UAE reached 60 banks, including two digital banks. The UAE banking sector comprised 23 national banks and 37 foreign banks as of Q3 2022. Meanwhile, bank branches in the UAE moderated to 580 branches, reflecting the UAE banking systems' gradual digitalization.

Banking System Credit and Deposits

Bank lending maintained a 5.5% Y-o-Y growth rate, with improvements across key lending categories. Domestic credit grew 3.3% in September 2022, driven by the private sector. Within the domestic private sector, private corporate lending grew 3.8% Y-o-Y, while retail loans increased 7.0% Y-o-Y, with growth recorded across most key retail sector sub-categories. Lending to government-related corporate entities also rebounded in 2022. Foreign credit, accounting for 11.6% of total loans, increased 25.0% Y-o-Y, driven by foreign private corporate loans.

Total deposits in the UAE banking system continued to grow at a robust rate of 12.6% Y-o-Y, reaching the highest growth rate since February 2015. This reflected further expansion in resident deposits by 15.3% Y-o-Y. Non-resident deposits, on the contrary, contracted 6.0% Y-o-Y as of September 2022. As a result, the loan-to deposit ratio reached the lowest level in seven years, indicating ample credit capacity. The robust funding and credit capacity supported growth in both domestic and foreign credit.

The CBUAE Credit Sentiment Survey

The CBUAE's Credit Sentiment Survey published in Q3 2022 highlighted a continuation of strong credit appetite, led by robust growth in demand for business and household loans. The credit sentiment in Q3 2022 reflects the strong recovery of the UAE economy supported by financial institutions' willingness to satisfy the increased demand for business and consumer loans.

Table 3.1. Assets and Credit at UAE Banks

Billions of AED

Item	Dec-21	Mar-22	Jun-22	Sep-22
Total Assets	3,322	3,336	3,449	3,583
(Y-o-Y change)	4.2%	5.1%	7.5%	10.3%
Gross Credit	1,794	1,832	1,866	1,873
(Y-o-Y change)	0.8%	4.4%	5.5%	5.5%
Domestic Credit	1,619	1,639	1,659	1,655
(Y-o-Y change)	1.4%	3.1%	4.0%	3.3%
Government	236	227	222	213
(Y-o-Y change)	-4.1%	-10.2%	-9.5%	-13.3%
GREs	245	264	260	256
(Y-o-Y change)	9.6%	22.6%	16.3%	14.8%
Private Sector	1,121	1,133	1,163	1,174
(Y-o-Y change)	0.7%	2.5%	4.5%	4.9%
NBFIs	17	16	14	14
(Y-o-Y change)	20.0%	-4.3%	1.5%	-8.2%
Foreign Credit	175	193	207	218
(Y-o-Y change)	0.6%	16.9%	19.2%	25.0%

Source: CBUAE

Note: Data as of end of period.

Table 3.2. Total Deposits at UAE Banks

Billions of AED

Item	Dec-21	Mar-22	Jun-22	Sep-22
Bank Deposits	1,997	2,006	2,092	2,187
(Y-o-Y change)	5.0%	6.6%	9.6%	12.6%
Resident Deposits	1,766	1,791	1,844	1,958
(Y-o-Y change)	5.0%	6.8%	9.5%	15.3%
Government Sector	288	291	317	402
(Y-o-Y change)	0.4%	5.1%	12.7%	35.3%
GREs	248	239	213	232
(Y-o-Y change)	-3.2%	-2.8%	-6.4%	5.5%
Private Sector	1,191	1,220	1,265	1,275
(Y-o-Y change)	8.3%	9.2%	11.6%	11.2%
NBFIs	38	41	48	50
(Y-o-Y change)	-4.8%	9.4%	18.7%	38.7%
Non-Resident Deposits	231	215	248	229
(Y-o-Y change)	14.4%	5.6%	10.1%	-6.0%

Source: CBUAE

Note: Data as of end of period.

III.3. Financial Developments

The UAE banking system continued to be very liquid and well capitalized

Share prices rose by 20.8% in Dubai and 29.0% in Abu Dhabi Y-o-Y

CDS premium for Abu Dhabi further declined

Financial Soundness Indicators

The UAE banking system maintained sufficient capital levels, well above the minimum regulatory requirements. As of Q3 2022, the aggregate Capital Adequacy Ratio was 17.5%, the Tier 1 capital ratio was 16.3%, while the Common Equity Tier 1 (CET 1) Ratio stood at 14.5%.

Sufficient liquidity and funding conditions were supported by the robust deposit growth. The loan-to-deposit ratio and Advances to Stable Resources Ratio improved to the lowest level in seven years. The sustained capital levels together with robust funding indicated an overall resilient financial position of the UAE banking system in Q3 2022.

Stock Exchanges (Equity Markets)

The Abu Dhabi Securities Exchange (ADX) average share price index increased by 29.0% Y-o-Y in Q3 2022 and the market capitalization reached AED 2.4 trillion in October 2022. The Dubai Financial Market (DFM) average share price index rose by 20.8% Y-o-Y in the third quarter of 2022 and the market capitalization reached AED 570.8 billion in October 2022. The increase in both ADX and DFM was due to the listing of new companies, and the increase in share prices and volumes

Credit Default Swaps (CDS)

For the government of Abu Dhabi, the CDS premium fell from 59.6 bps in Q2 2022, to 56.8 bps in Q3 2022. During September and October 2022, it stood at 49.9 bps and 61.7 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. On the other hand, Dubai's CDS increased from 112.7 bps in Q2 2022, to 125.8 bps in Q3 2022, and reached 117.7 bps and 126.2 bps in September and October 2022, respectively.

Table 3.3. UAE Financial Soundness Indicators

Indicator	Dec-21	Mar-22	Jun-22	Sep-22
Advances to Stable Resources Ratio	77.3%	79.4%	79.1%	76.4%
Loan-to-deposit Ratio	89.9%	91.3%	89.2%	85.7%
Eligible Liquid Assets Ratio	19.6%	19.0%	18.0%	17.3%
Capital Adequacy Ratio	17.2%	17.1%	16.9%	17.5%
Tier 1 Capital Ratio	16.1%	16.0%	15.8%	16.3%
Common Equity Tier 1 Ratio	14.2%	14.2%	14.0%	14.5%

Source: CBUAE

Note: Data as of end of period.

Table 3.4. UAE Stock Exchanges (Equity Markets)

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

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
Abu Dhabi	41.9	42.9	50.4	59.6	56.8
Dubai	90.4	92.1	98.9	112.7	125.8

Source: SCA

Note: Average of the quarter

III.4. Insurance Developments

5.2% Y-o-Y growth of gross written premiums, and 5.1% decrease of the gross paid claims in Q3 2022

17.8% Y-o-Y increase in the total number of insurance policies in Q3 2022

20.7% and 1.9% Y-o-Y rise in gross written premiums of property and health insurance in Q3 2022

Insurance Sector Activity

The UAE insurance sector continued to grow in Q3 2022, as reflected by the increase in number of insurance policies in line with the increase in the gross written premiums (GWP).

GWP increased by 5.2% Y-o-Y in Q3 2022 to AED 36.7 billion mostly due to a rise in property and liability insurance premiums by 20.7% Y-o-Y and a rise in health insurance premiums by 1.9%, while insurance of persons and fund accumulation premiums fell by 14.9%.

The total number of insurance policies increased by 17.8% Y-o-Y in Q3 2022 to 7.1 million policies compared to 6.1 million policies in Q3 2021. This was mainly due to higher number of property and liability insurance policies especially in motor insurance and miscellaneous insurances such as fidelity guarantee, money, coins, securities, bonds insurance.

Paid Claims

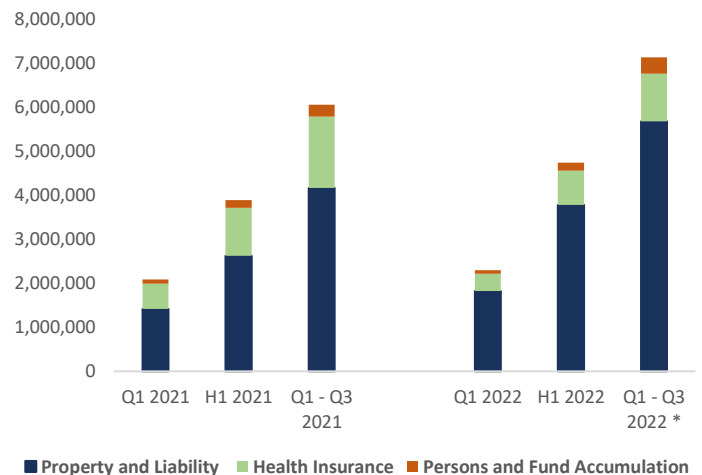
Gross paid claims for all types of insurance plans decreased by 5.1% Y-o-Y to AED 18.7 billion in Q3 2022. This was mainly driven by the drop in claims paid in insurance of persons and fund accumulation by 48.5%, while the claims paid in property and liability insurance increased by 10.6% and those in the health insurance by 0.9% compared to Q3 2021.

The total technical provisions⁴ decreased by 2.2% to AED 68.8 billion in Q3 2022 compared to AED 70.3 billion in H1 2022.

Investments

The volume of invested assets in the insurance sector increased by 0.5% to AED 72.2 billion (61.1% of total assets) at the end of Q3 2022 compared to AED 71.8 billion (59.2% of total assets) in H1 2022.

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

Description	2021				2022		
	Q1	H1	Q1-Q3	2021	Q1	H1	Q1-Q3*
1- Gross Written Premiums	15.1	25.6	34.9	44.3	15.6	26.8	36.7
• Property & Liability	4.9	8.8	12.1	15.5	5.6	9.8	14.6
• Health Insurance	7.9	12.3	16.1	19.9	8.1	11.4	16.4
• Persons and Fund Accumulation	2.3	4.5	6.7	8.9	1.9	5.5	5.7
2- Gross Claims Paid	6.4	13.3	19.7	26.6	6.5	13.1	18.7
• Property & Liability	1.4	3.1	4.7	6.5	1.9	3.5	5.2
• Health Insurance	3.8	7.8	11.7	15.6	4.0	7.1	11.8
• Persons and Fund Accumulation	1.2	2.4	3.3	4.5	0.6	2.5	1.7
3- Technical Provisions	71.9	73.1	71.5	71.1	68.4	70.3	68.8
4- Total Invested Assets	73.8	76.8	77.2	78.9	70.4	71.8	72.2
5- Total Assets	124.2	125.4	122.3	122.6	120.2	121.2	118.2
6- Total Equity	27.8	27.7	28.1	28.0	27.0	26.7	27.1

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

⁴ 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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