Quarterly Economic Review

First quarter 2019

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List of Abbreviations

AED	*United Arab Emirates Dirham*
CAR	*Capital Adequacy Ratio*
CBUAE	*Central Bank of the UAE*
CDs	*Certificates of Deposit*
CET 1	*Common Equity Tier 1 Capital*
CPI	*Consumer Price Index*
DFM	*Dubai Financial Market*
DSC	*Dubai Statistics Center*
ECB	*European Central Bank*
ECI	*Economic Composite Indicator*
EIA	*Energy Information Administration*
EIBOR	*Emirates Inter-Bank Offer Rate*
EMDE	*Emerging Markets and Developing Economies*
FCSA	*Federal Competiveness and Statistics Authority*
Fed	*The Federal Reserve*
FMI	*Financial Market Infrastructure*
GCC	*Gulf Cooperation Council*
GDP	*Gross Domestic Product*
GREs	*Government Related Entities*
IMF	*International Monetary Fund*
KSA	*Kingdom of Saudi Arabia*
L/D	*Loan-to-Deposit Ratio*
LIBOR	*London Inter-Bank Offer Rate*
M1	*Money Aggregate 1*
M2	*Money Aggregate 2*
M3	*Money Aggregate 3*
mb/d	*Million Barrels per Day*
MENA	*Middle East North Africa*
MENAP	*Middle East, North Africa, Afghanistan and Pakistan*
MoF	*Ministry of Finance*
M-o-M	*Month-on-Month*
NEER	*Nominal Effective Exchange Rate*
OPEC	*Organization of Petroleum Exporting Countries*
PCE	*Private Consumption Expenditure*
PMI	*Purchasing Managers' Index*
Q-o-Q	*Quarter-on-Quarter*
RBI	*Reserve Bank of India*
SCA	*Securities and Commodities Authority*
SCAD	*Statistics Center – Abu Dhabi*

SDR	*Special Drawing Rights*
UAE	*United Arab Emirates*
UK	*United Kingdom*
US/USA	*United States of America*
USD	*United States Dollar*
VAT	*Value Added Tax*
WEO	*World Economic Outlook*
Y-o-Y	*Year-on-Year*

Executive Summary

The IMF has revised estimate for global growth downward for 2018 and projection for 2019 from the January World Economic Outlook projection to 3.6% and 3.3%, respectively. Annual US growth is projected at 2.3% for 2019, owing in part to the global economic deceleration. In addition, the slowdown in the Euro Area will continue through 2019 before rebounding in 2020. PMI levels in most countries declined marginally in the first quarter while it improved in the MENA region. Most countries' inflation is likely to stay low due to prospects of lower global demand. Energy commodity prices were volatile, though, during the first quarter of 2019.

In the UAE, the quarterly Augmented Economic Composite Index of Non-Oil Activities, constructed by CBUAE, demonstrated growth of the non-hydrocarbon sector in the first quarter of 2019 of 1.6% Y-o-Y. Aggregate economic growth is rebounding as Y-o-Y growth is estimated at 2.2% underpinned by government spending and picking up private sector demand. Moreover, the CPI index declined in the first quarter of 2019 as the impact of VAT faded while inflation in Non-Tradables turned negative with continued decline in housing prices. On a quarterly basis, employment in the private sector exhibited a rebound as it increased by 1.2% in the first quarter of 2019.

Deposits at banks declined mildly due to the decline in the government and GREs' deposits while the private sector deposits continued to rise in the first quarter of 2019. On the other hand, gross credit continued to grow for most of the economic sectors. The Financial Soundness Indicators (FSIs) continued to demonstrate that the banking system in the UAE overall remained stable.

The CBUAE balance sheet exhibited an increase in 2019 Q1, reflecting an increase in foreign exchange inflows, which led to an increase in liquidity in the banking system, including commercial banks' holdings at the CBUAE. The increase in total assets at CBUAE was mainly in Deposits at Banks Abroad, while on the liabilities side the increase was mostly in Reserve Requirements and in Banks' Current Accounts at CBUAE. Meanwhile, interest rates in the UAE fluctuated around a slightly upward trend, despite the Fed's announcements that they will halt further monetary tightening in view of the worsening of US financial conditions during the last quarter of 2018. The spread of the EIBOR vs. the USD LIBOR remained positive, averaging 13 bps in the first quarter of 2019.

Chapter 1. International Economic Developments

Projections for 2019 are marked by a broad-based global slowdown driven by external headwinds from trade frictions and moderating growth in major economies. The beginning of 2019 also witnessed a reduction in inflation rates owing to the softening in commodity prices and the prospects of lower global demand.

1.1 Economic Growth:

Growth estimates and forecasts have been revised downward from the January 2019 projection for 70% of the world economy. According to the International Monetary Fund's (IMF) April 2019 *World Economic Outlook* (WEO), global growth for 2018 softened to 3.6% and is projected to decline to 3.3% in 2019. Subsequently, global growth in 2020 is projected to expand by 3.6%.

The revised downward growth by 0.2 percentage points for 2019 from the January 2019 Outlook is broad based. For many major economies, including the Euro Area, the United Kingdom, the United States and Canada, growth is revised downward.

The outlook for the annual US growth is projected at 2.3% for 2019 owing to the global economic deceleration and the ongoing trade tensions. Nonetheless, jobs in the US continue to grow; unemployment is forecasted to stay close to the natural rate. The IMF projects that the slowdown in the Euro Area will continue through 2019 as GDP growth will increase by 1.3% in 2019 due to the weakening business and consumer sentiments before rebounding to 1.5% in 2020.

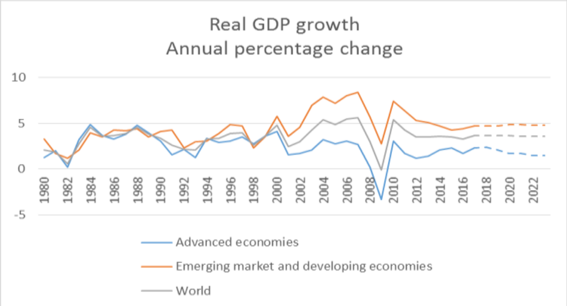
Growth in Emerging Markets and Developing Economies (EMDE) softened to 4.5% in 2018 and is projected to grow by 4.4% in 2019, 0.1 percentage points lower than the January 2019 WEO projections. The deceleration is due to serious pressures observed in some countries where currencies weakened, in tandem with inflation and debt overhang. Financial outflows continued on the back of further worsening outlook. Economic conditions are projected to improve in 2020 due to the global recovery and ease in macroeconomic conditions in some emerging market countries such as Turkey and Argentina.

The growth of the Chinese economy is expected to face challenges. The Chinese economy is projected to follow a downward growth trend during 2019 and 2020 reaching 6.3% and 6.1%, respectively.

In the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)[1], as defined by the IMF, economic growth was revised downward to 1.5% in 2019 and is projected to recover in 2020 to about 3.2%. Factors such as oil price volatility, tightening financing conditions, and economic and geopolitical instability in some countries are increasing uncertainty about the region's growth outlook.

According to the IMF, Saudi Arabia's growth is projected at 1.8% in 2019 and 2.1% in 2020, supported by higher oil revenues and fiscal policy undertaken by the government to further diversify the economy and implement its Vision 2030.

Figure 1.1.a Real GDP Growth for Selected Group of Economies



Source: IMF

[1] MENAP oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen. MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia.

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

	2018	2019*	2020*
World Output	3.6	3.3	3.6
USA	2.9	2.3	1.9
Advanced Economies	2.2	1.8	1.7
Eurozone	1.8	1.3	1.5
France	1.5	1.5	1.3
Germany	1.5	0.8	1.4
United Kingdom	1.4	1.2	1.4
Japan	0.8	1	0.5
EMDE [1]	4.5	4.4	4.8
China	6.6	6.3	6.1
India	7.1	7.3	7.5
MENAP [2]	1.8	1.5	3.2

Source: IMF, WEO, April 2019
*Projected
[1] Emerging Market and Developing Economies
[2] Middle East, North Africa, Afghanistan, and Pakistan

Table 1.1.a details major economies' projected growth, compared to the registered growth rates in the previous period.

In the first quarter of 2019, the US economy grew by 3.2%, mainly supported by personal consumption, exports, and state and local government spending. The IHS Markit Manufacturing PMI averaged 53.4 in quarter one, down from 54.9 in the previous quarter, mainly due to factory activity and new business growth (Figure 1.1.b).

UK's growth for the first quarter expanded by 1.8% in 2019 Q1, Y-o-Y, up from 1.4% in 2018 Q4. Household consumption and government spending supported the expansion. However, net trade and gross capital formation contributed negatively to GDP growth.

Table. 1.1.a Annual Real GDP Growth Rate in Selected Countries (%)

	Q4 2018	Q1 2019*
USA	3	3.2
Eurozone	1.2	1.2
United Kingdom	1.4	1.8
France	1	1.1
Germany	0.6	0.7
Italy	0	0.1
China	6.4	6.4
Japan	0.2	0.9

Source: Bloomberg

For the Eurozone**,** the second largest economy in the world, GDP rose by 1.2% Y-o-Y in the first quarter of 2019, the same pace as in the previous quarter. On a quarterly basis, GDP grew by 0.4% Q-o-Q during the first quarter of 2019 accelerating from a 0.2% expansion in the previous quarter.

The Eurozone Composite PMI dropped in Q1 of 2019 mainly due to a slow expansion in the private sector (Figure 1.1.b). New export orders dropped sharply while manufacturing contracted at a weaker pace. Moreover, business confidence was at its lowest level in nearly three years.

Among Eurozone's largest economies, the Italian economy grew by 0.1% Y-o-Y in the first quarter on the heels of no growth in the previous period. Industry, services and agriculture contributed to growth in Q1.

France's GDP growth rose by 1.1% in 2019 Q1, Y-o-Y, following a 1% growth in 2018 Q4, with household consumption and fixed investment being the main drivers. PMI in France marginally increased from 50.6 in Q4 2018 to 50.8 in Q1 2019 (Figure 1.1.b).

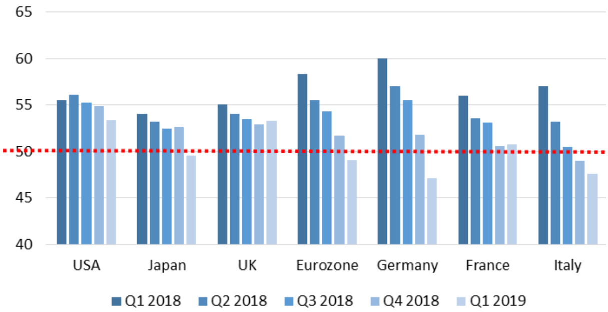
Meanwhile, GDP growth rate in Germany met market expectations of 0.7% Y-o-Y during 2019 Q1 from 0.6% in 2018 Q4. German Manufacturing PMI (Figure 1.1.b) fell below the neutral level in quarter one of 2019, reaching 47.1 mainly due to a slowdown in the automotive industry.

The Japanese economy expanded by 0.9% Y-o-Y in the first quarter of 2019. The expansion was mainly supported by net export gains, as imports fell faster than exports. Meanwhile, the Nikkei Japan Manufacturing PMI average for the first quarter of 2019 was 49.5 (Figure 1.1.b), since both output and new orders decreased at slower rates, affected by slower momentum of domestic and foreign demand.

China's real GDP advanced by 6.4% Y-o-Y, in the first quarter of 2019, at the same pace as in the previous quarter. In the first quarter of 2019, industrial output growth accelerated markedly and consumer demand strengthened which helped stabilize sentiments rattled by trade disputes with the United States. On a quarterly basis, the Chinese economy expanded by 1.4% compared to 1.5% in the previous quarter, in line with market expectations.

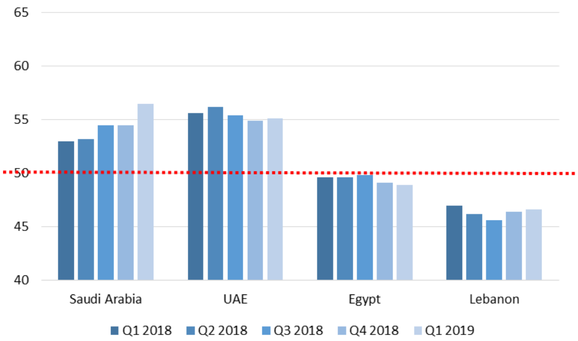
In the MENA region, PMI in Lebanon slightly improved while in Egypt it remained in contraction zone. In the GCC, oil GDP is expected to grow at a slower rate due to OPEC+ agreement of cutting oil output to stabilize price. According to the agreement, participants have agreed to cut their crude oil supply starting January 2019 for an initial 6-month period, awaiting decision regarding sanctions on Iran's oil exports. The PMI in the non-oil private sector across GCC averaged 53.5 in Q1 of 2019, up from 52.8 in Q4 of 2018 (Figure 1.1.c).

Figure 1.1.b PMI Levels for Selected Countries



Source: Bloomberg

Figure 1.1.c PMI levels for Selected MENA Countries



Source: Bloomberg

1.2 Inflation:

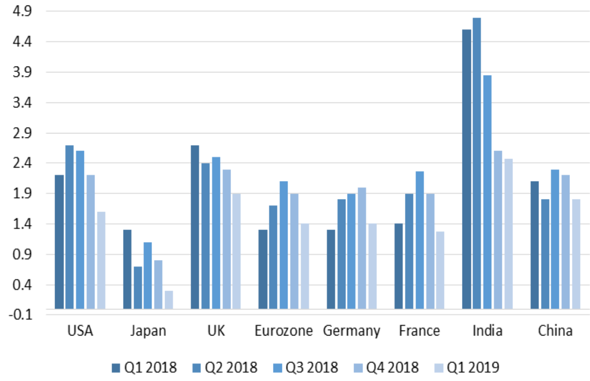
In the US, the core Personal Consumption Expenditures (PCE) inflation (The Fed's official target for inflation) reached 1.6% Y-o-Y, at the end of 2019 Q1, compared to 1.9% in 2018 Q4. While the core PCE, excluding volatile items such as food and energy, rose by 2% Y-o-Y at the end of 2019 Q1, decreasing from 2.2% Y-o-Y as of the end of 2018 Q4. The consumer price index (CPI) inflation averaged 1.7% in 2019 Q1 compared to 2.2% in Q4 of 2018 (Figure 1.2.a).

The annual inflation rate in the Eurozone slowed down to 1.4% Y-o-Y in 2019 Q1 from 1.9% in Q4 of 2018 mainly due to a lower cost of energy and services. Meanwhile, the inflation rate in the United Kingdom averaged 1.9% Y-o-Y in 2019 Q1 from 2.3% during the previous quarter, mainly due to prices of food and non-alcoholic beverages.

China's CPI inflation decreased to 1.8% Y-o-Y in 2019 Q1 down from 2.2% in 2018 Q4. Japan's CPI inflation reached 0.3% Y-o-Y in 2019 Q1 down from 0.8% in the previous quarter. Meanwhile, India's CPI inflation slowed down to 2.4% Y-o-Y compared to 2.6% in the fourth quarter, mainly due to the slowdown of food prices (Figure 1.2.a).

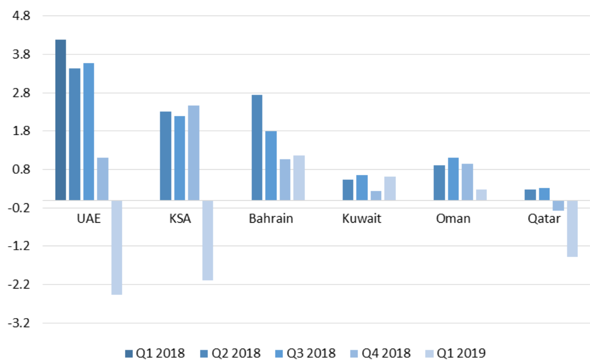
In the GCC, Saudi Arabia's consumer prices declined by 2.1% Y-o-Y in 2019 Q1 from 2.5% price increase in Q4. Deflation was attributed, in part, to the fading effect of VAT implementation in 2018. In Bahrain, consumer prices marginally increased by 1.2% Y-o-Y in 2019 Q1 slightly down from 1.1% in Q4 of 2018. Moreover, inflation in Oman declined in Q1 to reach 0.3% Y-o-Y from 1.0% in Q4. In Kuwait, inflation increased to 0.6% in 2019 Q1, up from 0.2% in 2018 Q4 as prices advanced faster for food and beverages (Figure 1.2.b).

Figure 1.2.a Y-o-Y Consumer Price Inflation for Selected Developed and Emerging Economies (%)



Source: Bloomberg

Figure 1.2.b Y-o-Y Consumer Price Inflation for GCC Countries (%)



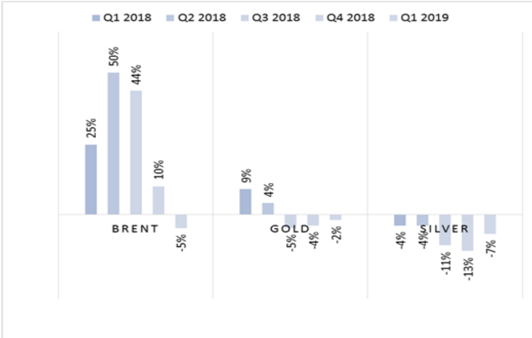
Source: Bloomberg

1.3 Commodities and Precious Metals:

The first quarter of the year 2019 witnessed a continuation of mixed movements in commodity prices. Oil prices decreased in the first quarter of 2019 to an average of USD 63.2 per barrel compared to USD 68 per barrel in the last quarter of 2018. To compensate for supply shortages attributed to the US sanctions against Iran and rising tension in Venezuela, OPEC led efforts to stabilize the oil market. Table 1.3.1 (Box 1) illustrates oil consumption in the first quarter of 2019, compared to consumption across the quarters of 2018.

Meanwhile, gold prices were under pressure during the first quarter of 2019, falling on a yearly basis by 2% (Figure 1.3). Prices of silver exhibited around 7% decrease in the first quarter, on a yearly basis.

Figure 1.3 Selected Commodity Price Levels (Y-o-Y, % change)



Source: Bloomberg, EIA.

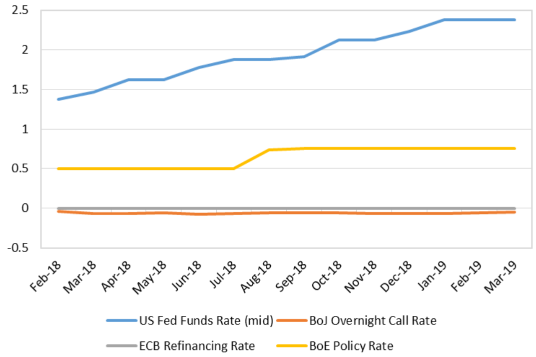
1.4 Policy Interest Rates:

The Federal Reserve Board of the United States (Fed) kept the target range for the federal funds rate at 2.50%, during its March meeting, citing solid economic activities and strong indicators of the labor market (Figure 1.4).

Meanwhile, the European Central Bank held its benchmark for refinancing rate at 0% during its April meeting. The ECB expects key interest rates to remain unchanged at record low levels at least through the end of 2019, amid global economic uncertainties.

The Bank of Japan kept its short-term interest rate unchanged at -0.1% at its first quarter of 2019 meeting and kept its target for the 10-year Japanese government bond yield at around 0%, as expected. The Policy Committee disclosed its intention to keep the current levels of short and long-term interest rates through at least 2020, taking into account uncertainties regarding economic activity.

Figure 1.4 Policy Interest Rates for Selected Advanced Countries



Source: Bloomberg

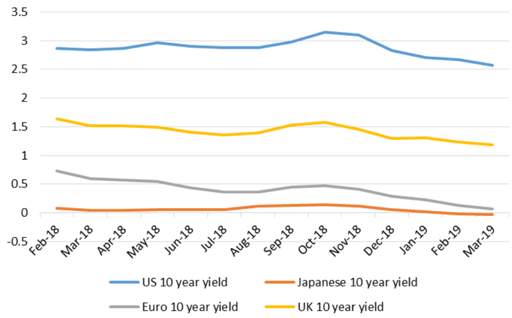
1.5 Government Bond yields:

By end of 2019 Q1, US 10-year yield fell to its lowest level since late 2017 to around 2.57% in a sign of growing caution among investors over economic growth.

The UK 10-year bond yield fell moderately to around 1.184% by the end of 2019 Q1 as concerns increased about the risk of a no-deal Brexit.

Meanwhile, the Japanese 10-year government bond yield remained in negative territory as it fell below zero to -0.028%, by end of 2019 Q1. The Bank of Japan pledged to purchase an unlimited number of 10-year bonds to keep its benchmark yield between zero and 0.1%.

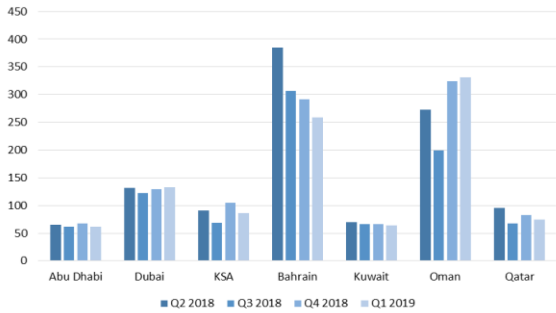
Figure 1.5.a The 10-Year Government Bond Yields for Selected Countries (%)



Source: Bloomberg

As for Credit Default Swaps (CDS), see Figure 1.5.b, Abu Dhabi had the lowest CDS spreads among GCC countries during 2019 Q1, followed by Kuwait and Qatar. However, Oman had the highest CDS by end of the first quarter reaching around 330 and Bahrain's CDS ended around 259 by March 2019.

Figure 1.5.b GCC 5-year USD bond CDS (bps)



Source: Bloomberg

Note: Data reported are as of end of period

Box 1: Energy Commodities' Market Overview

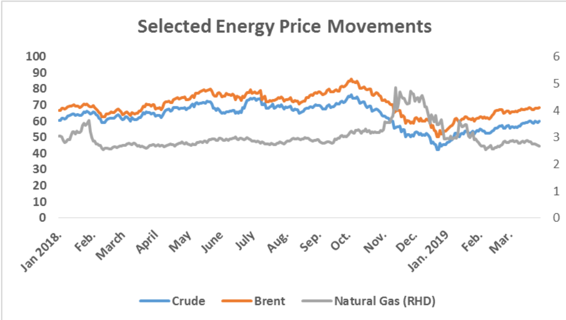
Overview

In general, energy commodity prices showed similar long-term movements registering some positive momentum during the first quarter of 2019 (Figure 1). The recovery was clear, compared to the end of the previous quarter's plunge of oil prices against the backdrop of global growth concerns, rising oil production by OPEC, and US waivers on Iranian oil exports. Since the previous quarter lows, the prices of oil have recouped most of its losses on subsequent announcement of production cuts of 1.2 million barrels a day by OPEC and Russia effective January 2019.

The OPEC Reference Basket[1]

The OPEC Reference Basket (ORB), used and produced by the OPEC *Monthly Oil Market Report*, uses a weighted average of prices for petroleum blends produced by OPEC members. The basket is used as an important benchmark for crude oil prices, to track crude oil price movement on a monthly basis. During the first quarter of 2019, the ORB showed an upward-trajectory[2] amid continuing strengthening oil market fundamentals and improving market sentiment. The ORB value increased by an average of 5.3% during the first quarter of 2019, while on a monthly basis, ORB recorded the highest increase in February with a 9% M-o-M increase to an average of USD 63.83 per barrel. As for the three months of the quarter, the price of ORB averaged USD 62.98 per barrel. Prices have been supported by firm crude demand and lower levels of supply due to persistent geopolitical tensions, as well as continued commitment by OPEC and participating non-OPEC producing countries to achieve market balance.

Figure 1. Selected Energy Price Movements (USD)



Source: Bloomberg

World Oil Demand

In the latest release of the Monthly Oil Market Report (*MOMR*) April 2019, which reflects March's figures, the report revised world oil demand growth for 2018 down by 30 tb/d. Growth is now estimated at 1.23 mb/d compared to 1.24 mb/d previously. According to the report, the downward revision is driven by the slower-than-expected economic activity compared with the expectations of the previous month. As a result, the total world oil demand for the year is expected to reach 99.91 mb/d, exceeding the 100.00 mb/d psychological level during the second half of 2019.

World Oil Supply

The MOMR reports both non-OPEC and OPEC oil supply growth revision for the year 2019. According to the report, non-OPEC oil supply growth was revised downward by 0.06 mb/d to average 2.18 mb/d. The downward revision of growth was mainly due to the extended maintenance in Kazakhstan, Brazil and Canada, which was partially offset by upward revisions to oil production in the US and Russia. According to the report, the total non-OPEC supply in 2019 is now forecasted to average 64.544 mb/d, including production by the US, Brazil,

[1] The Basket comprises: Arab Light, Basrah Light, Bonny Light, Djeno, Es Sider, Girassol, Iran Heavy, Kuwait Export, Merey, Murban, Oriente, Rabi Light, Sahara Blend, Zafiro.

[2] The upward trajectory is clear when compared to the previous quarter (M-o-M). However, the oil prices remain below the prices recorded in 2018 Q1, i.e. (Y-o-Y).

the UK, Australia and Ghana as the major contributors to growth of oil production. On the other hand, Mexico, Kazakhstan, Norway, Indonesia and Vietnam are projected to have the largest declines in production in 2019. Meanwhile, OPEC[3] NGLs and non-conventional liquids are forecasted to grow by 0.09 mb/d in 2019 to average 5.07 mb/d. OPEC crude production decreased by almost 534 tb/d to average 30.03 mb/d at the end of the first quarter of 2019.

Table. 1.3.1 Annual Oil Consumption in Major Economies, in million barrels per day

Country	2018				2019
	Q1	Q2	Q3	Q4	Q1
China	13.8	14	13.73	13.95	14.28
U.S	20.24	20.33	20.63	20.6	20.27
Europe	14.08	14.21	14.67	14.13	14.07
World	99.22	99.65	100.58	100.46	100.45

Source: U.S. Energy Information Administration (EIA) Short-Term Energy Outlook, May 2019

[3] Algeria, Angola, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Republic of the Congo, Saudi Arabia, United Arab Emirates, and Venezuela.

Chapter 2: Domestic Economic Developments

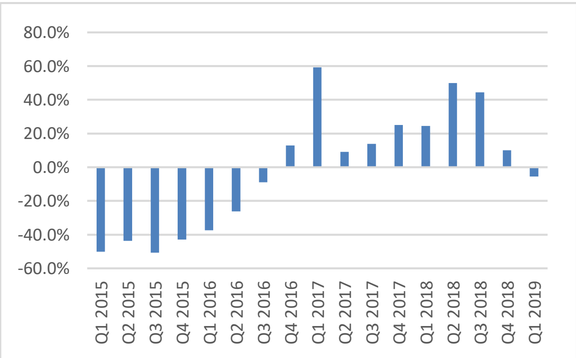
According to the quarterly Augmented Economic Composite Index of non-oil activity for the UAE, the pace of economic growth picked up in the first quarter of 2019. Meanwhile, CPI inflation rates further declined compared to the previous quarter, reflecting the decline in the tradeable and non-tradable prices and fading effects of VAT implementation in the beginning of 2018.

Economic Activity and Growth

Slowdown in global economic growth stemming from escalating trade tensions, fading growth momentum in the EU and persistent stress in some emerging economies likely dented global oil demand. This, combined with the surge in U.S. crude oil production, weighed on oil prices in the first quarter of 2019.

In fact, oil prices in international markets exhibited a Y-o-Y decline of 5.4%; reaching USD 63.2 per barrel in the first quarter of this year, compared to an increase of 10% in the previous quarter (see Figure 2.1.a).

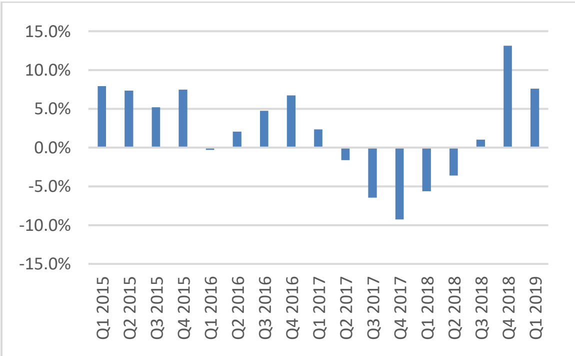
Figure 2.1.a Brent Crude Oil Price (%, Y-o-Y)



Source: EIA

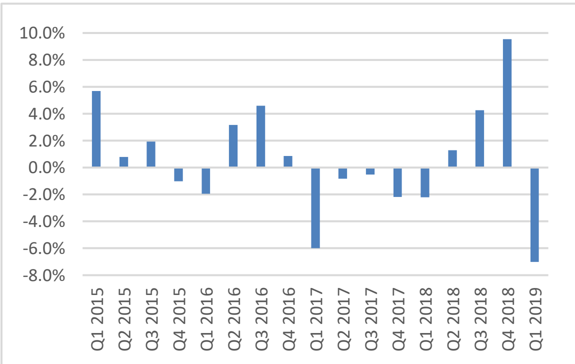
On the production side, the UAE's oil production rose in Q1 of 2019 Y-o-Y by 7.6% compared to an increase of 13.1% in the previous quarter, reaching an average of 3.06 million barrels per day (see Figure 2.1.b). On a quarterly basis, oil production decreased in Q1 of 2019 by 7.0% compared to 9.5% increase in Q4 of 2018 (see Figure 2.1.c). This reduction resulted from the execution of the December's OPEC+ agreement that aims at reducing production by 1.2 million barrels per day, from which 800 thousand barrels per day should be from OPEC itself.

Figure 2.1.b UAE's Oil Production Growth (%, Y-o-Y)



Source: OPEC

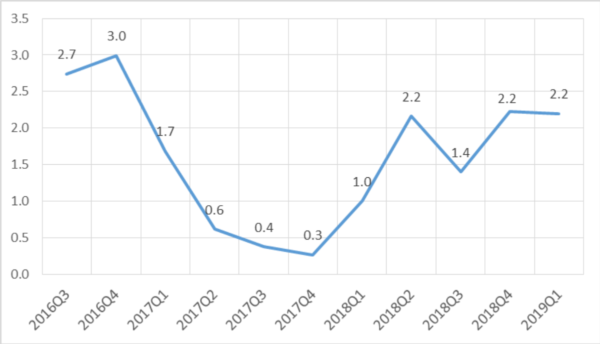
Figure 2.1.c UAE's Oil Production Growth (%, Q-o-Q)



Source: OPEC

Real growth in the UAE—proxied by the CBUAE quarterly Augmented Economic Composite Index (AECI)—gained 2.2% in 2019 Q1 Y-o-Y, same as in the previous quarter (see Figure 2.1.d).

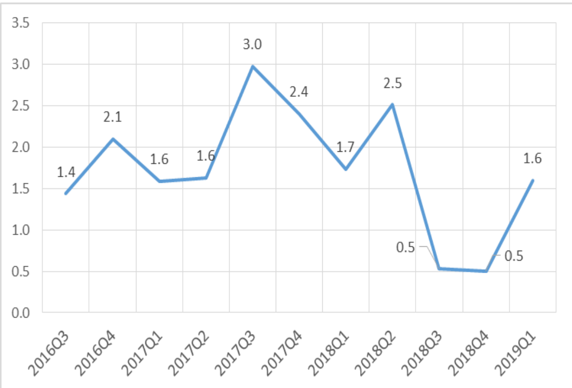
Figure 2.1.d Overall Augmented Economic Composite Index (%, Y-o-Y)



Source: CBUAE

Moreover, the non-oil real GDP remained robust and registered Y-o-Y growth of 1.6% compared to an increase by 0.5% in the previous quarter (see Figure 2.1.e). During 2019 Q1, economic sentiment indicators registered a rise as follows: (i) a stronger Purchasing Managers' Index (PMI), which reached 55.7 in March 2019; and (ii) a significant increase in the Dubai Economic Tracker (DET) from 55.8 in February to 57.6 in March 2019. Moreover, employment in the private sector increased Y-o-Y by 0.1% in Q1 of 2019, compared to a decline of 0.9% in Q4 of 2018.

Figure 2.1.e Non-Oil Augmented Economic Composite Indicator (%, Y-o-Y)



Source: CBUAE

Total real GDP is projected to achieve a growth rate of 2% in 2019 driven by a growth of 2.7% and 1.8% in the oil and non-oil sectors, respectively. Besides, growth projections for 2019 show that economic activity will improve due to expected rising public spending at the Federal and Emirate levels, higher investment ahead of the highly anticipated Expo 2020 and continued regional economic recovery.

Table 2.1.a Quarterly and Annual Real Growth Rates in the UAE (Y-o-Y, %)

	2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019
Total GDP	1.7%	2.2%	2.2%	2.0%	1.6%	2.0%
Non-oil	1.3%	1.6%	1.7%	1.8%	2.0%	1.8%
Oil	2.8%	4.2%	3.8%	2.6%	0.4%	2.7%

Source: FCSA, CBUAE estimates and projections

Box 2 illustrates recent developments of the PMI and its components, while Box 3 describes the recent developments in the real estate market in the UAE.

Box 2: The UAE Purchasing Managers' Index and Its Components

The UAE Purchasing Managers' Index (PMI)[4] is produced on a monthly basis since August 2009 and is published by IHS Markit. In the UAE, the lack of quarterly GDP at a Federal level and other high frequency business and economic indicators to measure the health of the economy has led to the frequent use of the PMI. The PMI is based on opinion survey of managers and is generally considered an informative proxy of economic growth and business sentiment. In particular, the index is derived based on a weighted average of indices for current and future production levels, prices and stocks and associated costs in addition to levels of the current and future trends in employment and volumes of exports.

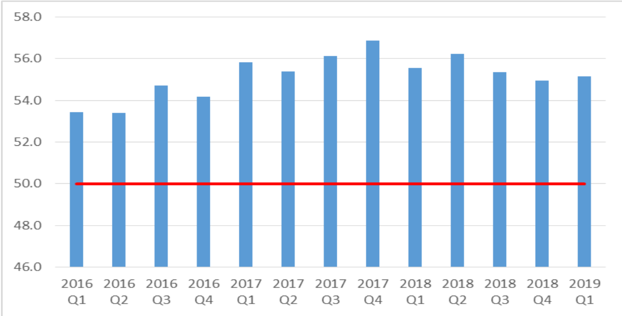
The PMI and its components are compared to a threshold of 50. A PMI value above 50 indicates economic expansion, while being below the 50 mark, the index implies an economic slowdown. By construction, the PMI as a whole is contained between the values of 0 and 100.

The Overall PMI

The overall PMI has remained above the 50 mark since its introduction in September 2009. However, being above the 50 mark is not a sufficient condition to state that the economy is in good health. A comparison on Q-o-Q and Y-o-Y basis is added to assess whether there is further expansion compared to the previous quarters.

As of 2019 Q1, PMI has marginally declined by 0.8%, or 0.5 points compared to its value in 2018 Q1 to 55.1; however, compared to 2018 Q4, it has increased by 0.4% or 0.2 points, showing the improvements in the economy. The index remains below the maximum over the past three years of 56.9 in 2017 Q4 and close to its average of 55.2 for the same time span (see Figure 1).

Figure 1: The UAE PMI

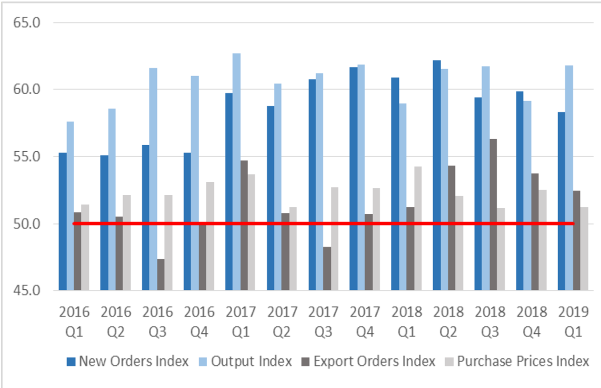


Source: IHS Markit and Emirates NBD

The Production/Output Components of PMI

Looking at the output components of the PMI the export order index reached 52.4 in 2019 Q1, up by 2.4%, compared to a year earlier—down by 2.4% compared to 2018 Q4. New orders index reached 58.3, well above the 50 mark—but down by 4.3% from a year before and declining by 2.6% Q-o-Q. Meanwhile, the output index reached 61.8, growing Y-o-Y and Q-o-Q by 4.7% and 4.4%, respectively. Further, the purchasing price index reached 51.2, declining by 5.6% and 2.4% Y-o-Y and Q-o-Q, respectively, in line with the CPI fall in 2019 Q1 (see Figure 2). The export order and output indices exceeded their average values over the last three years, but remain below their maximum values over the same period. The two other production/output components of the PMI had values below the sample mean.

Figure 2: The Output Components of the UAE PMI



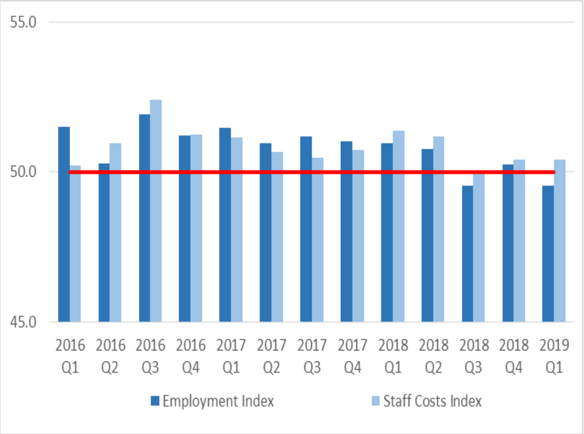
Source: IHS Markit and Emirates NBD

[4] Also known as the Emirates NBD UAE PMI.

The Employment Components of PMI

Looking at the employment components of the PMI, the employment index reached 49.5 in 2019 Q1—marking a contraction—with its value declining Y-o-Y and Q-o-Q by 2.8% and 1.5%, respectively. Similarly, the staff cost index—50.4 in 2019 Q1—declined Y-o-Y by 1.9%; however, Q-o-Q it remained unchanged (see Figure 3). The employment index is at its minimum level over the past three years, while the staff cost index remained below its mean over the same period.

Figure 3: The Employment Components of the UAE PMI



Source: IHS Markit and Emirates NBD

Box 3: Recent Developments in the Residential Real Estate Market

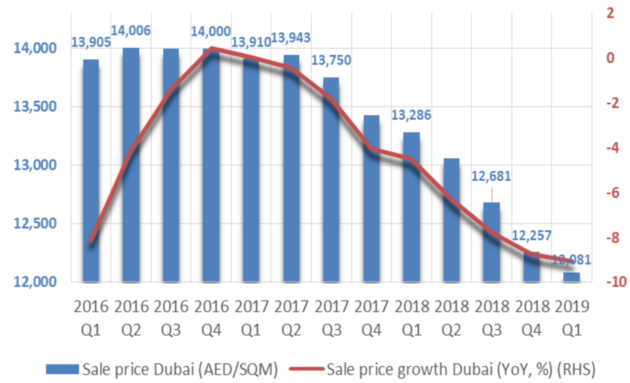
According to recent data from REIDIN,[5] the UAE residential house prices continued to decline Y-o-Y in the first quarter of 2019 in both Dubai and Abu Dhabi. The drop in house prices in annual terms accelerated from the previous quarter in Dubai and Abu Dhabi. Rents continued to decrease, however, at a slower pace in both Emirates, compared to the previous quarter.

On average over the course of the quarter, Dubai residential property prices declined by 9.1% from a year ago. In quarterly terms, prices fell by 1.4%, moderating to AED 12,081/m². The drop was lower in Abu Dhabi on Y-o-Y basis, where property prices declined by 7% from a year ago; however, on Q-o-Q basis, the drop was 1.9%. Real estate prices in Abu Dhabi fell to AED 10,898/m².The rental yield, which measures the rate of income return over the cost associated with an investment property, improved in Dubai compared to the previous quarter at 6.83%, while in Abu Dhabi it remained almost unchanged at 6.78%.

Dubai residential Market

In the first quarter of 2019, real estate property price, which measures the average sample price in AED per square meter of residential properties, decreased by 9.1% Y-o-Y compared to 8.7% decline in the previous quarter (Figure 1).

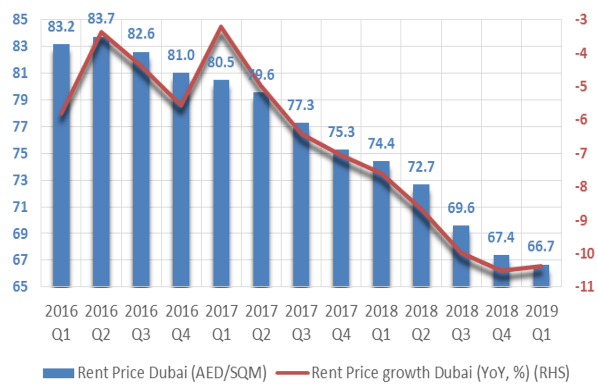
Figure 1: Dubai Residential Sale Prices



Source: REIDIN

The Dubai market continues to exhibit decline in rent per square meter (Figure 2), due to persisting oversupply. The average rent prices per square meter declined by an annual rate of 10.4% in the first quarter of 2019, following an annual decrease of 10.5% in the previous quarter.

Figure 2: Dubai Residential Rent Prices



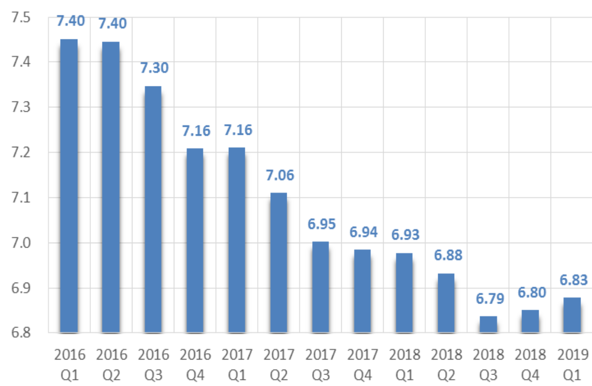
Source: REIDIN

As regard to investment in Dubai's real estate market for the last three quarters, the yield improved to 6.8% from 6.79% and 6.8%,

5 REIDIN Residential Sales Price Index series are calculated on a monthly basis and cover 21 areas and 6 districts in Dubai. For Abu Dhabi, the indices cover 7 areas and 5 districts.

respectively, in the last two quarters of 2018 (Figure 3). This trend was the result of relatively higher decline in sale prices compared to rents.

Figure 3: Dubai Rental Yield (%)

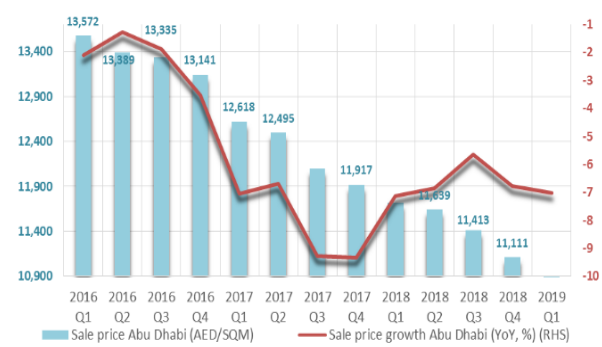


Source: REIDIN

Abu Dhabi residential Market

For Abu Dhabi, the index exhibited a continued fall in residential property prices, at a rate of 7% Y-o-Y in the first quarter of 2019 following a decrease of 6.8% in the previous quarter (Figure 4).

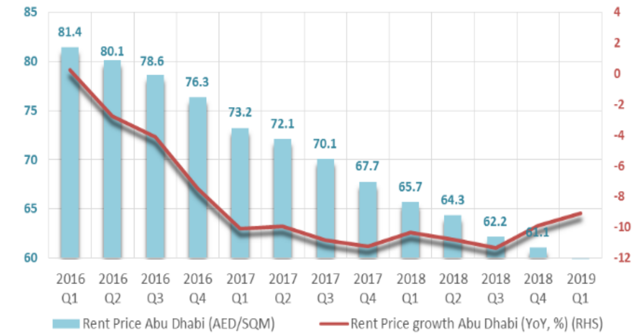
Figure 4: Abu Dhabi Residential Prices



Source: REIDIN

Regarding the rental market, the rent values per square meter in Abu Dhabi continued to decline by an annual rate of 9.1% on average in the first quarter of 2019, after a reduction of 9.9% in the previous quarter. This trend is reflecting the impact of the job market, which continues to weigh in on demand in the housing market (Figure 5).

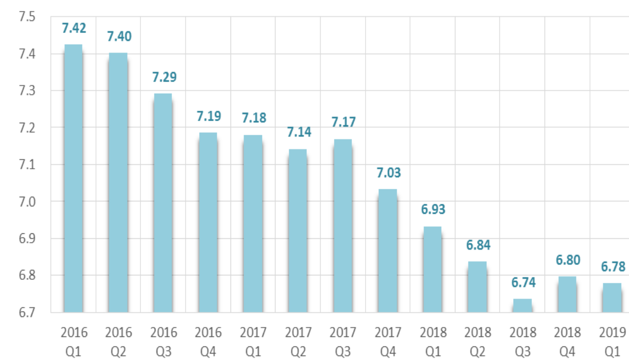
Figure 5: Abu Dhabi Residential Rent Prices



Source: REIDIN

Concerning the rental yield, Abu Dhabi registered a yield of 6.78% for 2019 Q1, almost unchanged from the previous quarter when it was at 6.8% (Figure 6).

Figure 6: Abu Dhabi Rental Yield (%)



Source: REIDIN

2.2 Consumer Price Index and Inflation

The continuous fall in housing and fuel prices, along with the fading impacts of the introduction of the value-added tax (VAT) in the beginning of 2018, significantly impacted the CPI inflation in the first quarter of 2019 as it declined Y-o-Y by 2.5% compared to a 1.1% increase in Q4 of 2018 (see table 2.2). This is the first time quarterly annual inflation became negative since the final quarter of 2009, i.e., more than 9 years ago.

Table 2.2. UAE CPI inflation (%, Y-o-Y)

	Weight	Y-o-Y			
	(%)	Q2-18	Q3-18	Q4-18	Q1-19
Total inflation	100	3.4%	3.6%	1.1%	-2.5%
Tradables	34	7.1%	8.2%	4.8%	-0.6%
Food and soft drinks	14.3	3.4%	2.9%	1.7%	-1.2%
Beverages and tobacco	0.3	84.1%	86.5%	8.5%	2.6%
Textiles, clothing and footwear	3.2	14.0%	20.0%	18.0%	8.4%
Furniture and household goods	5.6	4.6%	5.3%	4.3%	2.7%
Transportation	7.3	11.3%	15.7%	6.6%	-6.2%
Miscellaneous goods and services	3.2	4.8%	2.7%	1.5%	-0.1%
Non-Tradables	64	1.7%	1.3%	-0.7%	-3.4%
Housing	34.1	-2.5%	-4.0%	-5.2%	-6.1%
Medical care	1.4	0.1%	-0.1%	-0.1%	-0.2%
Transportation	7.3	11.3%	15.7%	6.6%	-6.2%
Communications	5.4	3.8%	3.7%	3.6%	0.2%
Recreation and culture	3.2	9.4%	10.5%	7.5%	3.9%
Education	7.7	4.6%	4.8%	2.5%	1.4%
Restaurants and hotels	4	6.7%	7.4%	6.7%	1.9%
Miscellaneous goods and services	3.2	4.8%	2.7%	1.5%	-0.1%

Source: Federal Competitiveness and Statistics Authority (FCSA)

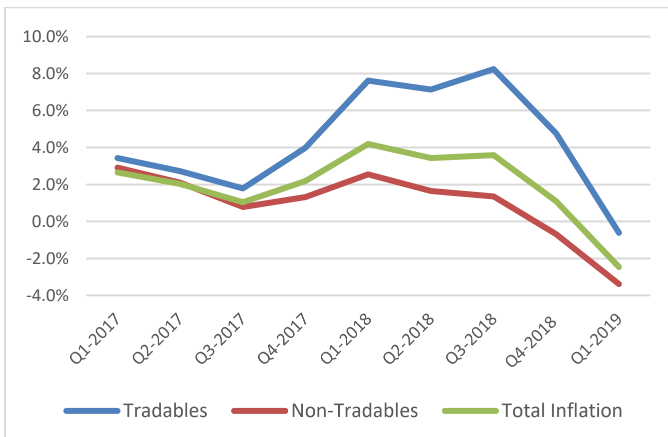
Prices of tradables, which account for around 34% of the consumption basket, declined Y-o-Y by 0.6% in Q1 of 2019 compared to an increase of 4.8% in the previous quarter.

The decline in prices of tradables was mainly driven by the drop in Transportation prices by 6.2% in Q1 of 2019, on a Y-o-Y basis, compared to 6.6% increase in the previous quarter. The fall in Transportation prices is consistent with the continuous decline in oil prices internationally.

Moreover, Food and soft drinks prices declined Y-o-Y by 1.2% in the first quarter of 2019 compared to a rise of 1.7% in the previous quarter, reflecting the fading VAT effect and the developments of the international food prices.

The inflation of Beverages and tobacco, Textiles, clothing and footwear along with the Furniture and household goods eased Y-o-Y in 2019 Q1 to 2.6%, 8.4% and 2.7% respectively, compared to 8.5%, 18%, and 4.3% increase in 2018 Q4, respectively.

Figure 2.2.a. Tradables and Non-Tradables Inflation (%, Y-o-Y)



Source: Federal Competitiveness and Statistics Authority (FCSA)

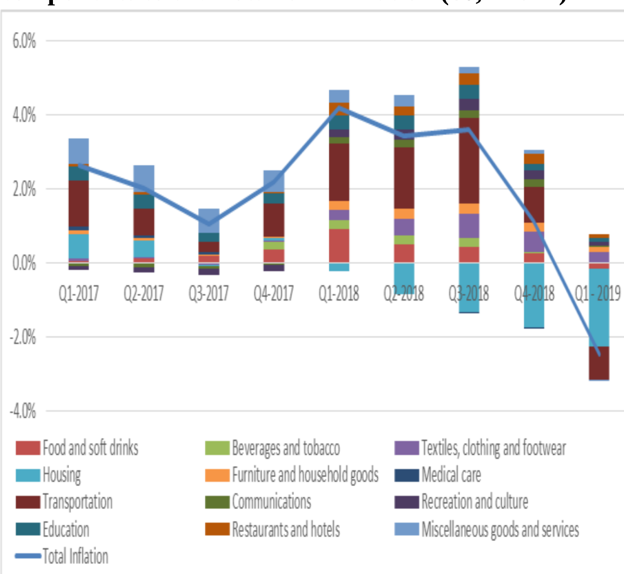
Likewise, prices of non-tradables, which account for 66% of the consumption basket, fell Y-o-Y by 3.4% in 2019 Q1 compared to 0.7% decline in the previous quarter.

This drop in the non-tradables' prices was concentrated in the Housing component of the inflation basket. Housing declined Y-o-Y by 6.1% in the first quarter of 2019 following a decline of 5.2% in Q4 of 2018.

The rent of residential and retail units has declined by 9.1% and 10.4% Y-o-Y in Abu Dhabi and Dubai, respectively, in the first quarter of 2019 compared to a similar decline of 9.9% and 10.5%, respectively, in 2018 Q4. Additionally, price inflation of Communications, Recreation and culture, Education together with Restaurants and hotels eased Y-o-Y in 2019 Q1 to 0.2%, 3.9%, 1.4% and 1.9% respectively, compared to 3.6%, 7.5%, 2.5% and 6.7% increase in the previous quarter, respectively.

Inflation, excluding housing and transportation, fell in the first quarter of 2019 Y-o-Y by 0.6% from an increase of 4.0% in the previous quarter.

Figure 2.2.b. Contribution of Different Sub-components to the Total CPI Inflation (%, Y-o-Y)



Source: Federal Competitiveness and Statistics Authority (FCSA)

The uncertainties surrounding global supply and demand in the oil market, as well as the decline in rent prices will continue to impact the inflation rate throughout 2019. Therefore, the CBUAE projects that overall inflation in 2019 will reach negative 1.2% as a result of the decline in the tradable and non-tradable prices by 0.8% and 1.5% due to the continued decline in housing and oil prices. On average, oil prices are expected to reach USD 63 per barrel in 2019, compared to USD 71.1 per barrel in 2018. Moreover, rent prices are expected to recover later this year in light of the improved employment outlook.

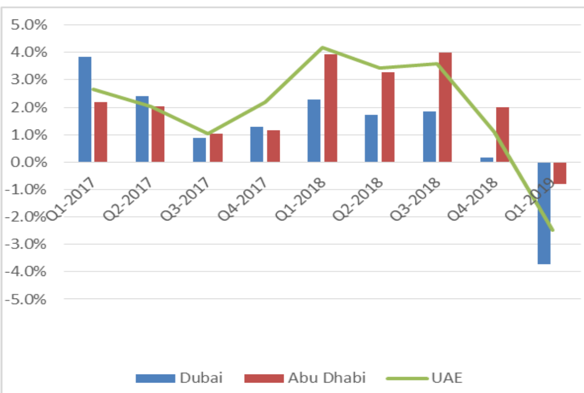
Box 4 below discusses and compares the inflationary developments by Emirate.

Box 4: Inflation in the UAE: Comparison By Emirate

During the first quarter of 2019, the consumer price index in the UAE declined by 2.5%, on a Y-o-Y basis, compared to a positive rate of inflation of 1.1% in the previous quarter. The continued decline in the rent prices as well as the softening in domestic fuel prices combined with the fading impact of the VAT contributed to the decline of prices compared to the previous year.

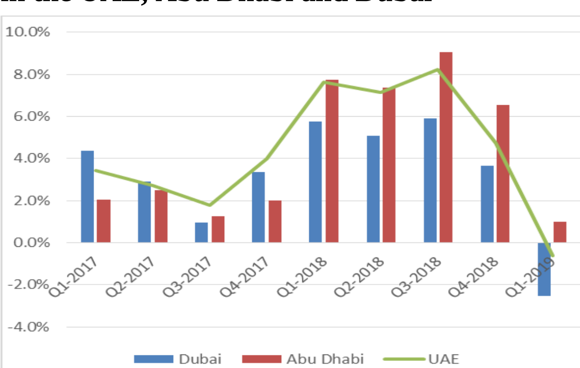
At the Emirate level, inflation registered Y-o-Y -0.8% and -3.7% in Abu Dhabi and Dubai, respectively, compared to 2.0% and 0.2% in the previous quarter (see Figure 1).

Figure 1. Quarterly Y-o-Y Headline Inflation in the UAE and the Emirates of Abu Dhabi and Dubai



Source: FCSA. SCAD, DSC and CBUAE

Figure 2. Quarterly Y-o-Y Tradable Inflation in the UAE, Abu Dhabi and Dubai



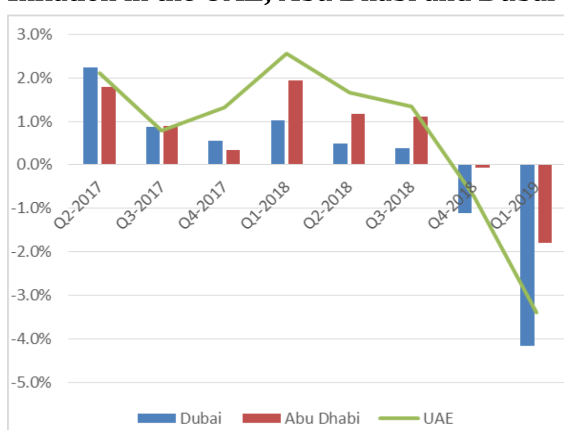
Source: FCSA. SCAD, DSC and CBUAE

The negative CPI inflation in 2019 Q1 resulted from the decline in the tradable (see figure 2 and 3) and non-tradable prices Y-o-Y by 2.5% and 4.2%, respectively, in Dubai. On the other hand, non-tradable prices declined by 1.8% in the Emirate of Abu Dhabi, while inflation eased for the tradable goods and services to 1% compared to 6.6% in the previous quarter.

The decline in the non-tradable prices (see figure 3) came as a result of the continued decline in the cost of housing, electricity, gas and water group in both Emirates Y-o-Y by 3.5% and 6.0% in Abu Dhabi and Dubai, respectively, compared to a decline of 3.7% and 4.7% in the previous quarter. Consequently, non-tradable prices declined in the UAE during the fourth quarter Y-o-Y by 6.1% compared to a decline of 5.2% in the previous quarter (see figure 3).

In addition, the prices of food and soft drinks declined Y-o-Y by 1.2% compared to an increase of 1.7% in the previous quarter as they declined by 1.1% and 0.8% in the Emirates of Abu Dhabi and Dubai, respectively. Similarly, transportation prices fell Y-o-Y by 6.2% compared to a rise of 6.6% in the previous quarter. The price reduction in the Emirate of Abu Dhabi was steeper at 9.1%, while the decline in Dubai came at 6.3% in the first quarter of 2019.

Figure 3. Quarterly Y-o-Y Non-Tradeable Inflation in the UAE, Abu Dhabi and Dubai



Source: FCSA. SCAD, DSC and CBUAE

Prices eased in the recreation & culture, education, and restaurants and hotels groups Y-o-Y in the first quarter of 2019 to 3.9%, 1.4%, and 1.9%, respectively. Price inflation of the same groups of services softened in both Emirates—to 7.1%, 1.3%, and 2.2% in Abu Dhabi, as well as in Dubai at -1.6%, 0.0%, and 2.4%, respectively.

Furthermore, prices of clothing and footwear recorded a slowdown of 8.4% Y-o-Y in 2019 Q1 compared to an increase of 18.0% in the previous quarter. Consistently, prices of these items eased in Abu Dhabi to 14.6%, while declining in Dubai by 10.2%, respectively.

Differences in inflation rates across Emirates (see table 1) are attributed to the weights of the different components in the consumption basket (Table 1). For instance, the Transportation category, which accounts for a large weight in the tradeable inflation, has a lower weight in Dubai than in Abu Dhabi as well as in the UAE aggregate consumption basket. Similarly, in Dubai, the Housing category has a larger weight compared to Abu Dhabi and the UAE.

Table 1. Weights Assigned for the Different Categories per Statistic Authority

CPI Main Groups	UAE	Abu Dhabi	Dubai
Food and Beverages	14.3%	12.3%	13.1%
Tobacco	0.3%	0.2%	0.4%
Textiles, Clothing and Footwear	3.2%	5.4%	2.0%
Housing, Water, Electricity, Gas	34.1%	31.2%	43.6%
Furniture and Household Goods	5.6%	7.2%	3.8%
Medical Care	1.4%	1.6%	0.8%
Transportation	14.6%	14.7%	10.6%
Communications	5.4%	5.0%	5.2%
Recreation and Culture	3.2%	4.8%	2.3%
Education	7.7%	6.9%	8.5%
Restaurants and Hotels	4.0%	3.8%	4.0%
Miscellaneous Goods and Services	6.3%	7.0%	5.6%

Source: FCSA. SCAD and DSC

2.3 Employment and Labor Market Dynamics

This section covers only employment in the private sector based on data provided by the Ministry of Human Resources and Emiratization.[6] The employees in the private sector represent 78.5% of total employment in the UAE as of the end of 2017. The developments in the private sector labor market in 2019 Q1 reveal an increase Y-o-Y by 0.1% compared with a decrease of 0.9% in the previous quarter. The increase was consistent with the estimated improvement in non-oil GDP growth of 1.6% compared to an estimated growth of 0.5% in the previous quarter. On a Q-o-Q basis, employment in the private sector improved by 1.2% in 2019 Q1 compared to a decline of 0.6% in the previous quarter.

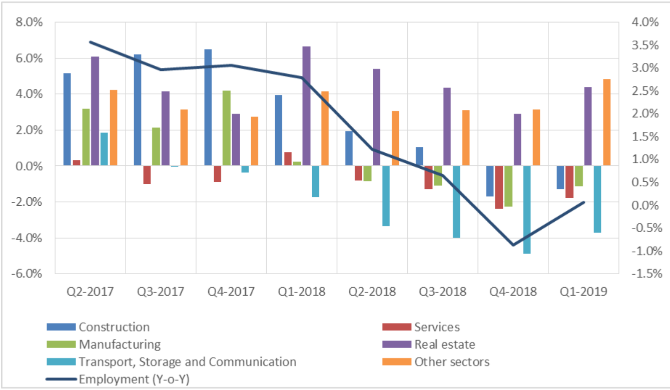
Figure 2.3.a. Employment Growth and Economic Activity in the UAE (%, Y-o-Y)

Source: Ministry of Human Resources and Emiratisation and CBUAE

Real Estate sector and Other Sectors, which account for 12.4% and 16.1% of total employment respectively, had the largest contribution to the expansion. The Real Estate sector added 4.4% jobs from a year ago in the first quarter of 2019, up from 2.9% annual increase in the previous quarter. Similarly, the Other Sectors gained 4.8% jobs Y-o-Y in 2019Q1 compared to 3.1% Y-o-Y increase in 2018Q4.

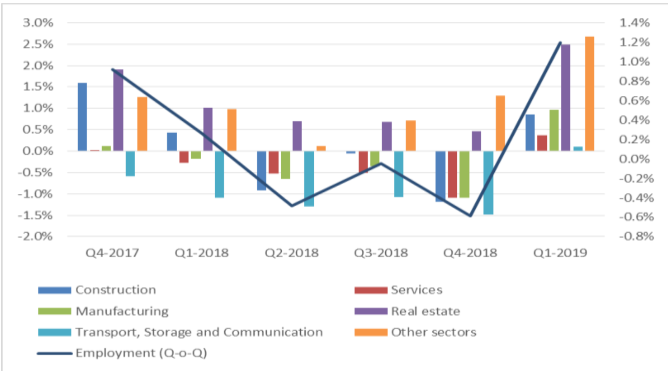
Moreover, the Construction sector (employing 33.6% of total private sector employment) continued to decline in 2019 Q1 at a milder rate of 1.3% compared to a drop of 1.7% 2018 Q4. The Services sector, with a total share of 21.7% of total private sector employment also registered a slower decline of 1.8% in the first quarter of 2019, compared to a drop of 2.4% in 2018 Q4. Furthermore, employment in Manufacturing and Transport, Storage and Communications sectors declined Y-o-Y in 2019 Q1 by 1.1% and 3.7%, lower than the decline of 2.3% and 4.9% in the previous quarter, respectively. These two sectors employ around 16.2% of the total employment in the private sector.

Figure 2.3.b. Employment Growth by Sector (%, Y-o-Y, end of period)



Source: Ministry of Human Resources and Emiratisation

Figure 2.3.c. Employment Growth by Sector (%, Q-o-Q, end of period)



Source: Ministry of Human Resources and Emiratisation

On a quarterly basis, employment in the private sector exhibited a solid rebound as it increased by 1.2% in 2019 Q1 compared to a decline of

[6] The database on private sector employment also excludes the Free Zone activities.

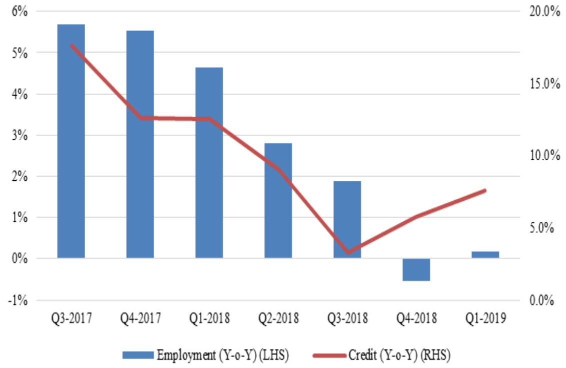
0.6% in the previous quarter. Interestingly, the improvement was marked in all sectors, with the Other Sectors and Real Estate sector growing at the highest rate of 2.7% and 2.5%, respectively, compared to a growth of 1.3% and 0.5%, respectively, in the previous quarter.

Transport, Storage and Communications registered the mildest rise Q-o-Q of 0.1% compared to a drop of 1.5% in the previous quarter. The Construction and Services sectors rose Q-o-Q by 0.9% and 0.4% compared to a decline by 1.2% and 1.1% in the previous quarter, respectively.

The rise in employment in all economic sectors was in tandem with extended credit to the private sector, which continued to increase in the first quarter of 2019. In particular, overall credit rose Q-o-Q by 1.3% in 2019 Q1 compared to an increase of 0.9% in the previous quarter. Further, credit to the Construction and the Real Estate sector grew Q-o-Q by 2.5%; credit to Mining increased by 8.2%; and credit to Electricity, Gas & Water and Transportation grew by 8.4% and 0.2%, respectively.

On a Y-o-Y basis, credit extended to economic sectors increased by 3.8% in 2019 Q1 compared to an increase of 3.9% in the previous quarter.

Figure 2.3.d Employment and Domestic Credit Developments in the Construction and Real-Estate Sector (%, Y-o-Y)



Source: Ministry of Human Resources and Emiratisation and CBUAE

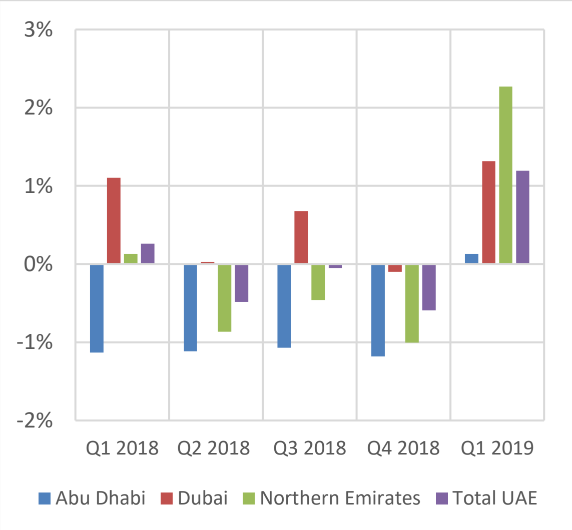
The Construction and Real Estate sectors together absorb 45.9% of the labor force in the UAE. Employment in both sectors increased by 0.2% Y-o-Y in the first quarter of 2019, compared to a decline of 0.5% Y-o-Y in the previous quarter. Credit extended to these sectors rose Y-o-Y by 7.6% at the end of the first quarter of 2019 compared to an increase of 5.8% in the previous quarter (see Figure 2.3.d).

Box 5 illustrates the developments in the labor market.

Box 5: Developments in the Labor Markets

The labor market in the UAE encompasses three main regional groups: Abu Dhabi, Dubai and Northern Emirates; and covers the private sector (excluding the Free Zones). Data from the Ministry of Human Resources and Emiratization show that the total employment in the UAE at the end of Q1 of 2019 was 5.06 million, of which 27.1% are based in Abu Dhabi, 51.6% are in Dubai and around 21.4% are based in the Northern Emirates.

Figure 1. Employment Change (%, Q-o-Q)



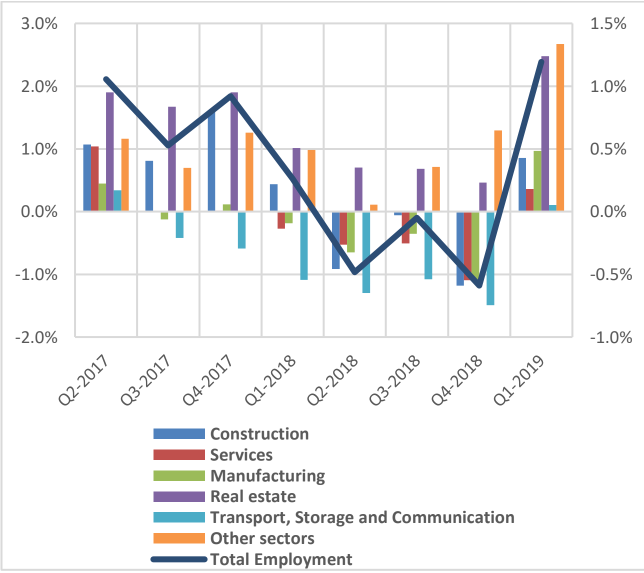
Source: Ministry of Human Resources and Emiratisation.

In Abu Dhabi, employment increased Q-o-Q by 0.1% in 2019 Q1, compared to a decline of 1.2% in the previous quarter. This rise was driven by the Real Estate and Transport, Storage and Communications sectors, which increased by 1.9% and 0.2%, respectively. Moreover, employment in the Manufacturing sector was relatively flat in 2019 Q1, increasing by 0.03%, compared to a 0.6% decline in 2018 Q4. These sectors employ around 29% of total employment in the emirate of Abu Dhabi.

Likewise, employment in Dubai increased Q-o-Q by 1.3% in 2019 Q1 compared to 0.1% decline in the previous quarter. This growth was influenced by the rise in job opportunities in Real Estate, Construction, and Manufacturing sectors, which increased by 2.7%, 1.5% and 1.2%, respectively. In addition, employment in the Services and Transport, Storage and Communications sectors improved and registered an increase of 0.1% compared to 1.2% decline in 2018 Q4. Jobs in the above-mentioned sectors represent around 87% of total employment in Dubai.

In the Northern Emirates, employment increased Q-o-Q by 2.3% in the first quarter of 2019. This increase was mainly driven by the Real Estate, Construction, Services, and Manufacturing sectors, which increased by 3.5%, 2.4%, 2.2% and 1.2% respectively. These sectors employ around 79.7% of total employment in the northern emirates.

2. Employment Change by Sector (%, Q-o-Q)



Source: Ministry of Human Resources and Emiratisation.

Overall, at the aggregate level, employment growth in the UAE increased Q-o-Q by 1.2% in 2019 Q1 compared to a decline of 0.6% in the previous quarter.

On a sectoral level, Construction, Services, Manufacturing, Real Estate and Transport, Storage and Communication sectors increased Q-o-Q in 2019 Q1 by 0.9%, 0.4%, 1.0%, 2.5% and 0.1%, respectively. These sectors account for about 84 % of total employment in the UAE.

2.4 Exchange Rate Fluctuations

In 2019 Q1, the AED has depreciated against the currencies of top 10 non-dollarized import and non-oil export partners by 0.81% and 0.53%, respectively, on a quarterly basis. On a Y-o-Y basis, the AED appreciated against top 10 non-dollarized import and non-oil export partners by 4.41% and 5.86%, respectively.

Table 2.4.a. AED appreciation against currencies of top Non-Dollarized import partners (%, Y-o-Y)

Imports	Share of total imports	Q-o-Q		Y-o-Y	
		Q4 2018	Q1 2019	Q4 2018	Q1 2019
China	**18.72**	1.57	-2.41	4.66	6.13
India	**7.85**	2.73	-2.23	11.34	9.40
Japan	**5.43**	1.12	-2.28	-0.11	1.74
Germany	**4.61**	1.96	0.46	3.27	8.25
South Korea	**3.09**	0.57	-0.21	1.91	4.91
Turkey	**2.95**	-3.23	-2.29	44.51	40.68
Italy	**2.64**	1.96	0.46	3.27	8.25
UK	**2.63**	1.40	-1.31	3.30	6.83
France	**2.44**	1.96	0.46	3.27	8.25
Switzerland	**1.96**	1.22	0.14	0.91	5.18
Weighted Average	**52.32**	0.74	-0.81	3.55	4.41

Source: Data on Import shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2017. Data for the bilateral exchange rates are the quarterly average observations, recorded and reported by Bloomberg.

On the imports side, the AED has depreciated in the first quarter of 2019 against its top 10 non-Dollarized import partners, which account for 52.3% of the total imports, to reach -0.81% Q-o-Q (see Table 2.4.a.), compared to an appreciation of 0.74% in the previous quarter. Further, the AED depreciated mainly against emerging market economies' currencies, which sharply appreciated during the first quarter of 2019.

Bilateral exchange rates show that the AED depreciated mainly against the Chinese Yuan (China has the largest weight in the import basket, around 18.7%) by Q-o-Q 2.41%. Furthermore, the AED depreciated against the Indian Rupee Q-o-Q by 2.23% compared to an appreciation of 2.73% in the previous quarter.

Moreover, the AED depreciated against the Japanese Yen (2.28%), the South Korean Won (0.21%), the Pound Sterling (1.31%) and the Turkish Lira (2.29%). However, the AED appreciated against the Euro Q-o-Q by 0.46%, compared to an appreciation of 1.96% in the previous quarter, and against the Swiss Franc (0.14%).

Table 2.4.b. AED appreciation against currencies of top Non-Dollarized partners for Non-Oil Exports (%, Y-o-Y)

Exports	Share of total exports	Q-o-Q		Y-o-Y	
		Q4 2018	Q1 2019	Q4 2018	Q1 2019
India	**10.65**	2.73	-2.23	11.34	9.40
Turkey	**9.14**	-3.23	-2.29	44.51	40.68
Iraq	**4.68**	-0.03	0.16	0.93	0.71
China	**3.52**	1.57	-2.41	4.66	6.13
Singapore	**3.10**	0.55	-1.49	1.59	2.73
South Korea	**3.03**	0.57	-0.21	1.91	4.91
Switzerland	**2.53**	1.22	0.14	0.91	5.18
Pakistan	**2.04**	8.37	3.52	26.10	24.97
Netherlands	**1.74**	1.96	0.46	3.27	8.25
Japan	**1.67**	1.12	-2.28	-0.11	1.74
Weighted Average	**45.77**	0.30	-0.53	6.09	5.86

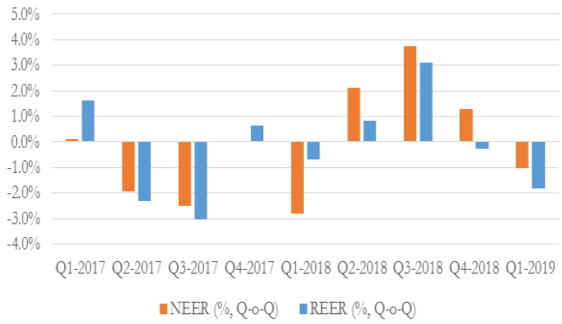
Source: Data on Import shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2017. Data for the bilateral exchange rates are the quarterly average observations, recorded and reported by Bloomberg.

Using non-oil export weights, the AED exhibited Q-o-Q depreciation of 0.53% against the currencies of the top 10 Non-Dollarized exports' partners (see Table 2.4.b.) compared to Q-o-Q appreciation of 0.3% during the previous quarter. The depreciation was mainly due to the AED losses against the Indian Rupee, Chinese Yuan, Turkish Lira, Singaporean Dollar, the South Korean Won and the Japanese Yen.[7]

On the other hand, the AED gained against other currencies of the main trading partners. It appreciated against the Iraqi Dinar (0.16%), the Swiss Franc (0.14%), the Pakistani rupee (3.52%) and the Euro (0.46%).

Accounting for all of the UAE's major trading partners, the Nominal Effective Exchange Rate (NEER) has displayed the same pattern as the weighted change of the AED against major import and non-oil export partners. In particular, the average NEER decreased by 1% in the first quarter of 2019, compared to a surge of 1.3% in the previous quarter (see Figure 2.4.a.).

Figure 2.4.a Nominal and Real Effective Exchange rates developments (%, Q-o-Q)



Source: Bank for International Settlement (BIS)

In real terms, the Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, depreciated by 1.8% in the first quarter of 2019 compared to a drop of 0.3% in the previous quarter, as a result of the deflationary cycle in the UAE.

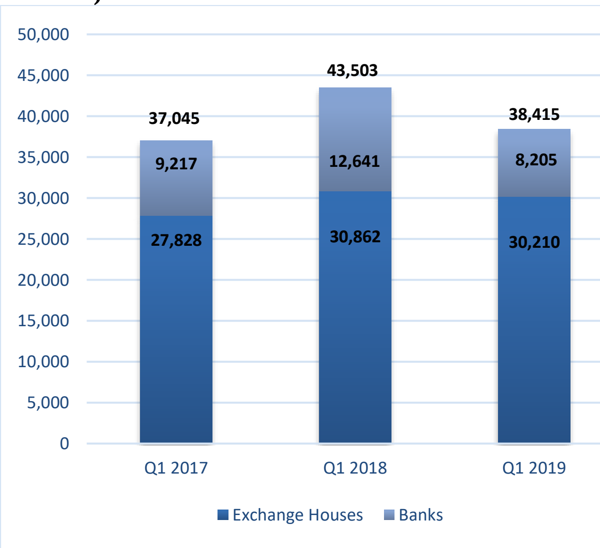
Box 6 presents the developments in the outward remittances and the effects of developments in the exchange rate on bilateral flows, while Box 7 assesses the potential impact of exchange rate fluctuations on the indicators of the tourism industry.

[7] India and China account for 14.72% of the total non-oil exports of the UAE.

Box 6: Outward Personal Remittances from the UAE

The outward personal remittances[8] in the period of January-March 2019 registered a decrease of 11.7% or AED 5.1 billion compared to the same period of 2018 (Figure 1). During the first quarter of 2019, the outward personal remittances that were settled through the banks declined by 35.1% or AED 4.4 billion. Meanwhile, the outward personal remittances that were settled through the exchange houses registered a decrease by 2.1% or AED 0.7 billion compared to the same period of 2018.

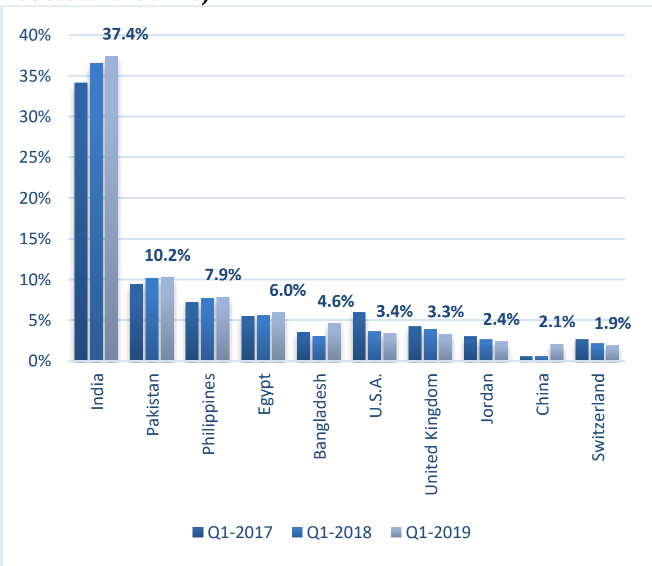
Figure 1. Evolution of outward personal remittances settled through Banks and Exchange houses, January-March 2017-2019 (AED Millions)



Source: CBUAE

The most important destination for outward personal remittances during January-March 2019 was India (Figure 2). This high share is in accordance with the significant share of expats from India working in the UAE. According to the latest (January 2019) UAE population statistics published by the Global Media Insight, 59.5% of the expat population in the UAE originate from South Asian countries, and expats from India account for 27.5% of the total expat population in the UAE. The next five most important countries in the share of outflows of personal remittances were Pakistan (10.2%), Philippines (7.9%), Egypt (6%), Bangladesh (4.6%), and the United States of America (3.4%).

Figure 2. Share of the major countries for outward personal remittances during January-March 2017-2019 (percentage of total, exchange houses and banks)

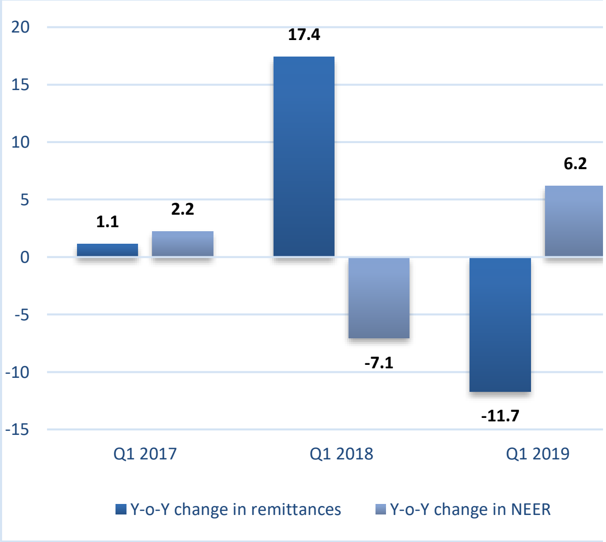


Source: CBUAE

It is expected that remittances increase with exchange rate appreciation, other things are equal. Figure 3 illustrates a decline in remittances despite the continued AED appreciation since 2018 Q3.

[8] The data capture the outward personal remittances reported from the exchange houses and the banks to the CBUAE, which capture expats remittances as well as personal transfers by UAE nationals.

Figure 3. Annual percentage change of total outward personal remittances versus the percentage change of nominal effective exchange rate, January-March 2017-2019



Source: CBUAE, Bank of International Settlements

Box 7: Tourism Activity in the UAE

The analysis focuses on developments in tourism activity in the Emirates of Dubai and Abu Dhabi, the two major tourist destinations in the UAE during January-March 2019. For the Dubai Emirate, the Dubai Corporation of Tourism and Commerce Marketing (DTCM) publishes data on international guests covering international tourists' arrivals to Dubai regardless of whether they stay at hotels in Dubai or not. On the other hand, Abu Dhabi Tourism and Culture Authority publishes data on international guests covering only tourists that stay at Abu Dhabi hotels (hotel guests).

Total number of international tourist arrivals to the Emirate of Dubai during the period of January-March 2019 registered increase of 2.2% (increased by around 100 thousand) compared to the same period in 2018 (Figure 1). Based on the data published by DTCM, it is estimated that approximately 52% (2.47 million) of tourists that arrived in Dubai during the period of January-March 2019 stayed at hotels in Dubai. The calculated figures for international hotel guests in the Emirate of Dubai registered increase of 7.3% (increased by around 168 thousand) compared to the same period in 2018.

The international hotel guests in the Emirate of Abu Dhabi registered modest increase of 0.5% (around 7 thousand) compared to the same period in 2018.

Figure 1: International Tourist Arrivals to Dubai and International Hotel Guests in Dubai and Abu Dhabi January-March 2018-2019 (in Millions)

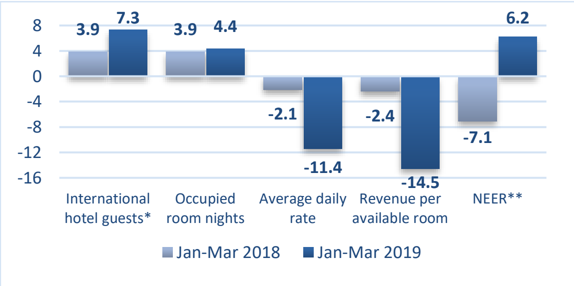
Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority
* Staff calculation, based on data published by Dubai DTCM (occupied room nights divided by guest's length of stay).

The data for the Dubai Emirate indicate that the number of international hotel guests increased at a faster pace during January-March 2019 compared to the same period of 2018. However, the revenue per available room substantially decreased despite continued discounts offered by hotels in Dubai. This strategy increased the occupied room nights at slightly faster pace during Q1-2019 (4.4%) compared to Q1-2018 (3.9%), which compensated for the continuing decline in revenue per available room (Figure 2.a.). Discounts aim to counter the effect of AED appreciation, which continues to weigh in negatively on tourism data in the major UAE markets.

Meanwhile, international hotel guests in Abu Dhabi increased at a slower pace during January-March 2019 compared to the same period in 2018. Nevertheless, the slower increase in occupied room nights was accompanied with higher average daily rate during January-March 2019 compared to the same period in 2018. Hence, revenues per available room and total revenue of hotels in Abu Dhabi improved significantly (Figure 2.b.). Some international events that took place in Abu Dhabi during the first quarter of 2019, such as AFC Asian Cup 2019, IDEX/NADEX 2019, and Special Olympic Games attest to a vibrant strategy to attract international guests.

Figure 2: Annual Percentage change in Major Indicators of Dubai & Abu Dhabi Inbound Tourism January-March 2018-2019 (%)

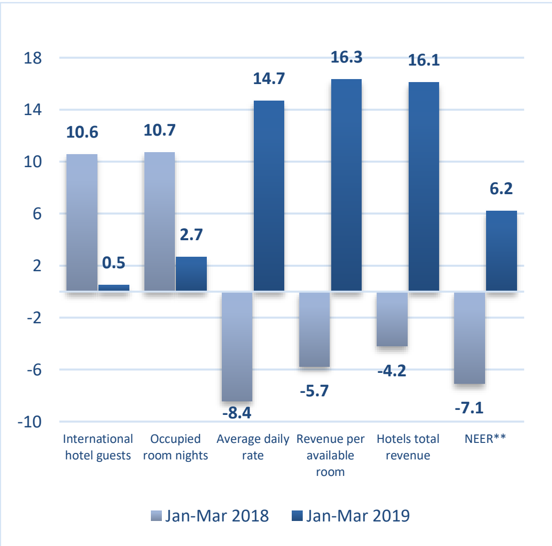
a. Dubai



Source: Dubai Corporation of Tourism and Commerce Marketing

* Staff calculation, based on data published by Dubai DTCM (occupied room nights divided by guest's length of stay).

b. Abu Dhabi



Source: Abu Dhabi Tourism & Culture Authority

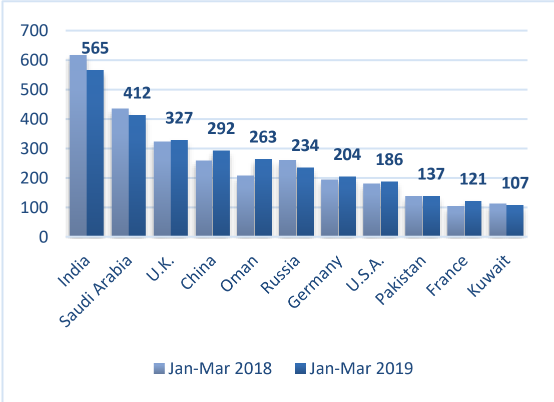
** NEER Is the Nominal Effective Exchange Rate (Source: Bank of International Settlement)

Some countries that are the major markets for inbound tourism to Dubai recorded increase in the arrival of international tourists during January-March 2019 compared to the same period in 2018, with the highest increase recorded for Oman (27.1%), followed by France (17.5%), China (13.2%), Germany (5.2%), and USA (3.3%). While inbound tourism from Russia, India, Saudi Arabia, Kuwait, and Pakistan recorded decrease during the same period.

The vast majority of tourists to Dubai originate from GCC countries and the MENA region (27% combined, 17% and 10%, respectively), while Western Europe and North America cover 23% and 7% of inbound tourism. Finally, 16% of inbound tourism comes from the region of South Asia.

Figure 3. Major Markets of Inbound Tourist Arrivals January-March 2018-2019 (in Thousands)

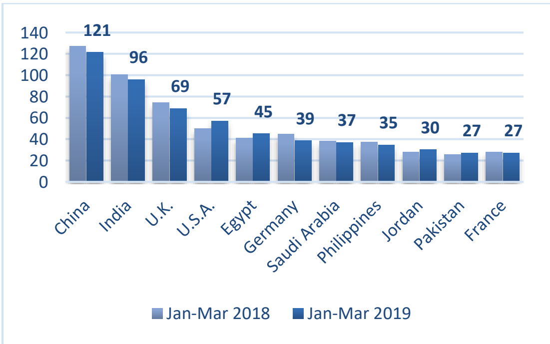
a. Dubai



Source: Dubai Corporation of Tourism and Commerce Marketing

For the Abu Dhabi Emirate, inbound tourism from USA recorded the highest increase (13.8%), followed by Egypt (9.7%), Jordan (8.2%), and Pakistan (6.5%) during January-March 2019 compared to the same period in 2018. While inbound tourism from Germany, U.K, Philippines, China, Saudi Arabia, India, and France recorded decrease during the same period (Figure 3.b.).

b. Abu Dhabi



Source: Abu Dhabi Tourism & Culture Authority

Chapter 3. Banking and Financial Developments

In the first quarter of 2019, deposits declined mildly; deposits of the private sector continued to grow along with a sustained rise in credit, particularly to the private sector, underpinned by healthy Financial Soundness Indicators (FSIs) showing overall sound and stable banking system.

3.1 Banking Structure

Licensed banks in the UAE reached 60 banks, of which 22 are national banks and 38 are foreign banks, of which 11 are wholesale licensed banks. The number of branches of national banks declined to 733 at the end of March 2019 compared to 743 at the end of 2018 Q4. The number of retail foreign banks remained the same at 27 compared to the previous quarter. However, their branches declined by one to reach 79 at the end of 2019 Q1. Moreover, the number of employees for national and foreign banks has declined from 36,629 at the end of 2018 to 36,448 employee at the end of 2019 Q1.

3.1.1. Banks' Deposits

Total customer deposits declined in the first quarter of 2019 by AED 7.5 billion as resident and non-resident deposits declined by AED 2.3 billion and AED 5.2 billion, respectively (Figure 3.1.1.a.). The decrease in resident deposits was essentially due to the decline in government and GREs' deposits by AED 17.3 billion and by AED 12.4 billion, while the private sector deposits increased by AED 21.7 billion (2.2%). Resident deposits constitute the bulk of the total customer deposits at around 88.1% of total deposits.

Deposits by the type of banks—i.e., Conventional vs. Islamic banks—represent 77.0% and 23.0% of total deposits, respectively. Deposits at conventional banks exhibited a decline by 0.6%, equivalent to AED 7.9 billion, while deposits at Islamic banks remained relatively stable at AED 402 billion. Figures 3.1.1.b and Figure 3.1.1.c, as well as Table 3.1.1.b show that in the first quarter of 2019, on a Y-o-Y basis, the increase of Islamic banks' deposits reached 1.4%, while for the Conventional banks it was at 6.3%. Looking at the subcategories, the growth of deposits in Conventional banks in the first quarter was stronger for the Government and the private sectors, while non-resident deposits in Islamic banks was a main contributor to the growth in deposits at these banks.

Table 3.1.1.a. Deposits at UAE Banks

Item	Jun-18	Sep-18	Dec-18	Mar-19*
Bank Deposits	1,684	1,728	1,756	1,748
(Q-o-Q change %)	1.3%	2.6%	1.6%	-0.4%
(Y-o-Y change %)	6.0%	8.3%	7.9%	5.2%
Resident Deposits	1,494	1,523	1,542	1,540
(Q-o-Q change %)	1.4%	1.9%	1.3%	-0.1%
(Y-o-Y change %)	6.0%	8.2%	7.4%	4.5%
Government Sector	251	286	290	273
(Q-o-Q change %)	7.5%	14.1%	1.5%	-6.0%
(Y-o-Y change %)	27.3%	42.1%	36.9%	17.1%
GREs	192	193	207	195
(Q-o-Q change %)	-4.7%	0.5%	7.5%	-6.0%
(Y-o-Y change %)	1.2%	5.3%	8.1%	-3.3%
Private Sector	1,020	1,010	1,009	1,031
(Q-o-Q change %)	1.3%	-1.0%	-0.1%	2.2%
(Y-o-Y change %)	3.7%	1.8%	0.8%	2.3%
NBFI	31	34	36	41
(Q-o-Q change %)	2.3%	8.6%	4.1%	16.1%
(Y-o-Y change %)	-20.1%	8.6%	14.1%	34.2%
Non-Resident Deposits	190	205	213	208
(Q-o-Q change %)	0.3%	8.0%	3.9%	-2.4%
(Y-o-Y change %)	5.7%	9.1%	11.3%	9.9%

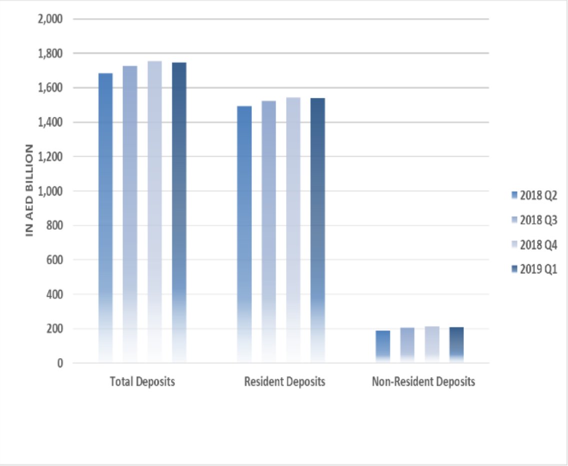
Note: All data indicate the end-of-period values. Values are expressed in billions of AED.
***** Preliminary figures subject to revision.

Table 3.1.1.b. Deposits at Conventional/Islamic Banks

	Conventional		Islamic	
Item	**Dec-18**	**Mar-19***	**Dec-18**	**Mar-19***
Bank Deposits	1,354	1,346	402	402
(Q-o-Q change %)	2.0%	-0.6%	0.2%	0.1%
(Y-o-Y change %)	8.9%	6.3%	4.6%	1.4%
Resident Deposits	1,163	1,160	379	380
(Q-o-Q change %)	1.9%	-0.2%	-0.5%	0.2%
(Y-o-Y change %)	9.3%	6.1%	2.2%	0.1%
Government Sector	227	209	64	64
(Q-o-Q change %)	3.0%	-7.7%	-3.2%	0.2%
(Y-o-Y change %)	42.5%	18.3%	20.2%	13.1%
GREs	154	144	54	51
(Q-o-Q change %)	9.6%	-6.1%	1.7%	-5.6%
(Y-o-Y change %)	15.2%	-0.5%	-8.7%	-10.4%
Private Sector	759	778	250	254
(Q-o-Q change %)	0.0%	2.5%	-0.4%	1.2%
(Y-o-Y change %)	1.3%	3.7%	-0.4%	-1.7%
NBFI	24	30	11	12
(Q-o-Q change %)	3.9%	21.9%	4.6%	3.5%
(Y-o-Y change %)	3.9%	32.9%	44.9%	37.6%
Non-Resident Deposits	191	186	23	22
(Q-o-Q change %)	2.8%	-2.6%	14.1%	-1.3%
(Y-o-Y change %)	6.7%	7.9%	76.6%	29.7%

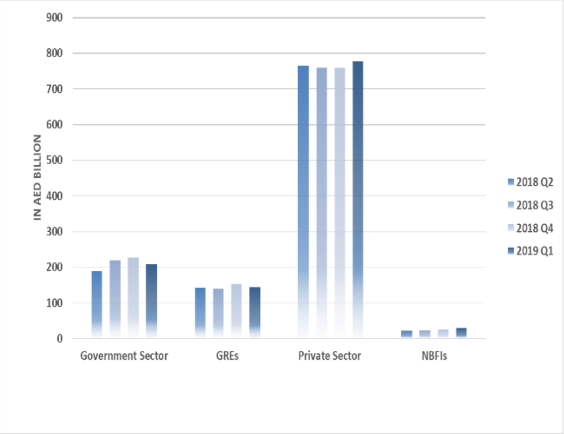
Note: All data indicate the end-of-period values. Values are expressed in billions of AED.
***** Preliminary figures subject to revision.

Figure 3.1.1.a. Banking System Deposits, (AED billion)



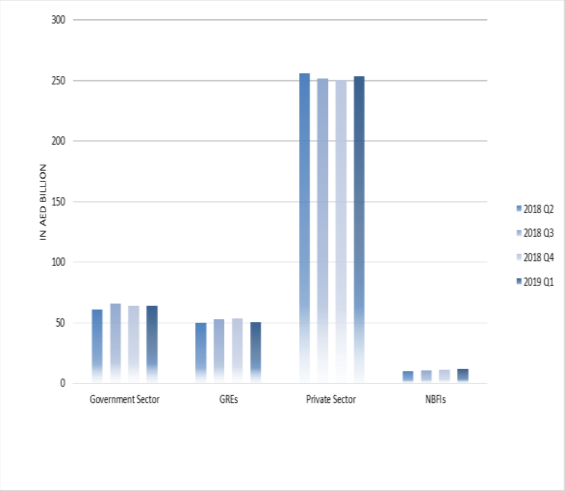
Source: CBUAE

Figure 3.1.1.b. Banking System Deposits: Conventional Banks (AED billion)



Source: CBUAE

Figure 3.1.1.c. Banking System Deposits: Islamic Banks (AED billion)



Source: CBUAE

The breakdown of National and Foreign banks in Figures 3.1.1.d and 3.1.1.e shows that foreign banks exhibited growth in customer's deposits by 1.8%, while deposits at national banks declined by 0.7% Q-o-Q in 2019 Q1. The decline in deposits at national banks was essentially attributed to the decline in the government and GREs' deposits by AED 16.3 billion and AED 12.0 billion, respectively. On the other hand, the rise in foreign banks' deposits by 1.8%, or AED 3.6 billion was mainly due to the increase in private sector deposits by AED 4.2 billion. On a Y-o-Y basis, national banks' deposits grew by 6.2%, while foreign banks' deposits declined by 2.0%. Deposits at national banks constitute around 88.5% of total deposits in the banking system, while 11.5% of total deposits are in foreign banks.

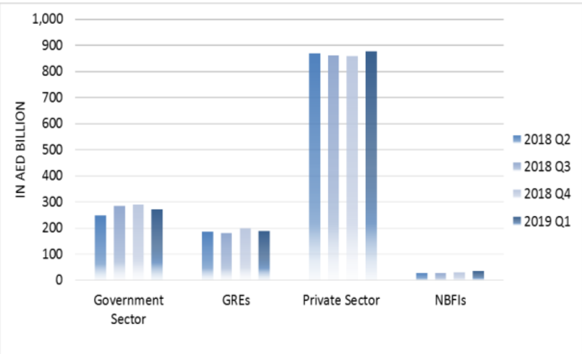
Table 3.1.1.c. Deposits at National/Foreign Banks

	National		Foreign	
Item	**Dec-18**	**Mar-19***	**Dec-18**	**Mar-19***
Bank Deposits	1,559	1,548	197	201
(Q-o-Q change %)	2.1%	-0.7%	-2.3%	1.8%
(Y-o-Y change %)	9.8%	6.2%	-5.0%	-2.0%
Resident Deposits	1,378	1,373	164	167
(Q-o-Q change %)	1.7%	-0.4%	-2.0%	2.0%
(Y-o-Y change %)	9.3%	5.4%	-5.9%	-2.0%
Government Sector	289	273	2	1
(Q-o-Q change %)	1.5%	-5.6%	15.4%	-66.7%
(Y-o-Y change %)	37.5%	18.3%	-21.1%	-82.1%
GREs	199	187	8	7
(Q-o-Q change %)	10.6%	-6.0%	-37.6%	-5.1%
(Y-o-Y change %)	9.1%	-3.2%	-15.2%	-6.3%
Private Sector	860	877	150	154
(Q-o-Q change %)	-0.3%	2.0%	1.1%	2.8%
(Y-o-Y change %)	2.0%	2.8%	-5.4%	-0.5%
NBFI	30	36	5	6
(Q-o-Q change %)	6.3%	17.1%	-7.3%	9.8%
(Y-o-Y change %)	16.9%	41.8%	0.0%	0.0%
Non-Resident Deposits	180	175	33	33
(Q-o-Q change %)	5.5%	-3.0%	-4.1%	0.9%
(Y-o-Y change %)	13.8%	12.4%	-0.3%	-1.8%

Note: All data indicate the end-of-period values. Values are expressed in billions of AED.

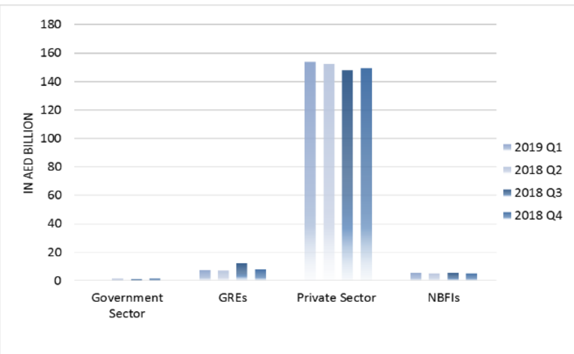
* Preliminary figures subject to revision.

Figure 3.1.1.d. Banking System Deposits: National Banks (AED billion)



Source: CBUAE

Figure 3.1.1.e. Banking System Deposits: Foreign Banks (AED billion)



Source: CBUAE

3.1.2. Banks' Credit

Gross Credit increased in 2019 Q1 by AED 26.4 billion (1.1%), which corresponds to a growth of a 4.2% Y-o-Y. For the underlying domestic credit, the lending growth to the Government increased by 2.9% (8.8% Y-o-Y), while lending to the private sector grew by 0.9% (3.6% Y-o-Y) including an increase in lending to Private Corporates by 1.8% (5.6% Y-o-Y). Lending to the GREs' sector increased by 2.3% (0.9% Y-o-Y), while lending decreased to individuals by 1.2% (-0.9% Y-o-Y). In addition, loans to Non-Banking Financial Institutions (NBFIs) decreased by 0.5% (-4.3% Y-o-Y).

Table 3.1.2.a. Assets and Credit at UAE Banks

Item	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19***
Total Assets	2,749	2,838	2,869	2,895
(Q-o-Q change %)	1.1%	3.2%	1.1%	0.9%
(Y-o-Y change %)	4.4%	7.4%	6.5%	6.5%
Gross Credit	1,622	1,638	1,656	1,675
(Q-o-Q change %)	0.9%	1.0%	1.1%	1.1%
(Y-o-Y change %)	3.4%	3.7%	4.8%	4.2%
Domestic Credit	1,487	1,496	1,509	1,529
(Q-o-Q change %)	0.9%	0.7%	0.9%	1.3%
(Y-o-Y change %)	3.6%	3.4%	3.9%	3.8%
Government	181	186	192	197
(Q-o-Q change %)	-0.2%	2.7%	3.2%	2.9%
(Y-o-Y change %)	1.6%	2.3%	9.2%	8.8%
Public Sector (GREs)	168	169	168	172
(Q-o-Q change %)	-1.1%	0.2%	-0.5%	2.3%
(Y-o-Y change %)	-5.9%	-3.8%	-2.6%	0.9%
Private Sector	1,117	1,121	1,130	1,141
(Q-o-Q change %)	1.5%	0.3%	0.8%	0.9%
(Y-o-Y change %)	5.6%	4.8%	4.0%	3.6%
Business & Industrial Sector Credit	780	782	793	807
(Q-o-Q change %)	2.1%	0.3%	1.3%	1.8%
(Y-o-Y change %)	7.1%	6.5%	5.8%	5.6%
Individual	337	338	337	334
(Q-o-Q change %)	0.2%	0.3%	-0.3%	-1.2%
(Y-o-Y change %)	2.3%	1.0%	0.0%	-0.9%
Non-Banking Financial Institutions	20	21	20	20
(Q-o-Q change %)	-3.8%	6.5%	-6.1%	-0.5%
(Y-o-Y change %)	2.6%	3.9%	7.5%	-4.3%
Foreign Credit	136	142	147	146
(Q-o-Q change %)	0.3%	4.6%	3.5%	-0.7%
(Y-o-Y change %)	1.0%	6.7%	15.0%	7.8%

Note: All data indicate the end-of-period values. Values are in billions of AED.
* Preliminary figures subject to revision

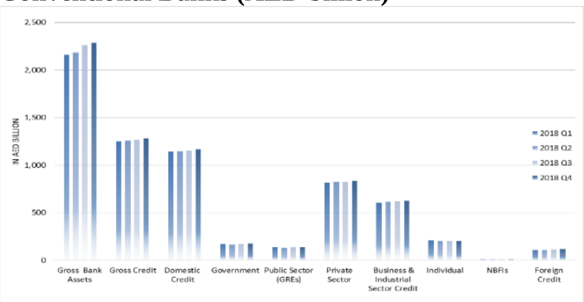
Table 3.1.2.b. illustrates sectors of lending by economic activity. The sectoral distribution shows an increase in 2019 Q1 on a Q-o-Q basis for Mining and Quarrying (8.2%); Manufacturing (0.3%); Electricity, Gas and Water (8.4%); Construction and Real Estate (2.5%); Trade (0.4%); Transport, Storage and Communication (0.2%); and Other Sectors (6.5%). On the other hand, lending declined for Agriculture (-7.5%) and NBFIs (-3.9%).

Table 3.1.2.b. Banks' Credit to Residents by Economic Activity

Item	Jun-18	Sep-18	Dec-18	Mar-19*
Agriculture	1.9	1.9	2.0	1.8
(Q-o-Q change %)	-6.2%	1.8%	1.8%	-7.5%
(Y-o-Y change %)	68.5%	59.3%	-6.7%	-10.0%
Mining and Quarrying	12.9	13.4	14.7	15.9
(Q-o-Q change %)	7.1%	3.7%	10.1%	8.2%
(Y-o-Y change %)	-7.2%	9.9%	21.8%	32.2%
Manufacturing	73.7	76.1	77.0	77.2
(Q-o-Q change %)	-2.5%	3.3%	1.1%	0.3%
(Y-o-Y change %)	4.7%	5.7%	2.3%	2.3%
Electricity, Gas and Water	17.7	17.0	17.0	18.4
(Q-o-Q change %)	-6.4%	-4.2%	0.3%	8.4%
(Y-o-Y change %)	1.7%	0.0%	1.6%	-2.5%
Construction and Real Estate	306.6	305.0	315.5	323.4
(Q-o-Q change %)	2.0%	-0.5%	3.4%	2.5%
(Y-o-Y change %)	9.0%	3.3%	5.8%	7.6%
Trade	159.1	154.9	154.0	154.6
(Q-o-Q change %)	1.2%	-2.7%	-0.5%	0.4%
(Y-o-Y change %)	6.4%	4.8%	0.8%	-1.6%
Transport, Storage and Communication	54.0	49.5	51.5	51.6
(Q-o-Q change %)	2.4%	-8.5%	4.1%	0.2%
(Y-o-Y change %)	-14.4%	-22.4%	-6.3%	-2.2%
Financial Institutions (Excluding Banks)	129.0	134.2	130.1	125.1
(Q-o-Q change %)	-3.5%	4.1%	-3.1%	-3.9%
(Y-o-Y change %)	-7.2%	3.0%	2.0%	-6.4%
All Others	142.0	146.5	148.8	158.5
(Q-o-Q change %)	2.0%	3.2%	1.5%	6.5%
(Y-o-Y change %)	12.5%	10.2%	7.6%	13.8%
Total	1,486.5	1,496.4	1,509.4	1,529.4
(Q-o-Q change %)	0.9%	0.7%	0.9%	1.3%
(Y-o-Y change %)	2.0%	3.4%	3.9%	3.8%

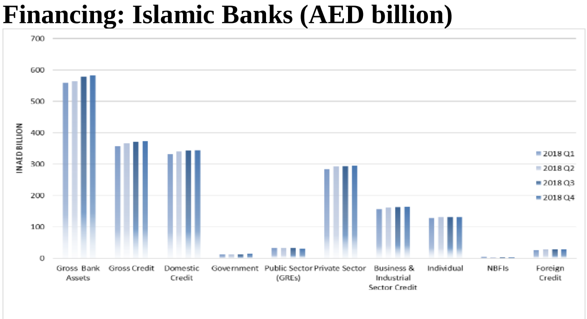
Note: All data indicate the end-of-period values. Values are expressed in billions of AED.
***** Preliminary figures subject to revision

Figure 3.1.2.a. Banking System Assets and Credit: Conventional Banks (AED billion)



Source: CBUAE

Figure 3.1.2.b. Banking System Assets and Financing: Islamic Banks (AED billion)



Source: CBUAE

Islamic banks have a share of 20.0% in the assets and 22.2% in the gross loans of the total banking system. The breakdown of the assets and lending by Conventional and Islamic banks in Figures 3.1.2.a and 3.1.2.b indicates that Islamic banks' financing declined Q-o-Q by 0.3% during the first quarter of 2019 due to the decline in lending to Government, GREs, and Individuals. On the other hand, credit in conventional banks grew Q-o-Q by 1.3% during the first quarter of 2019, reflecting the increase in credit in all categories except for Individuals, NBFIs and Foreign credit. On a Y-o-Y basis, Islamic financing increased by 4.0% as lending to business and industrial sector as well as credit to individuals increased by 7.4% and 0.6%, respectively.

Table 3.1.2.c. Assets and Credit at UAE Conventional/Islamic Banks

	Conventional		Islamic	
Item	**Dec-18**	**Mar-19***	**Dec-18**	**Mar-19***
Total Assets	2,286	2,316	583	579
(Q-o-Q change %)	1.2%	1.3%	0.6%	-0.7%
(Y-o-Y change %)	6.6%	7.3%	5.9%	3.5%
Gross Credit	1,283	1,303	373	372
(Q-o-Q change %)	1.2%	1.6%	0.6%	-0.3%
(Y-o-Y change %)	4.6%	4.2%	5.4%	4.0%
Domestic Credit	1,165	1,185	344	344
(Q-o-Q change %)	1.0%	1.7%	0.5%	-0.1%
(Y-o-Y change %)	3.7%	4.0%	4.5%	3.4%
Government	177	183	14	14
(Q-o-Q change %)	2.4%	3.3%	14.4%	-1.4%
(Y-o-Y change %)	8.4%	8.0%	19.2%	20.5%
Public Sector (GREs)	137	142	31	30
(Q-o-Q change %)	0.4%	3.8%	-4.3%	-4.5%
(Y-o-Y change %)	-3.1%	3.3%	-6.0%	-9.1%
Private Sector	835	844	296	297
(Q-o-Q change %)	0.9%	1.1%	0.5%	0.4%
(Y-o-Y change %)	3.7%	3.4%	5.3%	4.3%
Business & Industrial Sector Credit	628	640	165	167
(Q-o-Q change %)	1.4%	1.9%	0.9%	1.7%
(Y-o-Y change %)	5.4%	5.2%	8.4%	7.4%
Individual	206	204	131	129
(Q-o-Q change %)	-0.5%	-1.1%	0.0%	-1.2%
(Y-o-Y change %)	-1.2%	-1.8%	1.8%	0.6%
Non-Banking Financial Institutions	17	16	3	4
(Q-o-Q change %)	-6.7%	-1.2%	-2.9%	2.9%
(Y-o-Y change %)	12.9%	-3.0%	-12.8%	-10.3%
Foreign Credit	118	118	29	28
(Q-o-Q change %)	3.7%	-0.2%	2.5%	-2.8%
(Y-o-Y change %)	14.5%	6.8%	18.4%	12.0%

Note: All data indicate the end-of-period values. Values are in billions of AED.
* Preliminary figures subject to revision

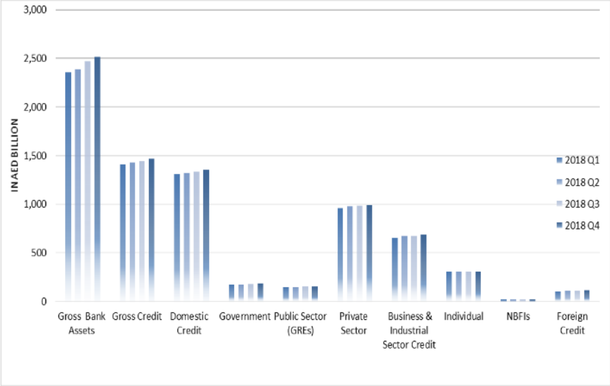
Foreign banks have a share of 12.5% of the system in terms of assets and 11.3% in terms of gross loans in the first quarter of 2019. The breakdown of the assets and credit by national and foreign banks in Figures 3.1.2.c and 3.1.2.d indicates that National banks' assets were growing by 0.8%, while gross credit increased by 1.4% compared to the previous quarter. For the same period, foreign banks' assets witnessed an increase by 1.9% along with a decline in gross credit by 0.7% (see Table 3.1.2.d). On a Y-o-Y basis, total assets at national banks grew by 7.6% as gross credit rose by 5.2%, while total assets at foreign banks declined by 0.5% as gross credit declined by 3.4% at the end of the first quarter of 2019.

Table 3.1.2.d. Assets and Credit at UAE National/ Foreign Banks

	National		Foreign	
Item	**Dec-18**	**Mar-19***	**Dec-18**	**Mar-19***
Total Assets	2,514	2,534	354	361
(Q-o-Q change %)	1.6%	0.8%	-2.8%	1.9%
(Y-o-Y change %)	7.7%	7.6%	-1.9%	-0.5%
Gross Credit	1,466	1,486	191	189
(Q-o-Q change %)	1.4%	1.4%	-1.1%	-0.7%
(Y-o-Y change %)	5.3%	5.2%	0.7%	-3.4%
Domestic Credit	1,351	1,369	159	161
(Q-o-Q change %)	1.3%	1.3%	-2.4%	1.3%
(Y-o-Y change %)	4.7%	4.8%	-3.0%	-3.4%
Government	185	189	7	8
(Q-o-Q change %)	3.4%	2.3%	-2.9%	20.9%
(Y-o-Y change %)	8.6%	8.1%	26.4%	28.6%
Public Sector (GREs)	152	156	16	16
(Q-o-Q change %)	0.3%	2.4%	-7.2%	0.6%
(Y-o-Y change %)	-1.4%	4.3%	- 21.3%	-23.9%
Private Sector	995	1,005	136	136
(Q-o-Q change %)	1.2%	1.0%	-1.8%	0.3%
(Y-o-Y change %)	5.0%	4.4%	-1.7%	-1.9%
Business & Industrial Sector Credit	688	701	105	106
(Q-o-Q change %)	1.7%	1.9%	-1.5%	1.1%
(Y-o-Y change %)	7.1%	6.6%	-0.5%	-0.6%
Individual	307	304	31	30
(Q-o-Q change %)	0.0%	-1.0%	-2.8%	-2.6%
(Y-o-Y change %)	0.5%	-0.3%	-5.5%	-6.6%
Non-Banking Financial Institutions	19	19	1	1
(Q-o-Q change %)	-5.9%	-1.6%	- 12.5%	28.6%
(Y-o-Y change %)	7.2%	-5.0%	16.7%	12.5%
Foreign Credit	115	117	32	29
(Q-o-Q change %)	2.8%	2.1%	6.0%	-10.6%
(Y-o-Y change %)	13.0%	10.9%	24.0%	-3.4%

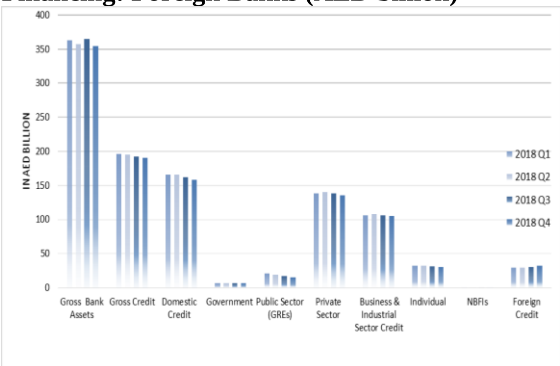
Note: All data indicate the end-of-period values. Values are in billions of AED.
* Preliminary figures subject to revision

Figure 3.1.2.c. Banking System Assets and Financing: National Banks (AED billion)



Source: CBUAE

Figure 3.1.2.d. Banking System Assets and Financing: Foreign Banks (AED billion)



Source: CBUAE

To shed more light on the allocation of the National banks' assets abroad, Box 8 below provides details about the Cross Border Assets' Exposure of UAE National Banks and Foreign Currency Exposure to Non-Residents.

3.1.3. Financial Soundness Indicators

The overall soundness of the banking sector remained positive during the first quarter of 2019 see table (3.1.3). Since 2017 Q4, the CBUAE started reporting the quality of the capital in line with Basel III framework[9]. Banks operating in the UAE remain profitable and sufficiently capitalized, with the Capital Adequacy Ratio (CAR) at 17.9%, Tier 1 Capital ratio at 16.6%, and Common Equity Tier 1 (CET) at 14.6%, which are well above the regulatory requirements set by the CBUAE.

Lending to Stable Resources Ratio (LSRR) was at 82.7%, higher than its registered level at the end of December 2018. The LSRR increased in conventional and national banks at the end of March 2019 to reach 84.0% and 83.0% compared

[9] Please refer to the 2017 CBUAE Annual Report (page 66, Box 1) for details.

to 83.4% and 82.5% at the end of 2018. The LSRR for Islamic Banks remained stable while declining for foreign banks to 73.4% compared to 74.0% at the end of 2018. The LSRR regulatory limit is at 100%, which is above the registered ratio.

The Loans to Deposits (L/D) ratio for the whole banking system rose from 94.3% in December 2018 to 95.8% at the end of 2019 Q1 mainly due to the positive growth in gross credit (Q-o-Q 1.1%) and the decline in total deposits (Q-o-Q 0.4%). Looking at the breakdown between Conventional and Islamic banks, the L/D ratio stands at 96.8% and 92.6%, respectively, decreasing by 0.4 percentage points from the previous quarter for the Islamic banks, while increasing by 2.1 percentage points for the conventional banks.

Loans to Deposits ratio for Conventional banks in March 2019 increased compared to a year ago when it was 98.6%. For Islamic banks, L/D increased from 90.3% in March 2018 to 92.6% at the end of the first quarter of 2019. On the other hand, National banks have L/D ratio of 96.0% (an increase of 2.0 percentage points compared to December 2018), while the ratio for foreign banks declined to 94.3% from 96.7% at the end of 2019 Q1.

Table 3.1.3. Financial Soundness Indicators in the UAE (in %, unless otherwise indicated)

	Jun-18	Sep-18	Dec-18	Mar-19
Total banking system				
Lending to Stable Resources Ratio	83.8%	82.3%	82.3%	82.7%
Eligible Liquid Assets Ratio (ELAR)	16.8%	16.1%	17.5%	16.9%
Capital Adequacy Ratio (CAR)[10]	18.1%	18.2%	17.5%	17.9%
Tier 1 Capital [11]	16.6%	16.8%	16.2%	16.6%
CET 1[12]	14.6%	14.9%	14.3%	14.6%
Conventional banks				
Lending to Stable Resources Ratio	84.4%	82.8%	82.5%	83.0%
Eligible Liquid Assets Ratio (ELAR)	15.9%	15.2%	16.6%	16.2%
Capital Adequacy Ratio (CAR)	18.2%	18.4%	17.6%	17.9%
Tier 1 Capital	16.7%	17.0%	16.2%	16.6%
CET 1	15.1%	15.4%	14.7%	14.9%
Islamic banks				
Lending to Stable Resources Ratio	81.6%	80.8%	81.6%	81.6%
Eligible Liquid Assets Ratio (ELAR)	18.7%	18.7%	19.6%	18.9%
Capital Adequacy Ratio (CAR)	17.5%	17.5%	17.3%	17.7%
Tier 1 Capital	16.3%	16.3%	16.2%	16.6%
CET 1	12.6%	12.8%	12.7%	13.2%
National banks				
Lending to Stable Resources Ratio	84.7%	83.3%	83.4%	84.0%
Eligible Liquid Assets Ratio (ELAR)	15.9%	15.3%	16.6%	16.0%
Capital Adequacy Ratio (CAR)	17.7%	17.9%	17.2%	17.5%
Tier 1 Capital	16.4%	16.6%	16.0%	16.3%
CET 1	14.0%	14.4%	13.7%	14.0%
Foreign banks				
Lending to Stable Resources Ratio	77.2%	75.4%	74.0%	73.4%
Eligible Liquid Assets Ratio (ELAR)	22.4%	21.7%	24.4%	24.4%
Capital Adequacy Ratio (CAR)	20.7%	20.4%	20.3%	20.7%
Tier 1 Capital	18.6%	18.4%	18.4%	18.9%
CET 1	18.6%	18.4%	18.4%	18.9%

Source: CBUAE
Note: All data indicate the end-of-quarter values

Eligible liquid assets, as a percentage of total liabilities[13] (ELAR), moved from 17.5% at the end of 2018 Q4 to 16.9% at the end of 2019 Q1. Liquid assets constituted a significant buffer, higher than the 10% minimum required by CBUAE. Total liquid assets at banks, at end of 2019 Q1, stood at AED 399.5 billion, AED 8.1 billion, lower compared to the end of 2018 Q4. On a Y-o-Y basis, total liquid assets at banks rose by AED 14.2 billion, registering an increase by 3.7%. The breakdown between Islamic, Conventional, National and Foreign banks shows that for all segments the ELARs declined during 2019 Q1.

[10] CAR Basel III minimum requirement is 10.5%.
[11] Tier 1 Basel III minimum requirement is 8.5%.
[12] CET Basel III minimum requirement is 7.0%.

13 Liquid assets include required reserves, mandated by the Central Bank, certificates of deposits held by banks at the Central Bank, in addition to zero-risk weighted government bonds and public sector debt and cash at banks

3.2 Financial developments

3.2.1. Share Price Movement

The Abu Dhabi Securities Exchange (ADX) market capitalization continued to increase at a steady pace since September 2018 boosted by the increase in oil prices. The ADX market capitalization increased Q-o-Q by 2.4%. Similarly, the Dubai Financial Market (DFM) witnessed an increase in its market capitalization Q-o-Q by 2.0.

Table 3.2. UAE – Securities Markets

			2018			2019
			Q2	**Q3**	**Q4**	**Q1**
Abu Dhabi	**Change of Share Price Index (%)**	**Q-o-Q**	-0.6%	8.2%	-0.4%	3.2%
		Y-o-Y	3.0%	12.2%	11.7%	10.7%
		YTD	3.7%	12.2%	11.7%	3.2%
	Change of Market Capitalization (%)	**Q-o-Q**	-1.9%	8.7%	0.9%	2.4%
		Y-o-Y	8.3%	18.3%	10.5%	10.1%
		YTD	0.8%	9.6%	10.5%	2.4%
	Turnover (Traded Value) (%)	**Q-o-Q**	-15.3%	34.2%	54.5%	-34.3%
		Y-o-Y	-31.2%	-14.7%	105.6%	15.2%
		YTD	-0.8%	33.1%	105.6%	-34.3%
Dubai	**Change of Share Price Index (%)**	**Q-o-Q**	-9.2%	0.5%	-10.8%	4.2%
		Y-o-Y	-16.8%	-20.5%	-24.9%	-15.2%
		YTD	-16.3%	-15.9%	-24.9%	4.2%
	Change of Market Capitalization (%)	**Q-o-Q**	-4.2%	-0.3%	-7.2%	2.0%
		Y-o-Y	5.1%	-2.7%	-12.9%	-9.6%
		YTD	-5.8%	-6.1%	-12.9%	2.0%
	Turnover (Traded Value) (%)	**Q-o-Q**	-11.6%	-11.0%	-15.9%	9.2%
		Y-o-Y	-31.0%	12.9%	-57.2%	-27.7%
		YTD	-42.9%	-49.1%	-57.2%	9.2%

Source: Abu Dhabi Securities Exchange,Dubai Financial Market
Note: Changes computation (Q-o-Q) is quarterly average of end-of-month values for the share price index and market capitalization.

On the ADX, the average Share Price Index increased Q-o-Q by 3.2% in the first quarter of 2019, reflecting a Y-o-Y increase of 10.7%, after a decline of 0.4% Q-o-Q (11.7% Y-o-Y) in the fourth quarter of 2018. The market capitalization moved from a moderate increase of 0.9% Q-o-Q (10.5% Y-o-Y) in 2018 Q4 to a higher rate of 2.4 % Q-o-Q (10.1% Y-o-Y) during 2019 Q1 (see Table 3.2).

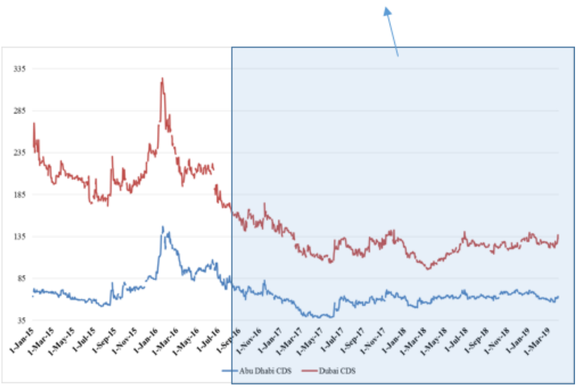
The average Share Price Index in Dubai rose by 4.2% Q-o-Q in the first quarter of 2019, reversing the downward trend for the first time since December 2017. The market capitalization increased by 2.0% during the same quarter Q-o-Q (-9.6% Y-o-Y) compared to a decrease by 7.2% Q-o-Q (-12.9% Y-o-Y) in 2018 Q4.

3.2.2. Credit Default Swaps Premiums

The default risk premium for the Emirate of Abu Dhabi remains at a low level, which marginally decreased in 2019 Q1. In the Emirate of Dubai, the default risk premium slightly increased compared to the previous quarter (see Figure 3.2).

Figure 3.2. UAE – Sovereign Credit Default Swaps (CDS)

	2018				2019
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Emirate of Abu Dhabi	56.2	63.7	62.9	67.4	62.6
Emirate of Dubai	106.8	116.1	124.4	125.3	129.3



Source: Bloomberg.
Note: All quarterly data are the average of each quarter. Premiums are in basis points.

Despite the recent increase for Dubai, CDS levels remained low in 2019 Q1, compared to historical levels, reflecting the recent firming up of oil prices and continued progress on fiscal reforms and debt sustainability.

Box 8: National Banks' Foreign Assets and Currency Exposure to Non-Residents

The UAE banking system is the largest in terms of assets in the MENA region. As of March 2019, the outstanding amount of assets is at AED 2,894.9 billion.[14] As of the end of the first quarter of 2019, UAE banks, excluding branches and affiliates[15] abroad, have a total of AED 691.1 billion in foreign assets, AED 582 billion for national banks and AED 109.1 billion for foreign banks.

The analysis is focusing on the exposure on the asset side of UAE national banks, excluding branches and affiliates. The exception is the second section, which covers the global top ten countries of exposure. This analysis embraces data that include UAE national banks' operations and branches and affiliates abroad. As of the end of March 2019, the amount of this exposure stood at AED 336 billion. The first section covers the allocation of the foreign assets per asset category of exposure to non-residents and the last part focuses on currency denomination of lending in foreign currencies.

Foreign Assets' Class of UAE National Banks

The foreign assets of national banks increased Q-o-Q and Y-o-Y as at the end of 2019 Q1. The asset classes of exposure are split according to the categories in Table 1. The three major categories as of March 2019 are securities with an outstanding amount of AED 182.6 billion, due from other banks at AED 130.5 billion and loans with an outstanding amount of AED 117.1 billion that rose by 22.2%, 8.1% and 0.3% Q-o-Q, respectively, and by 31.6%, 7% and 10.9% Y-o-Y.

Table 1: UAE National Banks' Foreign Assets' Class (in AED billion)

Asset class	Sep-18	Dec-18	Mar-19
Due from HO & branches	132.4	141.1	107.5
Due from other banks	133.2	120.8	130.5
Securities	147.4	149.4	182.6
Loans	111.7	114.8	117.1
Other assets	50.5	44.1	44.2
Total	**575.2**	**570.1**	**582.0**

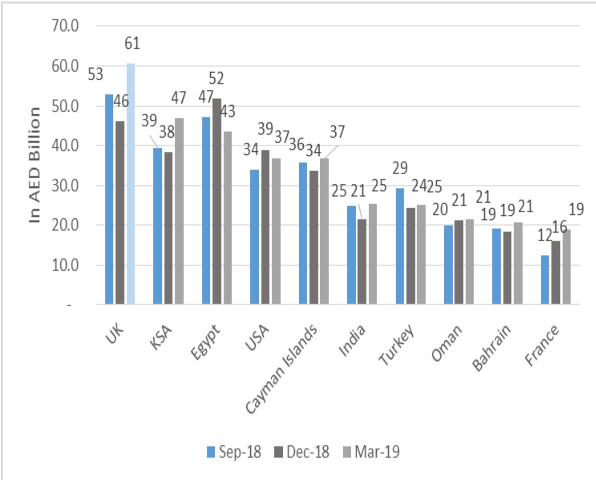
Source: CBUAE

UAE National Banks' Top 10 Countries for Cross Border Exposure

As of March 2019, the biggest exposure of UAE national banks abroad, on the assets side of their balance sheets, including branches and affiliates, was in the UK at AED 60.6 billion, followed by AED 46.9 billion in Saudi Arabia and by AED 43.4 billion in Egypt. The three countries in the top 10 exposures that experienced the highest increase Q-o-Q were the UK by AED 14.6 billion (31.7%), Saudi Arabia by AED 8.5 billion (22.2%) and India by AED 3.9 billion (18.2%). The top 3 countries with the largest increase Y-o-Y were led by Egypt by AED 11.7 billion (36.7%), Saudi Arabia by AED 11.2 billion (31.3%) and the UK by AED 7.6 billion (14.3%).

As of March 2019, the decline of exposure Q-o-Q for the top 10 countries was observed only for Egypt by AED 8.4 billion (16.2%) and the USA by AED 2.1 billion (5.3%). A drop of exposure Y-o-Y as of March 2019 was observed only for Turkey where it dropped by AED 4.2 billion (14.3%) (see Figure 1).

Figure 1: Top 10 Foreign Country Exposures for UAE national banks (in AED bn)



Source: CBUAE

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[14] Excluding branches and affiliates abroad.

[15] Includes subsidiaries

Currency Denomination of UAE National Banks' Lending in Foreign Currency

The main foreign currency exposure for UAE national banks remains in USD, which stood at 83.2% at the end of the first quarter of 2019, underpinned by the stability of the fixed peg to the USD. The second most important foreign currency exposure is in Euro as of March 2019 (9.5% of the total foreign currency exposure). The third, fourth and fifth currency exposures are in Pound Sterling, Japanese Yen and Saudi Riyal (Table 2).

Table 2: Share of Foreign Currencies of total UAE National Banks' Lending in Foreign Currencies

Currency	Sep-18	Dec-18	Mar-19
USD	79.9%	84.9%	83.2%
Euro	9.3%	8.3%	9.5%
Pound Sterling	1.4%	1.6%	2.1%
Japanese Yen	1.2%	1.2%	1.3%
Saudi Riyal	0.8%	1.5%	1.2%
Bahraini Dinar	0.1%	0.2%	0.3%
Qatari Riyal	0.3%	0.3%	0.2%
Chinese Yuan	0.3%	0.2%	0.2%
Kuwaiti Dinar	0.3%	0.2%	0.2%
Swiss Franc	0.1%	0.1%	0.1%
Other Foreign currencies	6.1%	1.6%	1.7%

Source: CBUAE

Chapter 4. Monetary Developments and The Central Bank's Financial Position

The CBUAE balance sheet exhibited an increase in 2019 Q1, reflecting an increase in foreign exchange inflows, which led to an increase in commercial banks' holdings at the CBUAE. The increase in total assets at CBUAE was mainly in Deposits at banks abroad, while on the liabilities side the increase was mostly in Reserve Requirements and in Banks' Current Accounts at CBUAE. Meanwhile, interest rates in the UAE fluctuated around a slightly upward trend, despite the Fed's announcements that they will halt further monetary tightening in view of the worsening of US financial conditions during the last quarter of 2018. The spread of the EIBOR vs. the USD LIBOR remained positive, while the spread of the swap rate of the AED relative to the USD has been mostly decreasing, which reflects higher confidence in the fundamentals of the UAE economy.

4.1 Monetary Aggregates

During 2019 Q1, Money Supply M1 increased by 5.4% (AED 26.4 billion) to reach AED 512.0 billion. The increase was due to the rise in Monetary Deposits by 5.5% (AED 23 billion) to reach AED 438.1 billion.

Meanwhile, Money supply M2 increased by 1.6% (AED 20.3 billion) to reach AED 1328.7 billion, due to the above-indicated increase in M1, while Quasi-Monetary deposits decreased by AED 6.1 billion, reaching AED 816.6 billion.

M3 increased by 1.8% (AED 29.4 billion) to reach AED 1631.7 billion, due to an increase in Government Deposits at commercial banks and the CBUAE by AED 9.2 billion to reach AED 303.1 billion.

Figure 4.1 Change in Monetary aggregates in 2019 Q1

In billions of AED

Source: CBUAE

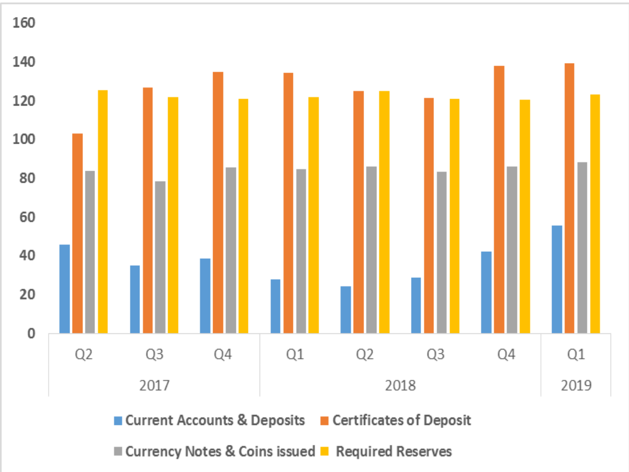
4.2 Central Bank Balance Sheet

The balance sheet of the CBUAE expanded in 2019 Q1 by 3.6% to reach AED 432.6 billion, at the end of March. Assets were mainly allocated as follows: AED 187.8 billion Cash and Bank Balances, AED 133.5 billion Deposits and other Advances Abroad, and AED 104.3 billion investments in government and foreign securities. Deposits and other Advances Abroad exhibited a marked increase by AED 26.7 billion, while foreign securities remained flat, consistent with the investment strategy as the proceeds that have matured during this period were not reinvested in the same instruments.

On the liabilities side of the balance sheet of the Central Bank, there was an increase in the Current Accounts and Deposits by AED 13.3 billion and an increase in Reserve Requirements by AED 2.5 billion. The increase in Certificates of Deposits (CDs) issued by CBUAE and purchased by banks was relatively stable at AED 139.2 billion.

Figure 4.2 Central Bank Liabilities

In billions of AED



Source: CBUAE

Table 4.1 Central Bank Balance Sheet

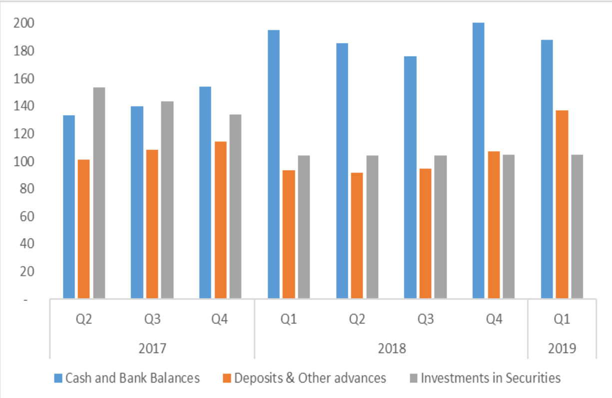
In billions of AED

	2018				2019
	Q1	Q2	Q3	Q4	Q1
Total Assets,	**395.6**	**386.1**	**380.9**	**417.7**	**432.6**
Cash and Bank Balances	195.2	185.6	176.0	200.9	187.8
Deposits	90.5	88.5	91.4	106.8	133.5
Foreign Securities	55.2	55.2	55.2	55.2	55.3
Securities-Dubai Government/MoF	49.0	49.0	49.0	49.0	49.0
Other Assets	5.7	7.8	9.3	5.8	7.0
Total Liabilities,	**395.6**	**386.1**	**380.9**	**417.7**	**432.6**
Required Reserves	122.0	125.1	120.9	120.6	123.1
Current Accounts & Deposits Reserve	27.7	24.3	28.8	42.2	55.5
Certificates of Deposit	134.3	125.2	121.4	138.2	139.2
Currency Notes & Coins issued	84.7	86.1	83.2	85.8	88.3
Total Capital & Reserves	22.0	22.0	21.9	23.3	23.3
Other Liabilities	4.9	3.4	4.7	7.6	3.2

Source: CBUAE

Figure 4.3 Central Bank Assets

In billions of AED



Source: CBUAE

4.3 Central Bank Foreign Assets

As shown in Table 4.2, the balance of foreign assets increased from AED 362.6 billion at end of 2018 Q4 to AED 377.1 billion in 2019 Q1. Foreign assets were allocated as follows: AED 55.3 billion foreign securities of which 50.7 USD are in Treasury Notes and AED 307.6 billion are in Current Account Balances & Deposits with Banks Abroad (AED 174.1 billion Current and Call Accounts, AED 117.0 billion Deposits, and AED 16.5 billion Tri-Party Deposits).

Table 4.2 Central Bank's Foreign Assets

In billions of AED

	2018				2019
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Total Foreign Assets*	**336.3**	**331.1**	**327.3**	**362.6**	**377.1**
Foreign Securities	**55.2**	**55.2**	**55.2**	**55.2**	**55.3**
-USD Treasury Notes	50.7	50.7	50.7	50.7	50.7
-IDB Sukuk	4.6	4.6	4.6	4.6	4.6
Current Account Balances & Deposit with Banks Abroad	**271.2**	**260.5**	**255.1**	**294.1**	**307.6**
-Current & Call Accounts	180.7	172.0	163.6	187.2	174.1
-Deposits	88.7	77.1	81.3	93.3	117.0
-Tri-Party Deposits	1.8	11.4	10.1	13.6	16.5
Other Foreign Assets	**9.9**	**15.4**	**17.0**	**13.3**	**14.2**

Source: CBUAE, end of quarter data
* Excluding IMF Reserve Position and SDR Holdings

4.4. International Reserves Position

The credibility of the fixed peg arrangement requires the Central Bank to hold sufficient foreign currency reserves. To this end, Article 63 of Decretal Federal Law No. 14 of 2018 regarding the Central Bank and Organization of Financial Institutions and Activities, states that the market value of the balance of Foreign Reserves "*shall not, at any time, be less than solvency seventy percent (70%) of the value of the monetary base*." Article 62 of the said Law defines Reserves of Foreign Assets as follows:

(1) *Gold bullion and other precious metals.*

(2) *Cash, deposits and other monetary and payment instruments denominated in foreign currencies, freely convertible in global markets.*

(3) *Securities denominated in foreign currencies and issued or guaranteed by foreign governments and their related companies, entities, institutions, and agencies, by international monetary and financial institutions, or by multinational corporations, and are tradable in global markets.*

Table 4.3 reports the International Reserve Position of the Central Bank, which increased from AED 365.4 billion at end of 2018 Q4 to AED 379.9 billion at 2019 Q1. As a ratio of the monetary base, the International Reserve Position increased, during this period, from 96.2% to 101.9%, i.e., higher than the above-indicated minimum cover ratio, required by Decretal Federal Law No. 14 of 2018.

Table 4.3 International Reserves

In billions of AED

	2018				2019
	Q1	Q2	Q3	Q4	Q1
1. International Reserve Position	**339.0**	**333.6**	**329.8**	**365.4**	**379.9**
– Foreign Assets	**336.3**	**331.1**	**327.3**	**362.6**	**377.1**
– IMF Reserves Position + SDR Holdings	2.7	2.6	2.5	2.9	2.9
2. Monetary Base	**365.2**	**353.9**	**347.7**	**379.7**	**372.9**
– Currency Issued	84.7	86.1	83.2	85.8	88.3
– Reserve Requirements	122.0	125.1	120.9	120.6	123.1
– Banks & OFCs Current Accounts at CBUAE	24.2	17.5	22.2	35.1	22.3
– Certificates of Deposit	134.3	125.2	121.4	138.2	139.2
Ratio (1/2)	**92.8 %**	**94.3 %**	**94.9 %**	**96.2 %**	**101.9 %**

Source: CBUAE

4.5 Developments in Banks' Liquidity at the CBUAE

Banks' liquid assets at the CBUAE are composed mainly of reserve requirements, current accounts, and CDs, which increased from AED 301 billion at the end of 2018 to AED 317.8 billion at the end of 2019 Q1 (see Table 4.1).

4.6 Interest Rates

The fixed peg of the exchange rate of the AED to the USD means that the CBUAE has to adjust its policy rate to changes in the interest rate policy in the U.S. Therefore, the CBUAE did not announce any increase in interest rates applied to its Certificates of Deposits during 2019 Q1, in line with the Fed's monetary stance.

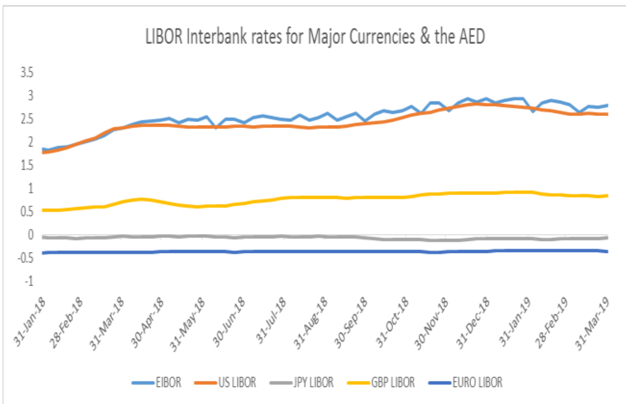
4.6.a Short-term interest rates

During 2019 Q1, EIBOR 3-month has been fluctuating from 2.8% in early January down to 2.7% in early February, before reverting to 2.8% in late March.

Meanwhile, LIBOR on the USD was mostly declining as a result of the Fed's announcements that the tightening cycle is on hold, awaiting further data releases, against the backdrop of rising concerns about global economic slowdown.

LIBOR on GBP also decreased in 2019 Q1, from 0.9% in early January to about 0.85% by end of March. The LIBOR rates on the Euro and the Japanese Yen remained in negative territory, in consistency with the directions of monetary policy adopted by the respective central banks.

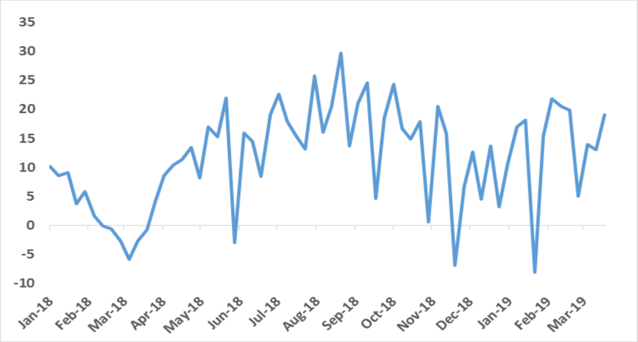
Figure 4.4.a LIBOR rates (3-month) for the AED and key other currencies (%)



Source: Bloomberg

As regards the Spread EIBOR vis-à-vis the USD LIBOR (3 –month), it remained positive for most of the first quarter of 2019, fluctuating around an average of 13 basis points. The trend though was slightly increasing in the last two months as the spread increased due to the above-indicated rise in EIBOR.

Figure 4.4.b AED Spread vs. USD LIBOR (3 month, bps)



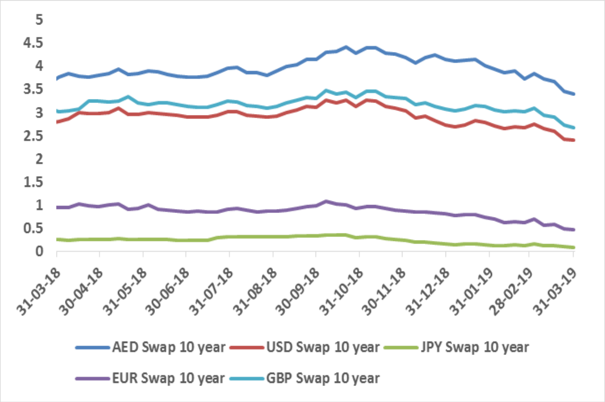
Source: Bloomberg

4.6.b Long-term swap rates

By definition, interest rate swaps correspond to an exchange of a fixed rate for a floating payment that is linked to an interest rate, most often the London Interbank Offer Rate (LIBOR).

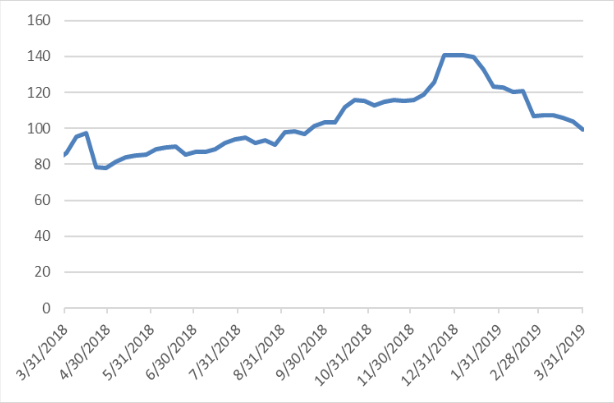
As shown in Figure 4.5.a, the 10-year swap rates mostly declined in 2019 Q1 in line with the decline in LIBOR markets.

Figure 4.5.a 10-year swap rates (%)



The Spread of the 10-year swap rate for the AED vs. the swap rate for the USD was on a downward trajectory in the first quarter of 2019, form 140 basis points in early January to 99 bps at the end of March.

Figure 4.5.b Spread 10-year AED Swap vs. USD Swap (bps)



Source: Bloomberg

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