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List of Abbreviations

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

Chapter 1

International Economic Developments and UAE External Sector



I.1. Growth Outlook for Major UAE Economic Partners¹

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

Tightening financial conditions and geopolitical uncertainties mainly contribute to global contraction

GCC region sustained its growth momentum amid rising oil prices

Global Growth

The global economy started slowing down in the second quarter of 2022 after a robust recovery from COVID-19 pandemic in the first quarter. In July's 2022 World Economic Outlook (WEO), the IMF revised downward its forecast for 2022 to 3.2% from a baseline of 6.1% last year.

Risks, such as higher inflation worldwide, continued tightening of global financial conditions, deceleration in China due to COVID-19 outbreaks, and the uncertainties related to the conflict in Ukraine, continue to intensify the global slowdown.

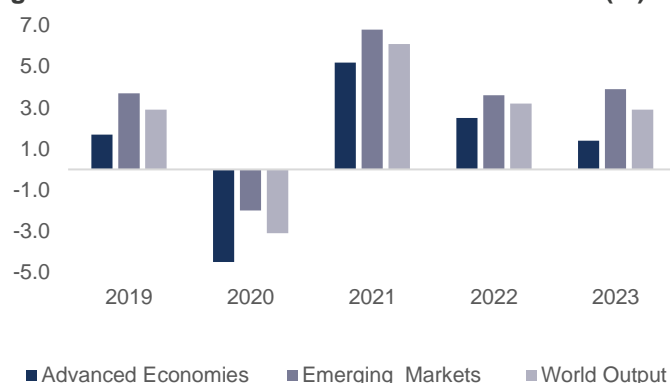
Advanced Economies

The latest estimates for advanced economies show slower growth for the years 2022-23. While the US economy contracted during Q1 and Q2 2022, other economic indicators such as unemployment remained unchanged at 3.6% during the quarter, and wages registered a continued increase.

Despite the record-high inflation and geopolitical uncertainties, the Eurozone expanded by 3.9% during Q2 2022 driven by stronger than forecasted performance in Spain, France, and Italy. On the other hand, Germany registered a weaker than expected growth of 1.8% in the second quarter of 2022, mainly due to the slowdown in global growth, interruptions in supply chains and the conflict in Ukraine. Meanwhile, the UK economy rose more than expected during the second quarter by 8.7% thanks to better performing construction, industrial and manufacturing output.

Japan's economy grew at an annualized rate of 3.5% in the second quarter, better than the initial estimate of 2.2%. The recovery is supported by business spending and by the rise in private consumption, which accounts for more than half of Japan's GDP. Challenges however remain such as geopolitical tensions, interest rate hikes globally, and the lockdowns in China.

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



Source: IMF WEO, July 2022

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

	2021	2022 F	Q2 2022 (Y-o-Y)
Global	6.1	3.2	-
USA	5.7	2.3	1.6
Eurozone	5.4	2.6	3.9
France	6.8	2.3	4.2
Germany	2.6	1.2	1.8
Italy	6.6	3.0	4.6
UK	7.4	3.2	8.7
Japan*	1.7	1.7	2.2

Source: IMF WEO, July 2022 update for global growth. National statistics authorities for the individual countries.

* Japan annualized Quarterly growth (Source: Cabinet office Japan)

¹ The cut-off date of the analyses in the report is 31/08/2022 based on available data.

Emerging and GCC Economies

The macroeconomic outlook for emerging markets has deteriorated considerably. The conflict in Ukraine continues to be one of the main drivers of the downward revision in most EMs, in addition to the disruptions in supply chains, continued surge in inflation, tightening financial conditions and volatile capital markets.

The Chinese economic growth slowed sharply to 0.4% during Q2 2022, while the Chinese government has targeted GDP to grow by around 5.5% in 2022. The slower growth is partly driven by the decision of the Chinese government to maintain a strict zero-COVID policy, which resulted in total lockdowns in major cities in some cases, and led to a slower overall domestic demand.

The economic outlook in India has been revised down by 0.8 percentage points to 7.4% for the current year, which remains comparatively higher than most other emerging markets. The downward revision reflects the deteriorating external conditions, such as geopolitical uncertainties and monetary tightening. Although the country experienced fresh COVID-19 outbreaks during Q2 2022, it continued its path to recovery.

Other emerging markets in Asia, Eastern Europe and Latin America are also showing signs of slowdown and economic distress. This is particularly due to the higher interest rates in the US leading to capital outflows and depreciation of emerging markets' currencies.

Growth prospects are different in the GCC, where outlooks have been revised upward for all countries. Real GDP growth is expected to peak in 2022, with Kuwait and Saudi Arabia being set for an 8.2% and 7.6% growth. Private sector data, including the GCC monthly Purchasing Manager's Index (PMI), remain strong, indicative of a sustained non-hydrocarbon growth. Employment levels in the private sector were also higher during Q2 2022 resulting in the quickest pace of job creation since 2019.

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

	2021	2022F	2023F
Brazil	4.6	1.7	1.1
India	8.7	7.4	6.1
China	8.1	3.3	4.6
South Africa	4.9	2.3	1.4

Source: IMF, Regional Economic Outlook, July 2022 Update

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

	2021	2022F	2023F
Saudi Arabia	3.2	7.6	3.7
Qatar	1.5	3.4	2.5
Bahrain	2.2	3.3	3.0
Kuwait	1.3	8.2	2.6
Oman	2.0	5.6	2.7

Source: IMF, Regional Economic Outlook, April 2022 for Qatar, Bahrain, Kuwait and Oman.

IMF, Regional Economic Outlook, July 2022 for Saudi Arabia

Table 1.4. Oil Spare Capacity

In millions of barrel per day

	Sustainable capacity	Short order spare capacity	90-Day spare capacity
Saudi Arabia	12.2	1.2	2.1
UAE	4.1	0.6	1.2
Iraq	4.8	0.3	0.6
Kuwait	2.8	0.1	0.2
Russia	10.2	0.1	0.2
Others*	12.0	0.0	0.8
Total*	46.2	2.2	5.1

*Excludes Iran

Source: International Energy Agency, March 2022.

1.2. Inflation and Monetary Policy Response

Inflation projections for 2022 by the IMF: 6.6% in advanced economies and 7.5% in emerging markets

Food Price Index is down by 2.3%

Higher interest rates and monetary tightening

Global Inflation Outlook

Inflation continued to rise rapidly in Q2 2022 across the globe, to levels above the official targets of major central banks. Latest inflation projections for 2022 as per the IMF July 2022 WEO are 6.6% in advanced economies, up from 5.7% in April, and 9.5% in emerging and developing economies – up from 8.7% in April 2022.

Factors that led to rising inflation since the second half of 2021 continue to persist, including supply bottlenecks and disruption in global value chains, regain in demand post confinement, sharp increase in housing prices, and commodity prices hitting record highs. In addition to its negative impact on growth, the Russia-Ukraine conflict is also contributing to soaring inflation. Energy, fertilizers, and food prices have risen sharply, with many experts pointing to a looming global food crisis.

The FAO Food Price Index (FFPI) averaged 138.0 points in August 2022, down 1.9% from July. Despite the latest drop, the index remained 7.9% above its value a year ago. All five sub-indices of the FFPI fell in August, with monthly percentage declines ranging from 1.4% for cereals to 3.3% for vegetable oils.

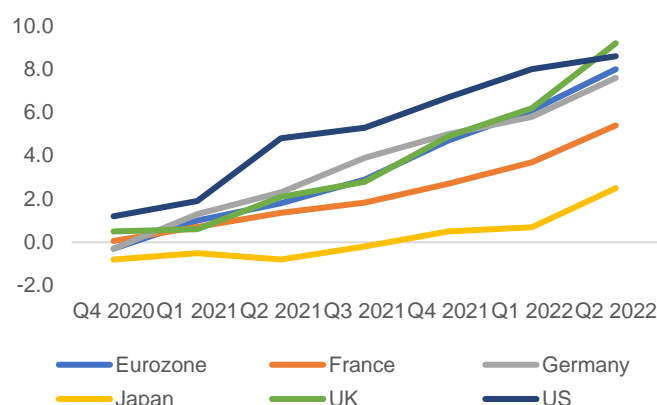
Advanced Economies Inflation and Policy Responses

The annual inflation rate in the US increased to 9.1% Y-o-Y in June 2022, the highest since November 1981. In response, the Federal Reserve increased the Federal Funds Rate to 2.5% at its FOMC meeting on July 27, its second consecutive 75bps hike. However, in August the annual inflation rate in the US eased for a second straight month to 8.3%, the lowest in 4 months.

In the Eurozone, the annual inflation rate is breaching all-time highs, reaching 8.6% Y-o-Y in June 2022, and 9.1% in August 2022, way above the ECB's target of 2%. The ECB increased its three key interest rates by 50 basis points on 21st July and committed to continue tightening to fight inflation. The latest ECB projections were revised upward compared to March, with inflation expected to reach 6.8% in 2022, before declining to 3.5% in 2023.

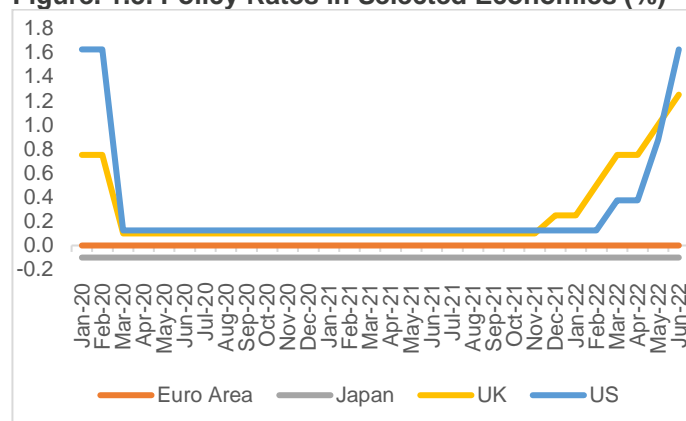
The Y-o-Y annual inflation rate in the UK is following a similar pattern. It increased to 9.4% in June 2022 and 9.9% in August, up from 5.4% in December 2021. On June 15, 2022 the Bank of England's Monetary Policy Committee increased the key rate by 0.25 percentage points, to 1.25%.

Figure. 1.2. Y-o-Y Average Headline Inflation in Selected Economies (%)



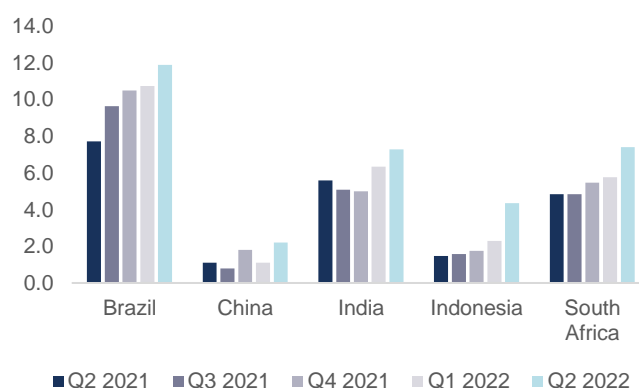
Source: Bloomberg

Figure. 1.3. Policy Rates in Selected Economies (%)



Source: BIS Statistics

Figure.1.4. Y-o-Y Average Headline Inflation in Selected Emerging Economies (%)



Source: Bloomberg.

In Japan, inflation increased to 2.4% Y-o-Y in June 2022, and further to 3.0% in August, the highest since 1991. Core consumer inflation was at 2.8% Y-o-Y in August, the highest since January 2014; remaining above the BoJ's 2% target. While increasing, inflation remains close to the target, and therefore BoJ did not change its policy rates that remain negative at -0.1%.

Emerging and GCC Economies

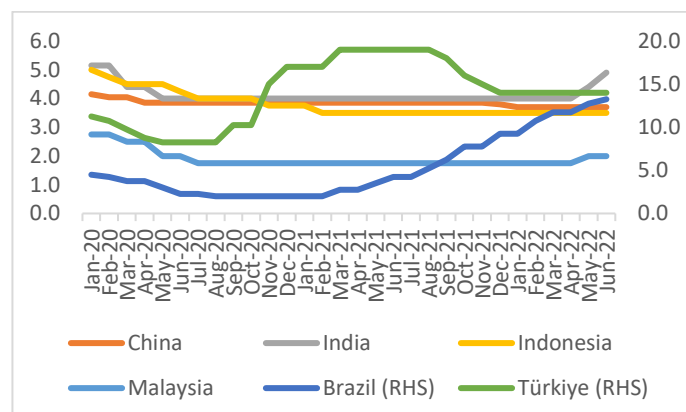
China's annual inflation rate reached 2.5% end of June 2022 from 2.1% in the prior month, above market forecasts of 2.4%. This was the highest level since July 2020, with food prices rising the most in 21 months as consumption strengthened further, following an improvement in the COVID-19 situation. Yet, after increasing to 2.7% in July, inflation moderated again to 2.5% in August, prompting the Peoples Bank of China to cut interest rates albeit marginally by 10 basis points on the reversed repo rate.

In India, the annual inflation was at 7.0% Y-o-Y in August, same as in June 2022, but higher than the 2% to 6% tolerance limit of the central bank. The recent hike in price growth was expected to moderate as the government had taken several measures, including cutting taxes on fuel and boosting subsidies of fertilizers, which helped to outweigh the ongoing rise in global commodity prices. In June and August 2022, the Reserve Bank of India (RBI) increased its benchmark repo rate by 50 bps, taking it to 5.4%.

The annual inflation rate in Saudi Arabia increased to 2.3% in June, 2.7% in July and 3.0% in August of 2022, mainly driven by the increase in prices of food and beverages, and transportation. It was the highest inflation rate since June 2021. The inflation rate in Kuwait decreased to 4.2% in July from 4.4% in June of 2022, while Bahrain's annual inflation rate rose to a four-month high of 3.9% in July of 2022 due mainly to rises in prices of food and non-alcoholic beverages. In Qatar, the annual inflation rate reached 5.4% in June, up from 4.4% in March, before declining to 4.8% in August. The main upward pressure came from prices of housing and utilities, and recreation and culture. Finally, in Oman inflation decreased to 2.9% in June from 3.6% in March 2022 before declining to 2.4% in August.

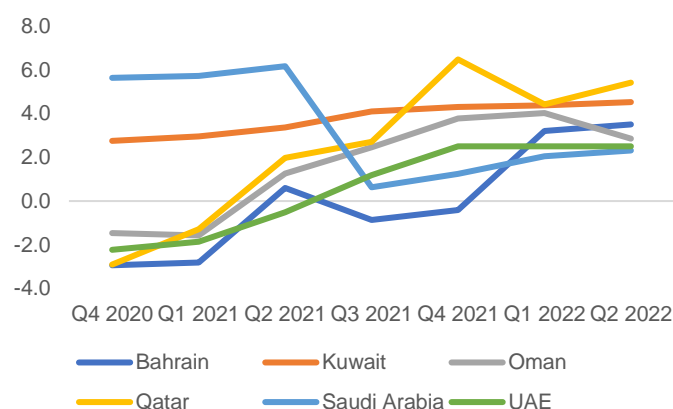
The GCC countries followed the Federal Reserve's rate increase in July 2022. Along with the central banks of Bahrain, Oman, Qatar, and Saudi Arabia, the CBUAE raised its base rate, by 75 bps. However, Kuwait, which ties its currency to a basket rather than just the dollar, increased it by only 25 bps.

Figure.1.5. Policy Rates in Selected Emerging Economies (%)



Source: Bloomberg

Figure.1.6. Y-o-Y Average Consumer Price Inflation in GCC Countries (%)



Source: Bloomberg, CBUAE

I.3. Global Markets' Developments

Volatility and uncertainty in financial markets are on the rise

International energy prices surged

The AED continued appreciating in real and nominal effective terms

Global Financial Conditions

Global financial conditions are at their tightest since 2016 and interest rates are expected to be further increased by the world's major central banks, at least until the end of 2022. In the US, interest rates hikes are reflected in the increase in the Chicago Fed's National Financial Conditions Index (NFCI), albeit its negative values indicate that financial conditions remain relatively loose.

Commodities

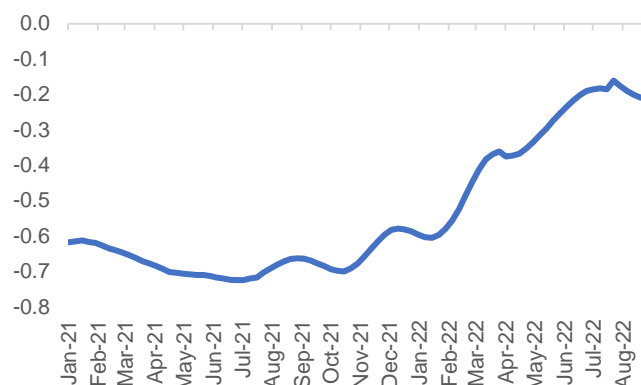
Due to a pick-up in transportation and economic activity in general, the price of Brent Crude continued its upward trend during Q2 2022, boosted further by the Russia-Ukraine conflict. On average, Brent Crude rose from USD 117.0 in March 2022 to USD 122.7 in June 2022 while it reached 100.4 at the end of August 2022. The lower prices in August likely reflected overall increases in global petroleum inventories. The increase in inventories came with ongoing growth in global production of crude oil and other liquid fuels, which are estimated to have reached 101 million barrels per day in August, the highest global production since December 2019, in addition to the global economic slowdown and agreed OPEC+ production levels. Similarly, natural gas prices increased on average from USD 4.9 per MMBtu to USD 8.8 at the end of August 2022.

Meanwhile, prices of other commodities such as aluminum and copper declined Y-o-Y by 29.7% and 20.4%, respectively. After seeing its price increasing by 5.9% Y-o-Y to reach USD 1,938 per oz in March 2022, gold moderated to USD 1,806 per oz. in June, impacted by the appreciation of the USD, and fell further to USD 1723 per oz. by the end of August.

Exchange rate

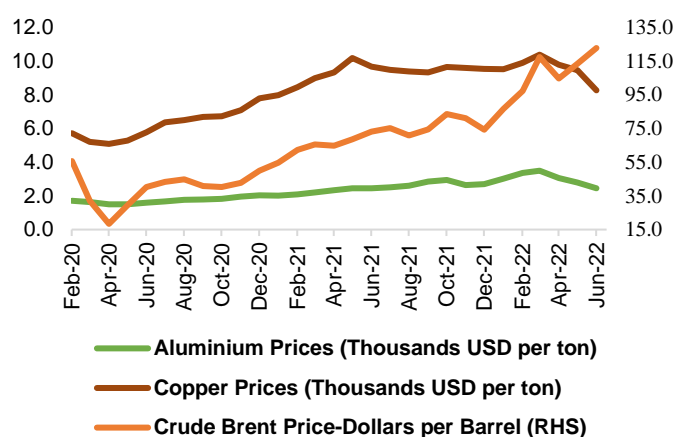
The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the multilateral exchange rates of the UAE's trading partners, appreciated Q-o-Q by 3.9% in Q2 2022 following an appreciation by 1.1% in the previous quarter, in line with the appreciation of the US dollar. Meanwhile, Dirham's Real Effective Exchange Rate (REER), which takes into account inflation differentials between the UAE and its trading partners, appreciated by 2.0% due to the fact that domestic inflation remains below the levels prevalent in UAE's trade partners.

Figure.1.7. Chicago Fed National Financial Conditions Index



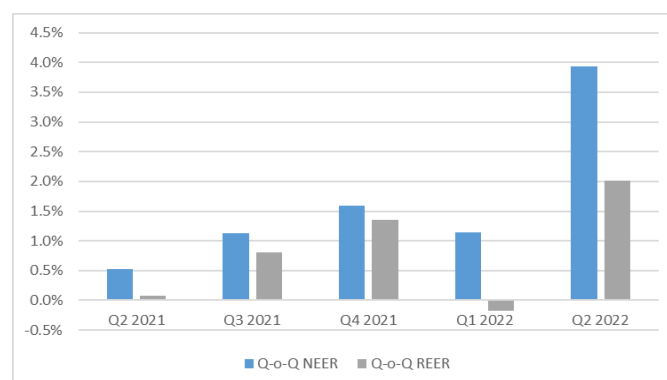
Source: Database, St. Louis Fed
Positive figures indicate tightening financial conditions

Figure. 1.8 Commodity Prices



Source: Bloomberg

Figure. 1.9 Q-o-Q Nominal and Real Effective Exchange Rates Appreciation/Depreciation (%)



Source: BIS

Chapter 2

Domestic Economic Developments



II.1. Growth in the UAE

CBUAE forecasts real GDP to grow by 6.5% in 2022 driven by both oil and non-oil sectors

Non-oil GDP was driven mainly by tourism and manufacturing

Private consumption and investment continued to rise in Q2 2022

Real GDP Outlook

Overall real GDP continued its robust expansion in Q2 2022, after strong growth of 8.4% Y-o-Y in Q1. It was driven by a further increase in oil production, as well as a noticeable improvement in the real non-oil GDP. The CBUAE has not revised its forecast for real output growth in 2023, as the increase in oil production is expected to offset the slowdown of global demand for non-oil exports of goods and services. For 2022 and 2023, overall real GDP is projected to grow by 6.5% and 4.2%, respectively. There are increased chances for growth being stronger in 2022 due to higher oil production and better-than-expected performance in sectors such as tourism and hospitality, transportation, and manufacturing.

Oil GDP

Following a 7.4% Y-o-Y increase in real oil GDP in Q1 2022, in Q2 oil production averaged 3.042 million barrels per day and the UAE hydrocarbon GDP is estimated to have grown by 15.0% Y-o-Y, in line with the OPEC+ agreements (14.3% year-to-August compared to the same period a year ago). Shocks to global oil supply and demand have added to oil price volatility and bolstered prices. Oil GDP is projected to grow by 11.5% and 5.0% in 2022 and 2023, respectively, with performance in both years depending on the evolution of the Russia-Ukraine conflict, potential global economic slowdown, and further post-COVID recovery.

Non-Oil GDP

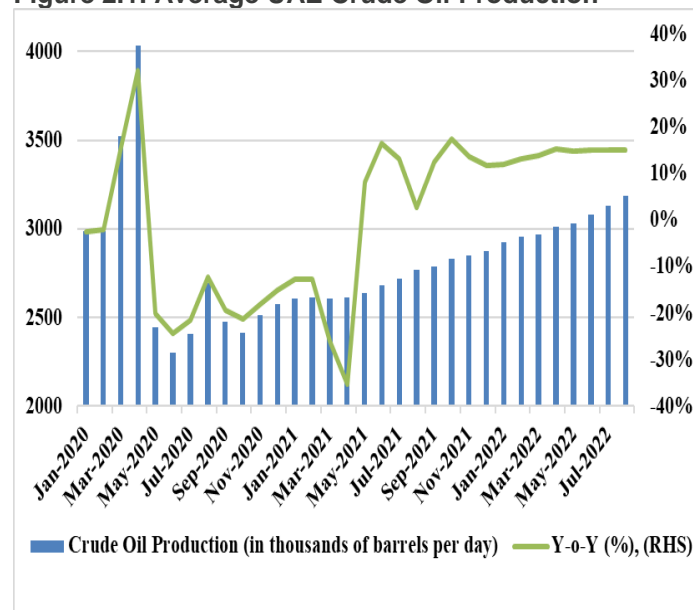
In Q1 2022, the non-hydrocarbon sector rose by 8.8% Y-o-Y and is estimated to have grown compared to a year ago slightly less in Q2 2022 than in the previous quarter. It benefited from the removal of most COVID-19 related restrictions and from the recovery in global travel and tourism, while the UAE continued to be a global leader in containing the spread of the virus. For 2022 and 2023, CBUAE projects the non-oil GDP to expand by 4.3% and 3.9%, respectively.

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

	2019	2020	2021	2022F	2023F
Overall GDP	1.1	-5.0	3.9	6.5	4.2
Non-oil GDP	2.7	-5.4	5.8	4.3	3.9
Oil GDP	-2.6	-3.8	-0.7	11.5	5.0

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

Figure 2.1. Average UAE Crude Oil Production



Source: OPEC

Government Investment and Consumption

Government revenues increased Y-o-Y in the first three months of 2022 by 39.1% to AED 123.8 billion due to an increase in taxes, social contributions, and other revenues. On the expenditure side, current spending rose Y-o-Y by 19.6% in Q1 2022 standing at AED 87.4 billion, in contrast to a decline by 9.5% during the same period of the previous year. The increase in expenditures is attributed to higher spending on the compensation of employees due to a higher number of employees, use of goods and services, social benefits, and other expenses. Meanwhile, capital spending, measured by the net investment in non-financial assets decreased Y-o-Y in Q1 2022, to AED 1.8 billion.

The total expenditures reached AED 89.2 billion or a 14.5% increase compared to Q1 2021. As a result, the consolidated fiscal balance recorded a surplus of AED 34.6 billion or 8.0% of Q1 2022 GDP, compared to AED 11.1 billion or 3.2% of the Q1 2021 GDP.

Private Investment

The UAE is benefitting from a vibrant private sector, supported by comprehensive reforms and a labor market attractive to best talent. The banking sector continued its role in stimulating private investment, as credit to the private sector increased by 4.7% Y-o-Y, which would further support domestic consumption.

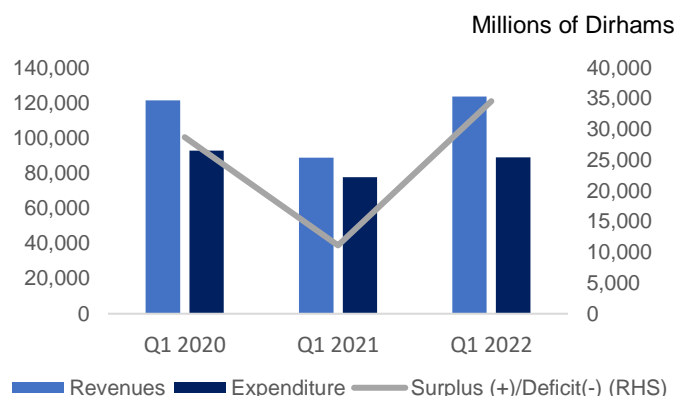
UAE's PMI rose to 56.7 in August compared 55.4 in June and it marked the 21st straight month of growth in the non-oil private sector. New orders rose the most in over 3 years, due to improved demand.

The Composite Business Confidence Index (BCI), based on a survey produced for the Northern Emirates, was recorded at 112.5 points for Q2 2022, 4.2 points higher from 108.3 in the previous quarter, pointing business expectations were positive and improved. Firms in the manufacturing sector were resilient, with the trading and services sectors BCIs standing around the "no change" point. Moreover, the SME Index showed slight expansion in Q2 2022, while the large company index indicated a significant degree of confidence with reference to all parameters: volumes, prices, profits, hiring and new purchase orders. Manufacturing and services firms remained quite optimistic with 65% and 46% expecting improving economic conditions in Q3 2022.

Private Consumption

Domestic consumption has been strong during Q2 and the first two months of Q3 2022, sustained by the increase in employment and wages. Based on the Wage Protection System (WPS), the 3-months moving average number of employees and the 3-months moving average total amount of wages paid in the private sector increased significantly Y-o-Y in August 2022, around its level of 2019.

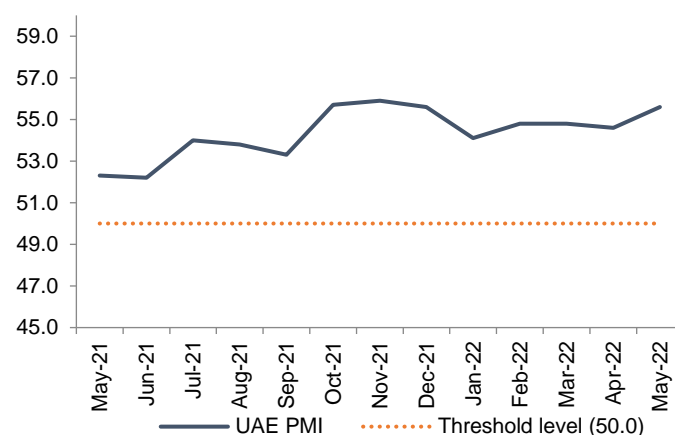
Figure 2.2. Consolidated Fiscal Stance



Source: UAE Ministry of Finance

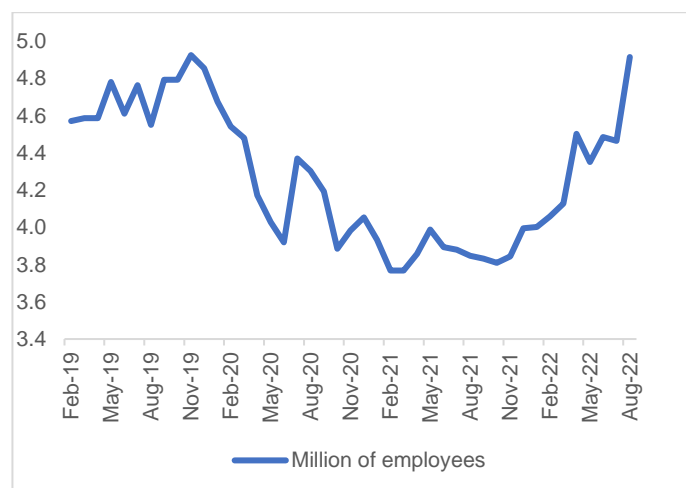
Figure 2.3. UAE PMI

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



Source: IHS Markit

Figure 2.4. 3-months moving average number of private sector employees based on the WPS data



Source: CBUAE

II.2. Sectoral Analysis

Tourism spending and hotel occupancy rates rise significantly in Q2 2022

Real estate sales improved on an annual basis during Q2 2022

Telecommunications and transportation record strong increases

Real GDP sectoral composition

The real GDP is divided into 17 sectors (the hydrocarbon and 16 which are non-oil), with the wholesale and retail trade remaining the most important non-hydrocarbon sector of GDP. Wholesale and retail trade contributed 17.0% to the non-oil GDP in Q1 2022, followed by manufacturing with 14.5%, and financial and insurance activities with 12.1%.

Wholesale and Retail Trade

The wholesale and retail trade sector is growing due to various factors such as rising per capita income, growing tourism industry, and increasing expatriate population. In addition, a recent partnership launched a hybrid-shopping complex that will empower regional and global supply chains. The market is the first phase of the upcoming Dubai Traders Market located in the Jebel Ali Free Zone, which is expected to reinforce Dubai's status as a global trade hub.

Manufacturing

The Ministry of Industry and Advanced Technology launched its latest initiative "Make it in the Emirates", supporting the UAE's efforts to become a hub for global industries by introducing products for local production, which is expected to contribute by more than AED 6 billion to the national GDP annually. A group of national companies announced the provision of AED110 billion towards potential purchase agreements to existing and new partners.

Localizing these products is also expected to attract investments, promote the industrial sector and advanced technology, diversify the economy, enhance economic growth and sustainability, create new job opportunities and strengthen supply chains. This move is expected to create 13,600 jobs, mostly for Emiratis, in the industrial sector.

Telecommunications

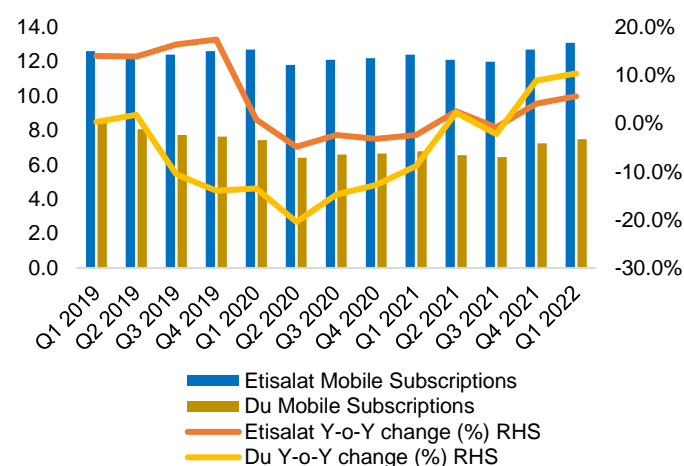
Mobile subscriptions for both operators, Du and Etisalat, continued to increase strongly in Q2 2022, by 19.5% and 10.0% Y-o-Y respectively. The increase is due to improvement in commercial activities, and the increase in visitors and tourists to the UAE, which reflects the strong economic growth, and a high level of domestic consumption during Q2 2022.

Table 2.2. Contribution to Q1 2022 non-oil real GDP by economic activities

Economic Activity	%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	17.0%
Manufacturing	14.5%
Financial and insurance activities	12.1%
Construction	11.0%
Public Administration and Defense; Compulsory Social Security	7.6%
Real Estate activities	7.4%
Transportation and Storage	6.6%
Professional, Scientific and Technical Activities and Administrative and Support Services	6.0%
Information and Communication	4.0%
Accommodation and Food Service Activities	3.4%
Electricity, Gas, and Water Supply; Waste Management Activities	2.9%
Agriculture, Forestry and Fishing	2.2%
Education	2.0%
Human Health and Social work Activities	1.7%
Activities of Households as Employers	0.9%
Arts, Recreation and Other Service Activities	0.6%

Source: FCSC

Figure 2.5 Etisalat and Du Mobile Subscriptions and Y-o-Y Growth



Source: Etisalat and DU, and CBUAE estimates

Real Estate

Real estate activities represent the fourth most important non-hydrocarbon sector with 8.2% of the non-oil GDP. According to REIDIN house price index, the average price per square meter recorded a 2.7% Y-o-Y increase in Q2 2022 in Abu Dhabi. In addition, rents in Abu Dhabi rose by 0.2% over the same period, leading to a stable rental yield at 6.5% in Q2 2022. However, in July 2022 rents decreased by 1.4% M-o-M while the average price per square meter increased by 1.3% M-o-M.

As per the Dubai Land Department (DLD), Dubai continued to show impressive real estate growth rates. Residential property sale prices in Dubai increased on average by 25.4% Y-o-Y in Q2 2022, while rents increased by 3.6% over the same period. The implied rental yield declined to 5.3% in Q2 2022. In July 2022, Dubai's sales and rents prices increased by 1.1% and 0.9% M-o-M.

Tourism and hospitality

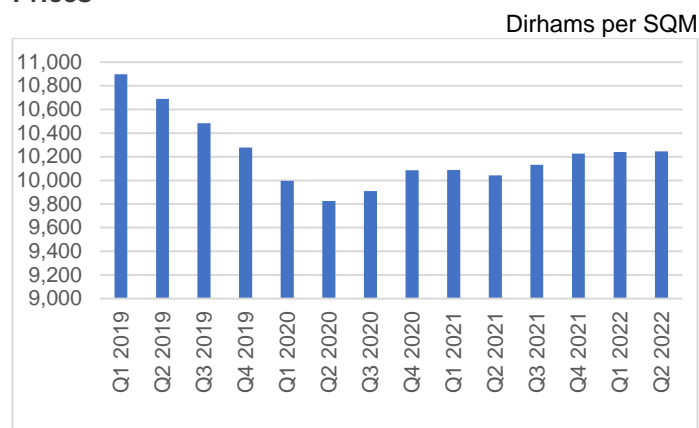
The UAE's tourism revenues surpassed AED 18 billion in the first half of 2022, with a strong performance expected in the winter when neighboring Qatar will host the Football World Cup. The UAE is considered a safe destination for many tourists worldwide, given the outstanding handling of the COVID-19 pandemic, and the confidence it entails to international travelers, with YTD August 2022 average occupancy of 71%, an increase compared to 61% over the same period in the previous year and almost the same ratio compared to 2019. Meanwhile, the average occupancy for Q2 and August 2022 in Abu Dhabi was at 63% and 67%, respectively.

Transportation

In the first half of 2022, Etihad Airways registered a profit despite high fuel costs, as the travel sector started to recover from the downturn caused by the coronavirus pandemic. During the same period, the airline carried 4.02 million passengers, up by more than three million a year ago.

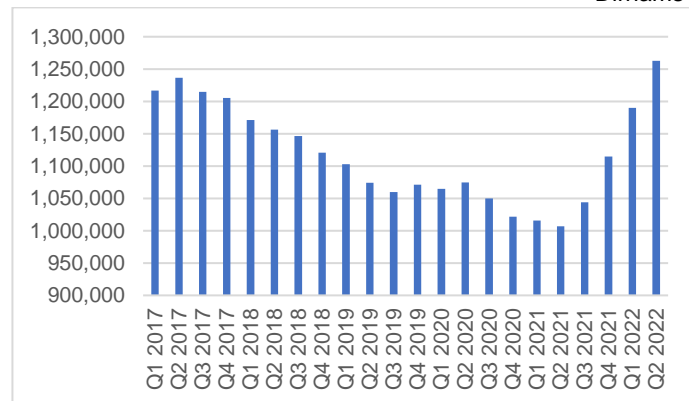
Dubai International Airport (DXB) continued to be among the top positions of world's busiest airports by the number of international passengers. The airport welcomed 27.8 million passengers in the first half of 2022, up more than 160% from the same period in 2021, with average daily traffic reaching 214,000 travelers.

Figure 2.6. Average Abu Dhabi Residential Unit Sale Prices



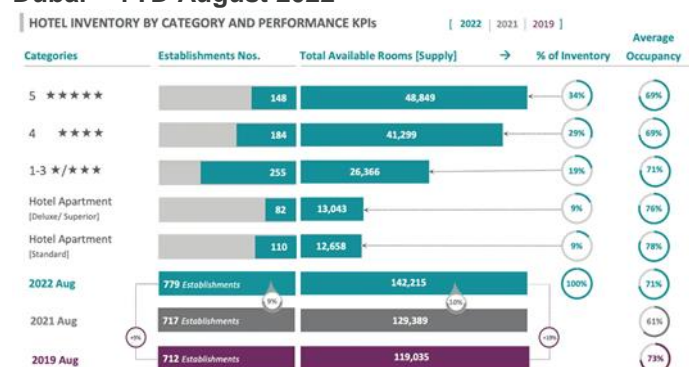
Source: REIDIN

Figure 2.7. Average Dubai Residential Unit Sale Prices



Source: DLD

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



Source: Dubai Tourism

II.3. Inflation

Inflation increased during the Q2 2022 to 6.8% Y-o-Y

CPI inflation for 2022 projected at 5.3%

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

Inflation drivers

The consumer price index (CPI) continued its increase during Q2 2022 in line with global trends, but remaining below global average. As per FCSC, CPI headline inflation reached 6.8% in Q2 2022, compared to 3.4% in the previous quarter. Housing, the most dominant component with 35.1% of the basket's weight, continued its decline but at a slower pace. This is driven by the moderate recovery in rents in Dubai and the continuation of rents decline in Abu Dhabi.

All other items of the CPI basket witnessed price increases, with average prices of transportation that represents 12.7% of the consumer basket rising by 31.2% in Q2 2022. Food and non-alcoholic beverages, the CPI group with second highest weight, representing 12.0% of the basket, increased by 9.0% as it was impacted by the evolution of global food prices to their highest levels in many years.

Restaurants and hotels' inflation stabilized around 6.7%, and recreation and culture recorded positive inflation of as high as 23.3%, due to the higher prices of items such as holiday packages. Inflation in education and in communication increased as well by 0.9% and 5.0%, respectively, driven by the rise of imported equipment that is impacted by supply bottlenecks and shipment costs, in addition to an increase in fees and subscriptions. The remaining components of the basket were also impacted by imported global inflation, supply bottlenecks, and high transportation cost.

Inflation projections

The Central Bank of the UAE projects overall inflation at 5.3% in 2022. The pass-through to headline inflation of higher oil and food prices will remain significant. Upward pressures on inflation can result from higher employment that would feed into higher demand, adding upward pressures on prices. The higher population can also have an impact on increasing rents, but data show that housing supply remains higher than demand, therefore containing rents' increase.

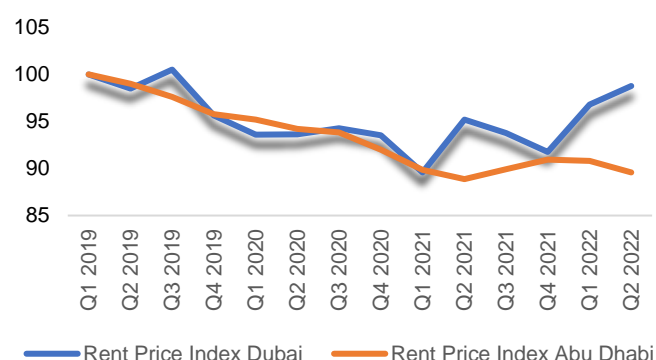
The impact of imported inflation is expected to be mitigated by the fact that the UAE dirham has appreciated vis-a-vis most currencies, in line with the continuous appreciation of the USD. The appreciation makes UAE's imports cheaper, limiting the pass-through effect of global inflation to domestic prices.

Table.2.3. UAE CPI Inflation (%)

	Weights	Q1 22	Q2 22
All Items	100	3.4	6.8
Housing, Water, Electricity, Gas	35.1	-2.0	-0.4
Transportation	12.7	22.0	31.2
Food & Beverages	12.0	5.4	9.0
Education	7.6	0.9	0.9
Communications	5.9	2.3	5.0
Textiles, Clothing and Footwear	5.2	2.7	1.3
Furniture and Household Goods	5.1	2.1	2.1
Miscellaneous Goods and Services	4.9	1.0	4.2
Restaurants & Hotels	4.6	6.9	6.7
Recreation and Culture	3.1	0.5	23.3
Medical Care	2.2	2.0	3.2
Insurance and Financial Services	1.3	-1.7	5.0
Tobacco	0.2	4.1	4.2

Source: FCSC, 2021 Base Year

Figure 2.9. Average Abu Dhabi and Dubai Rent Price Indexes (Q1 2019=100)



Source: DLD and REIDIN, and CBUAE calculations

Chapter 3

Monetary and Financial Markets Developments



III.1. Money Supply and Interest Rates

Monetary aggregates M2 & M3 grew in August 2022 by 9.4% and 13.2% Y-o-Y, respectively

Dirham Overnight Index Average (DONIA) increased by 199 bps between April and August to 2.3%

Monetary conditions have tightened on expectations of further interest rate increases

Monetary Aggregates

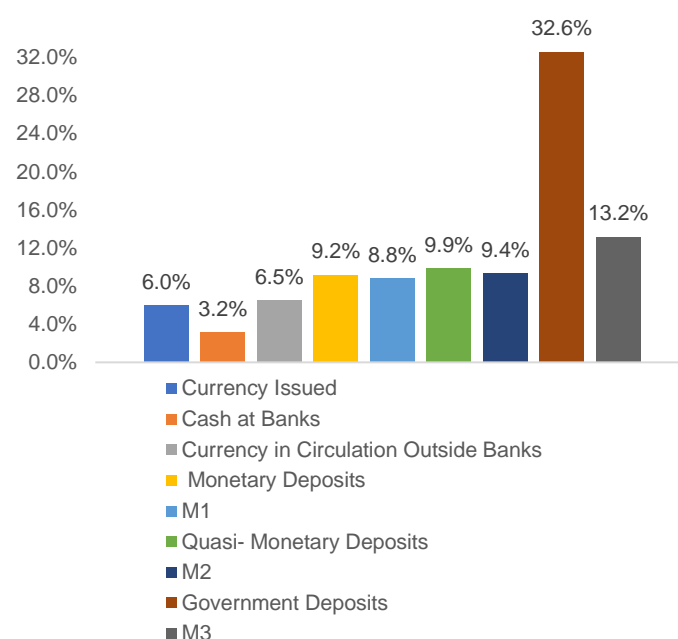
The monetary aggregate M1 rose by 8.8% Y-o-Y, standing at AED 719.4 billion at the end of August 2022. The increase was due to a Y-o-Y increase in monetary deposits (86.5% of M1) by 9.2%. The monetary aggregate M2 increased by 9.4% Y-o-Y reaching AED 1,627.7 billion, due to the rise in quasi-monetary deposits (55.8% of M2) by 9.9% Y-o-Y. Subsequently, M3 also grew by 13.2% Y-o-Y, reaching AED 2,016.1 billion at the end of August 2022. The rise in M3 was the result of an increased M2 and 32.6% growth in government deposits at commercial banks and CBUAE (19.3% of M3).

Interest Rates

Short-term interest rates continued to rise through mid-2022, with the Dirham Overnight Index Average (DONIA) increasing 199 bps between April and August. This was reflective of the change in the CBUAE's main policy rate, the Base Rate, which increased 200 bps through the same period in line with movements in the US Federal Reserve's Interest on Reserve Balances (IORB) rate. Reflecting a very sizeable surplus liquidity position, overnight interbank rates continued to track below the base rate, by around 8 bps between April and August. This was also evident in subdued volumes in the interbank market, which remain considerably lower than pre-2020 levels.

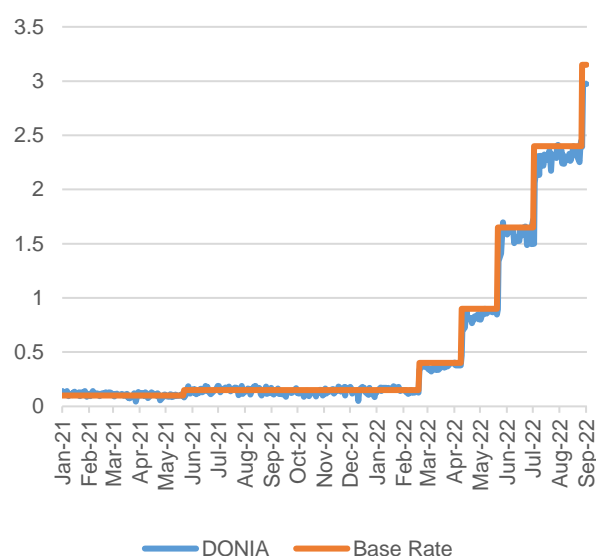
Term interest rates were also up through mid-year, though the curve flattened through the period, with the spread between overnight and twelve month EIBOR narrowing by 55 bps, to 123 bps. Such trends were also evident in other money market instruments such as swaps and forward implied yields though to a lesser extent and largely in line with US money markets. In contrast, the M-Bills curve did not flatten to the same extent.

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



Source: CBUAE

Figure 3.2. DONIA and Base Rates (%)



Source: CBUAE

III.2. Banking Developments

Credit growth recovered at a rate of 4.5% Y-o-Y with a broad recovery across key sectors.

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

Robust deposits growth of 12.3% Y-o-Y, led by private sector corporate deposit growth.

Banking System Assets and Structure

The UAE banking system's total assets increased by 9.1% Y-o-Y reaching AED 3,524 billion in August. The number of licensed banks in the UAE totaled 59 by August 2022, including two banks operating a fully digital platforms. The UAE banking sector comprised a total of 22 national banks and 37 foreign banks. The number of bank branches in the UAE moderated to 581 branches, reflecting the continued adoption of digitalization.

Banking System Credit and Deposits

Aggregate bank lending growth continued to improve across key lending categories, with a growth rate of 4.5% Y-o-Y as of August 2022. The improvement was driven by domestic credit, particularly to the private sector and government-related corporate entities. Lending to domestic private corporates increased by 3.6% Y-o-Y, while lending to the domestic retail sector sustained strong growth of 7.3% Y-o-Y. Lending to government-related corporate entities rebounded, recording a Y-o-Y growth of 10.4%. Nevertheless, lending to the SME sector remained muted.

Banking system deposits continued their strong growth trajectory, recording a 12.3% Y-o-Y growth at the end of August 2022 (the highest since February 2015). The growth was primarily from the expansion of resident deposits which grew by 13.8% Y-o-Y. Resident private corporate and government sector deposits increased by 12.0% Y-o-Y and 34.3% Y-o-Y, respectively, contributing to the robust aggregate deposits growth. Deposits by government-related corporate entities, however, contracted by 2.0% Y-o-Y.

The CBUAE Credit Sentiment Survey

The CBUAE's Credit Sentiment Survey published in Q2 2022 highlighted a persistent credit appetite, evident by the strong growth in demand for businesses and household loans. The survey conveys ongoing confidence in the recovery of the UAE's economy, with the economic outlook playing a key role in driving the demand for credit and the willingness to lend by financial institutions.

Table 3.1. Assets and Credit at UAE Banks

Billions of AED

Item	Dec-21	Mar-22	Jun-22	Aug-22
Total Assets	3,322	3,336	3,449	3,524
(Y-o-Y change)	4.2%	5.1%	7.5%	9.1%
Gross Credit	1,794	1,832	1,866	1,851
(Y-o-Y change)	0.8%	4.4%	5.5%	4.5%
Domestic Credit	1,619	1,639	1,659	1,640
(Y-o-Y change)	1.4%	3.1%	4.0%	2.6%
Government	236	227	222	212
(Y-o-Y change)	-4.1%	-10.2%	-9.5%	-13.8%
GREs	245	264	260	248
(Y-o-Y change)	9.6%	22.6%	16.3%	10.4%
Private Sector	1,121	1,133	1,163	1,166
(Y-o-Y change)	0.7%	2.5%	4.5%	4.7%
NBFIs	17	16	14	13
(Y-o-Y change)	20.0%	-4.3%	1.5%	-5.7
Foreign Credit	175	193	207	211
(Y-o-Y change)	0.6%	16.9%	19.2%	22.1%

Source: CBUAE

Note: Data as of end of period.

Table 3.2. Total Deposits at UAE Banks

Billions of AED

Item	Dec-21	Mar-22	Jun-22	Aug-22
Bank Deposits	1,997	2,006	2,092	2,166
(Y-o-Y change)	5.0%	6.6%	9.6%	12.3%
Resident Deposits	1,766	1,791	1,844	1,928
(Y-o-Y change)	5.0%	6.8%	9.5%	13.8%
Government Sector	288	291	317	388
(Y-o-Y change)	0.4%	5.1%	12.7%	34.3%
GREs	248	239	213	228
(Y-o-Y change)	-3.2%	-2.8%	-6.4%	-2.0%
Private Sector	1,191	1,220	1,265	1,275
(Y-o-Y change)	8.3%	9.2%	11.6%	12.0%
NBFIs	38	41	48	37
(Y-o-Y change)	-4.8%	9.4%	18.7%	8.5%
Non-Resident Deposits	231	215	248	238
(Y-o-Y change)	14.4%	5.6%	10.1%	1.6%

Source: CBUAE

Note: Data as of end of period.

III.3. Financial Developments

The UAE banking system remained well capitalized with sufficient liquidity and stable funding

Share prices rose by 25.3% in Dubai and 53.8% in Abu Dhabi Y-o-Y

CDS premium for Abu Dhabi remained among the lowest in the Middle East and Africa

Financial Soundness Indicators

The UAE banking system continued to maintain adequate capital levels with an aggregate Capital Adequacy Ratio of 16.9%, well above the minimum regulatory requirements. The Tier 1 capital ratio was 15.8%, while the Common Equity Tier 1 (CET 1) Ratio was 14.0%. Meanwhile, the Eligible Liquid Assets Ratio² stood at 18.0%, reflecting continued strong liquidity conditions.

The Advances to Stable Resources Ratio of the UAE banking system improved by 0.3 percentage points to 79.1%, reflecting the adequate stable funding resources supported by the robust deposits growth. The sustained capital levels and strong liquidity indicators, combined with adequate stable funding, indicate an overall resilient financial position of the UAE banking system in Q2 2022.

Stock Exchanges

The Abu Dhabi Securities Exchange (ADX) average share price index increased by 53.8% Y-o-Y in Q2 2022 and extended to AED 2.1 trillion in August 2022. The Dubai Financial Market (DFM) average share price index rose by 25.3% Y-o-Y in the second quarter of 2022 and reached AED 568.5 billion in August 2022. The increase in both ADX and DFM was due to the listing of new companies, and the increase in share prices, volumes and market caps.

Credit Default Swaps (CDS)

For the government of Abu Dhabi, the CDS premium rose marginally from 50.4 bps in Q1 2022, to 59.6 bps in Q2 2022. During July and August 2022, it stood at 69.7 bps and 51.7 bps, respectively. Abu Dhabi has a strong fiscal position and due to its large sovereign wealth funds it has one of the lowest CDS premiums in the Middle East and Africa region. Likewise, Dubai's CDS also increased from 98.9 bps in Q1 2022, to 112.7 bps in Q2 2022, and reached 136.0 bps and 124.4 bps in July and August 2022, respectively. However, these changes were relatively low compared to other MENA markets.

Table 3.3. UAE Financial Soundness Indicators

Indicator	Dec-21	Mar-22	Jun-22
Advances to Stable Resources Ratio	77.3%	79.4%	79.1%
Eligible Liquid Assets Ratio	19.6%	19.0%	18.0%
Capital Adequacy Ratio	17.2%	17.1%	16.9%
Tier 1 Capital Ratio	16.1%	16.0%	15.8%
Common Equity Tier 1 Ratio	14.2%	14.2%	14.0%

Source: CBUAE

Note: Data as of end of period.

Table 3.4. UAE Stock Exchanges (Equity Markets)

			Q1-2022	Q2-2022
Abu Dhabi	Share Price Index*	Y-o-Y	62.9%	53.8%
	Market Capitalization*	AED bn	1753.6	1963.4
		Y-o-Y	112.1%	95.9%
	Traded Value**	AED bn	100.9	98.8
		Y-o-Y	100.6%	12.6%
Dubai	Share Price Index*	Y-o-Y	30.0%	25.3%
	Market Capitalization*	AED bn	421.6	554.2
		Y-o-Y	19.1%	46.2%
	Traded Value**	AED bn	22.8	26.6
		Y-o-Y	48.2%	104.6%

Source: SCA

Note: *Average values

**Values during the whole quarter.

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

	2021		2022			
	Q3	Q4	Q1	Q2	Jul	Aug
Abu Dhabi	41.9	42.9	50.4	59.6	69.7	51.7
Dubai	90.4	92.1	98.9	112.7	136.0	124.4

Source: SCA

Note: Average of the quarter

² In the ELAR, the eligible liquid assets include required reserves, mandated by the Central Bank, certificates of deposits, M-Bills held by banks at the Central Bank, in addition to zero-risk weighted government bonds and public sector debt and cash at banks.

III.4. Insurance Developments

4.7% Y-o-Y growth of gross written premiums, and 1.5% decrease of the gross paid claims in H1 2022.

25.8% Y-o-Y increase in the total number of insurance policies in H1 2022.

11.4% and 22.2% Y-o-Y increase in gross written premiums of property and life insurances in H1 2022.

Insurance Sector Activity

The UAE insurance sector continued to grow in H1 2022, as reflected by the increase in number of insurance policies in line with the increase in the gross written premiums.

Gross Written Premiums (GWP)

GWP increased Y-o-Y by 4.7% in H1 2022 to AED 26.8 billion mostly due to increase in property and liability insurance premiums Y-o-Y by 11.4%. Insurance of persons and fund accumulation increased Y-o-Y by 22.2% while health insurance decreased Y-o-Y by (7.3%) in H1 2022.

Number of Insurance Policies

The total number of insurance policies increased Y-o-Y by 25.8% in H1 2022 to 4.9 million policies compared to 3.9 million policies in H1 2021. The increase was mostly due to increased property and liability insurance policies especially in motor insurance and miscellaneous insurances.

Paid Claims

Gross paid claims of all types of insurance plans decreased by 1.5% Y-o-Y to AED 13.1 billion in H1 2022. This was mainly driven by the decrease in claims paid in health insurance by 9.0%, while the claims paid in property and liability insurance increased Y-o-Y by 12.9% and those in the insurance of persons and fund accumulation rose Y-o-Y by 4.2% compared to H1 2021.

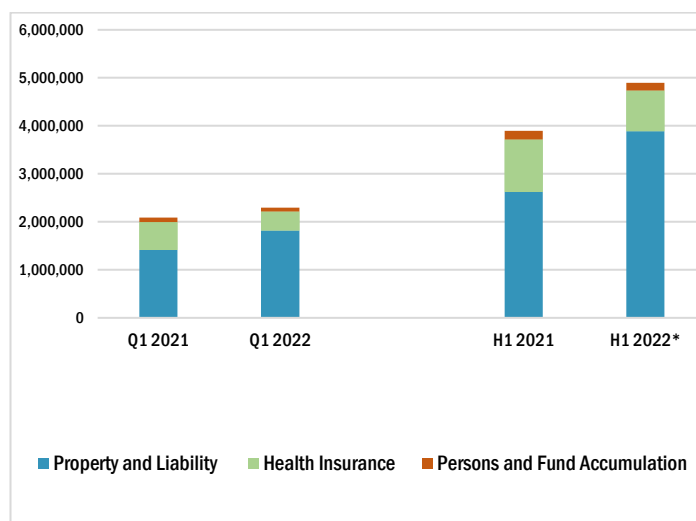
Technical Provisions

The total technical provisions³ increased by 2.8% to AED 70.3 billion in H1 2022 compared to AED 68.4 billion in Q1 2022.

Investments

The volume of invested assets in the insurance sector increased by 2.0% to AED 71.8 billion (59.2% of total assets) at the end of H1 2022 compared to AED 70.4 billion (58.6% of total assets) in Q1 2022.

Figure 3.3. Number of Written Insurance Policies



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

Table 3.6. Key Indicators of the Insurance Sector

Billions of AED

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

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

³ The technical provisions that the insurers must deduct and maintain to meet the insured's accrued financial liabilities as per Law's stipulations and financial regulations for insurance and Takaful companies.
<https://www.centralbank.ae/media/oe5kkapw/financial-regulations-for-insurance-companies.pdf>

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