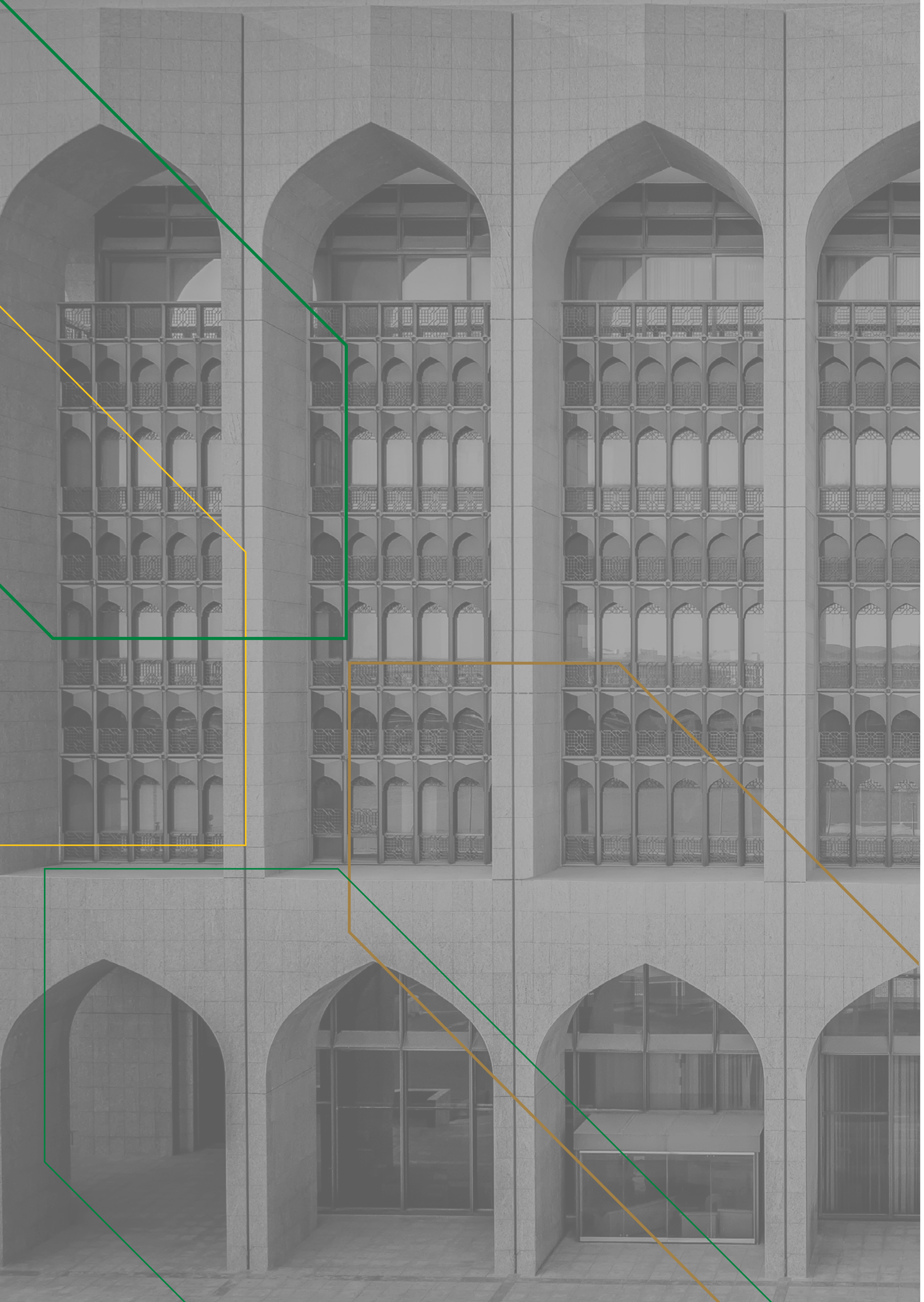
مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

Annual Report 2019

PROMOTING MONETARY AND FINANCIAL STABILITY TOWARDS SUSTAINABLE ECONOMIC GROWTH



H.H. SHEIKH KHALIFA BIN ZAYED BIN SULTAN AL NAHYAN
PRESIDENT OF THE UNITED ARAB EMIRATES

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H.E. HAREB AL DARMAKI
CHAIRMAN

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DEPUTY CHAIRMAN

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H.E. KHALID AHMED ALTAYER
MEMBER

H.E. SAIF HADEF AL SHAMSI
DEPUTY GOVERNOR

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"We continuously reassess our strategic objectives and focus areas to align with the government's agenda."

H.E. HAREB AL DARMAKI
CHAIRMAN

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

In the past year, we continued our efforts to build a central bank that can respond to the challenges of our time. The Central Bank of the UAE, which supports the nation's financial and monetary stability, made notable efforts to achieve its strategic goals, thereby advancing the UAE Vision 2021 of building a diversified, knowledge-based and competitive economy.

As the authority entrusted with ensuring a sound banking system, CBUAE in 2019 further strengthened banking supervision with improved corporate governance and risk management. Our initiatives in 2019 enabled us to ensure that banks in the UAE improved the conduct of their business in a sound and prudent manner.

To support the UAE's long-term economic development, we continuously reassess our strategic objectives and focus areas to align with the government's agenda. In 2019, the CBUAE, in collaboration with the UAE Banks Federation (UBF) and several national banks, launched the 'National Loans Scheme' aimed at easing the burden of debt accumulation for the UAE citizens. During the year, the CBUAE also proceeded to facilitate a 'Consumer Protection Committee' under the aegis of UBF.

As talent is crucial to the sustainable development of a banking and financial system and as capacity building of the UAE's banking sector remains one of our top priorities, we introduced in 2019 a points-based system encouraging the banks operating in the UAE to promote Emiratisation.

In line with the UAE's goal of becoming a global hub for Islamic finance, the Higher Shari'ah Authority (HSA) continued to promote and enhance governance and standardisation of Shari'ah requirements. During the year, the Authority started to develop a new set of Shari'ah standards in collaboration with the UBF to support innovation and consumer protection, while providing Islamic Financial Institutions with guidance on implementation.

Our role is to sustain the pulse of the local economy and high priority was given to the Micro, Small and Medium enterprises. We worked to ease the financial constraints and collaborated closely with other stakeholders.

Globally and, increasingly, locally, Fintech advances are playing a vital role in revolutionising financial services by enhancing efficiency and accessibility. Also, in 2019, we worked to provide the needed regulatory oversight to monitor associated risks and safeguard the safety and soundness of the banking system, without compromising consumer protection.

Finally, the UAE's ranking in global competitiveness indicators is an important indicator as it solidifies the role of the UAE as a regional economic and financial hub and strengthens investor confidence. Accordingly, the CBUAE worked closely with the Federal Competitiveness and Statistics Authority to identify the remaining challenges, as well as, the necessary measures to address them.

In closing, we are proud of what we have accomplished in 2019 while staying true to our core values of being talent-centric, transparent and proactive. On behalf of the entire Board, I would like to convey our thanks to the Central Bank Governor and his dedicated team for their hard work and commitment to helping transform the UAE into one of the most diversified, knowledge-based, competitive economies in the world.

"The United Arab Emirates retains financial and economic stability in an ever changing and stressed global macroeconomic environment, with the Central Bank of the UAE being the anchor of Monetary and Financial stability in the country."

H.E. ABDULHAMID M SAEED
GOVERNOR

MESSAGE FROM THE GOVERNOR

2019 was a remarkable year for the Central Bank of the UAE (CBUAE), as we played a crucial role in the economic development of the nation in a period of major macro-economic changes.

The year was marked by the US-China trade war and monetary action by various central banks across the globe which created volatility in global macro-economic indicators. This was further compounded by oil price volatility coupled with geo-political changes, requiring predictable and transparent monetary policy, consistent with the objective to maintain the peg to the US dollar. I am pleased to report that the CBUAE delivered that.

Despite the turbulent external environment, the UAE's banking sector remained sound in 2019 with strong levels of capital and liquidity. We witnessed major progress on banking consolidation with sustained activities in the commercial banking space, product and business consolidation and the evolvement of a digital environment in banking.

The CBUAE through its robust regulatory policy framework and supervisory role created a strong operating environment for the banking sector underpinned by sound key financial indicators. Against this backdrop, the banking sector is well positioned to manage the substantial stress situation and uncertainty in economies caused by the COVID-19 pandemic.

During the year, we pressed ahead with our Strategic Plan 2017-2021, focusing on seven key pillars that include: enhancing the financial stability; strengthening monetary and reserve management; enhancing regulatory and supervisory framework; improving the UAE's economic management and competitiveness; and improving banking services while ensuring quality, efficiency and transparency. At an operational level, the focus in 2019 was on the adoption of a new "Monetary Management Framework" to enhance transparency in the domestic money market. The framework is expected to be rolled out in the latter half of 2020. The focus on Islamic Banking continued with new standards issued by the Higher Sharia' Authority and a stronger Governance Framework for Islamic banks.

Simultaneously, we continuously assessed our reserves adequacy under severe stress scenarios, to support liquidity in the banking system. We will continue to monitor adequacy of reserves and strike the necessary balance between safety, liquidity and return considerations.

The outlook for 2020 is uncertain, marked by the global impact of the COVID-19 pandemic, both in terms of human lives, health and the economic activity. The strength and resilience of the banking sector will be tested, and the CBUAE shall continue to play its role in terms of guiding the banking sector through this period, with active intervention and support in various facets ranging from liquidity, capital adequacy and other policy measures to ensure we continue to help the business environment in the UAE, with a special focus on small and medium enterprises. Like many other regulators, we have embraced digital, where a key highlight in 2019 was the establishment of a Fintech Office within our headquarters, and positioned the CBUAE as the coordinating authority on prudential and market conduct regulatory requirements.

During the year, we also launched the National Loan Scheme for UAE nationals, which has benefited more than 4,000 citizens since its introduction in March 2019.

In closing, there is no doubt that 2020 will be hallmarked globally as an extremely stressed environment in which the role of the banking regulator will be critical in facilitating financial stability and consumer protection.

The CBUAE shall re-assess its strategic priorities and play a vital role to address these issues in coordination with all applicable government agencies in a proactive and progressive manner. We are unwavering in our commitment to fulfil the mandate of the CBUAE through strengthening of monetary policy, macro-prudential policy, supervision and regulation, while embracing digital technology both as an operating platform and as a regulator.

I would like to thank the Government of the United Arab Emirates, the Board of Directors of CBUAE, the dedicated CBUAE staff and all our stakeholders for their cooperation and collaboration in 2019.

CBUAE AT A GLANCE

The Central Bank of the UAE (CBUAE) promotes financial and monetary stability, efficiency and resilience in the financial system, and the protection of consumers through effective supervision that supports economic growth for the benefit of the UAE and its people.

OUR VISION

Promoting monetary and financial stability towards sustainable economic growth.

OUR MISSION

Enhancing monetary and financial stability through effective supervision, prudent reserve management, and robust financial infrastructure in line with international best practices and standards.

OUR VALUES

Proactive: Establishing a proactive mindset that increases ownership, accountability, and innovation through empowering and enabling employees across all levels and facilitating effective decision making.

Transparent: Creating transparency and openness with the highest integrity across the organisation through effective communication and collaboration.

Talent-centric: Building a caring, talent-centric organisation that rewards and recognises employees and emphasises their development.

OUR HISTORY

1973

The 'Currency Board' was established, as per Union Law No. (2) of 1973. The Currency Board issued the national currency that replaced the Bahraini Dinar and the Qatari and Dubai Riyal currencies that were in use at the time with the UAE Dirham

1974

The establishment of the Research and Statistics Centre

1978

The establishment of the Banking Supervision Department

1980

The Union Law No (10) of 1980 saw the establishment of the Central Bank of the UAE as a public institution. The Law No (10) also augmented the functions of the Central Bank (previously assigned to the currency board) – H.E. Abdul Malik Yousef Al Hamar appointed Governor

1982

Formation of the Risk Bureau

1991

H.E. Sultan Bin Nasser Al Suwaidi appointed Governor

1998

Anti-Money Laundering and Suspicious Case Unit (AMLSCU) was established

2000

Formation of the National Anti-Money Laundering Committee

2009

Financial Stability Unit was formed

2012

Regulatory Development Division was formed, the Central Bank publishes its first Financial Stability Report

2014

H.E. Mubarak Rashed Al Mansoori appointed Governor

2018

Decretal Federal Law No. (14) of 2018 regarding the Central Bank & Organisation of Financial Institutions and Activities issued

2020

H.E. Abdulhamid Saeed appointed Governor

EXECUTIVE LEVEL COMMITTEES

In 2019, the CBUAE formed six different committees to facilitate an efficient and proactive decision-making process. These committees have a focused mandate and complement their collective roles and responsibilities

FINANCIAL STABILITY POLICY COMMITTEE	The committee reviews financial and economic developments and identifies threats to the UAE's financial and economic stability to mitigate systemic risks, while also reviewing related comprehensive analyses and publications.
MONETARY & RESERVE COMMITTEE	The committee's primary objective is to ensure monetary stability through the use of monetary management and policy tools and reserve management by optimising tactical reserve asset allocation and investment guidelines
SUPERVISORY & REGULATORY COMMITTEE	The committee is responsible for safety and soundness of Financial Institutions licensed by CBUAE by proposing and implementing prudential regulations and enforcement of corrective actions as well as determining supervisory priorities
EXECUTIVE COMMITTEE	The committee decides on all operational matters falling within its area of competence as related to operations and support functions as well as any matters delegated to it by the Board of Directors to ensure efficient and effective use of CBUAE resources
RISK COMMITTEE	The committee is responsible for recommending risk management frameworks to the Board Risk Committee and implementing policies maintain adequate and effective risk management across all areas of CBUAE
STRATEGY COMMITTEE	The committee is responsible for CBUAE's overall strategy, which encompasses financial stability, consumer protection, supervisory and regulatory and monetary and reserve management

PART 1.
ECONOMIC, MONETARY AND FINANCIAL DEVELOPMENTS

CHAPTER 1. INTERNATIONAL ECONOMIC DEVELOPMENTS

Global growth decelerated in 2019 owing to trade policy uncertainty and geopolitical tensions. Meanwhile, oil and other commodity prices remained firm despite slower growth in global demand. Inflation remained below target for most advanced economies. Yields on 10-year government bonds globally declined in the first half of the year, then slightly recovered toward the end of the year.

1.1 ECONOMIC GROWTH

As reported in the January 2020 update of the *World Economic Outlook* (WEO) report, the IMF reduced the global growth to 2.9% for 2019—following a 0.1% downward revision from its estimate published in October. For 2020, the impact of the Covid-19 virus is expected to result in the forecasts being significantly revised downwards. The outlook will depend on containment of the impacts of the virus as well as synchronised global efforts in providing fiscal and monetary stimulus.

The major **Advanced Economies (AE)** witnessed slower growth in 2019. Growth in the United States slowed down owing to uncertainties surrounding the outcome of trade negotiations. Growth in the Eurozone was weaker than expected despite diminishing fears of no-deal Brexit towards the end of the year. Further, low industrial production, weakening financial market sentiment, and the impact of trade tensions on global demand negatively affected growth.

Growth in **Emerging Markets and Developing Economies (EMDE)** slowed down to an estimated 3.5% in 2019 mainly due to high trade tensions and an unexpected softening in India's economic performance following sharp downward revisions of domestic demand accompanied by stress in India's non-bank financial sector. Growth among developing and emerging European countries significantly lost momentum — 1.8% in 2019 down from 3.1% the previous year. Similarly, but to a lesser extent, Asian emerging and developing countries witnessed a moderation in their economic performances — 5.6% in 2019 compared to 6.4% a year earlier — owing to the trade war, spill overs from the slowdown in China, and geopolitical tensions.

ECONOMIC OUTLOOK FOR SELECTED ECONOMIES

UNITED STATES

The US economy continued to grow at a moderate rate in 2019 while employment indicators showed a strong performance, although somewhat slower than a year before. The unemployment rate declined to 3.5% in December 2019 from 3.9% in the same month in 2018. This was not fully reflected in the real GDP growth numbers reaching only 2.3% (0.4% lower than the previous year) as consumer spending rose at a moderate pace and business fixed investment declined, especially in the second half of the year.

EURO AREA

The Eurozone annual growth is estimated at 1.2% in 2019 as domestic demand contributed negatively to the aggregate economic activity. Despite favourable financing conditions, business investment remained subdued and market sentiment, captured by the PMI, fell in the contractionary zone.

UNITED KINGDOM

In the UK, the economy continued to settle into a slow growth momentum throughout 2019 registering a rate of 1.4%. Consumer spending contributed positively to aggregate growth while business investment has been on a declining trend, a result of Brexit-related uncertainty.

CHINA

Despite the announcement of a US-China Phase I trade deal, concerns over China's economic outlook continue to linger. World trade slowed to a standstill and the industrial sector in China was heavily impacted. Consequently, growth in China declined to 6.1% in 2019 from 6.6% a year before.

TABLE. 1.1: REAL GDP GROWTH IN SELECTED ADVANCED COUNTRIES

	2018	2019
World Output*	3.6	2.9
USA	2.9	2.3
EURO Area	1.9	1.2
France	1.7	1.3
Germany	1.5	0.6
United Kingdom	1.3	1.4
Japan	0.3	0.7
EMDE 1/*	4.5	3.7
China*	6.6	6.1
India	6.8	5.1
MECA 2/*	1.9	0.8

Source: National Government Statistical Agencies and IMF-World Economic Outlook January 2020

*Estimated

1- Emerging Market and Developing Economies

2- Middle East and Central Asian

JAPAN

In Japan, growth is estimated to have reached 0.7% in 2019 despite positive signs of recovery at the beginning of the year. The fourth quarter registered a sharp decline in economic activity (-7.3% annualised rate) owing to a slowdown in overseas economies, the consumption tax hike and natural disasters.

MIDDLE EAST AND CENTRAL ASIA (MECA)

Growth in the Middle East and Central Asia (MECA) was estimated at a modest 0.8% in 2019. This is consistent with sentiment indicators including the PMI, which remained below the 50 threshold in several countries of the region.

1.2 INFLATION

Consumer price inflation generally remained muted in advanced economies reaching 1.3% at the end of 2019 (IMF January 2020 WEO update). Consumer price inflation increased in Emerging Markets and Developing Economies (EMDE), from 4.8% in 2018 to 5.1% in 2019, owing to higher food prices that more than compensated for the impact of subdued private sector demand.

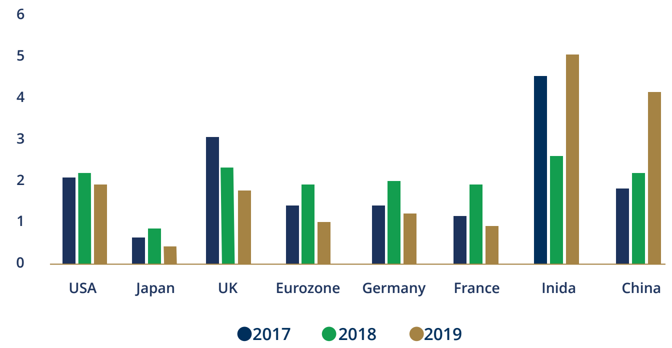
In the **US**, Y-o-Y Consumer Price Index (CPI) increased by 2.3% at the end of 2019 compared to a 1.9% increase in December of the previous year.

In the **Eurozone**, Y-o-Y CPI inflation increased to an average of 1.0% in 2019 compared to 1.9% in 2018.

In the **United Kingdo**m, the increase in the CPI slowed down from 2.3% in 2018 to 1.8% in 2019, the smallest in three years and well below the 2% target of the Bank of England.

In **Japan**, average inflation remained the lowest among advanced economies, evaluated at 0.4% in 2019 compared to 0.8% in 2018—i.e. very well below the Bank of Japan's 2% target—amid a prolonged modest domestic demand, which mitigated the effect of the consumption tax hike introduced in October 2019 (10% from 8%).

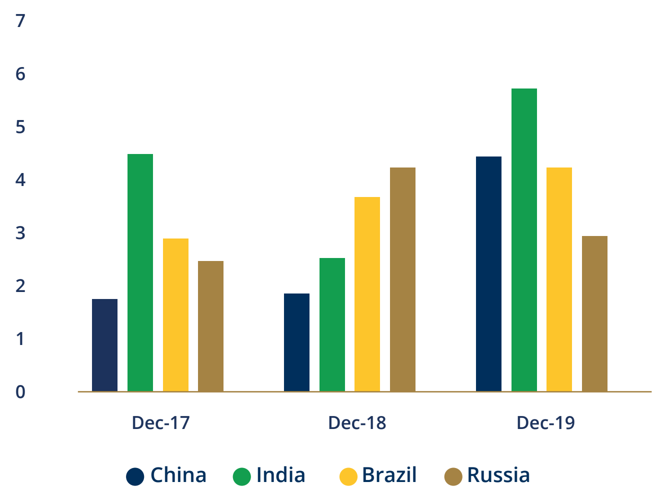
FIGURE 1.1: YEAR-ON-YEAR CONSUMER PRICE CHANGE FOR SELECTED DEVELOPED ECONOMIES (%)



Source: Bloomberg

In **EMDE**, inflationary pressures continued to weaken households' demand as global oil and food prices fluctuated on an upward trajectory during the second half of the year. Average inflation in China registered 4.5% in 2019, compared to 1.9% in 2018.

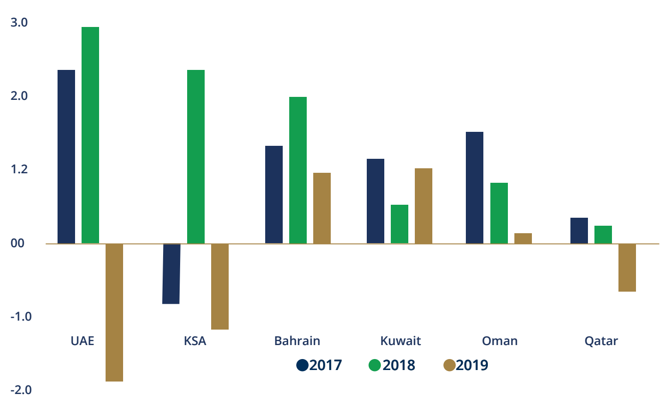
FIGURE 1.2.a: YEAR-ON-YEAR CONSUMER PRICE CHANGE IN EMERGING MARKETS AND DEVELOPING ECONOMIES (%)



Source: Bloomberg

In the **GCC**, the average Y-o-Y CPI inflation in 2019 was negative, around -0.1%. Underlying the average negative inflation are differences across countries. Prices were declining in Saudi Arabia, Qatar, and the UAE but increasing at moderate rates in Kuwait, Bahrain and Oman.

FIGURE 1.2.b: YEAR-ON-YEAR CONSUMER PRICE CHANGE IN THE GCC (%)

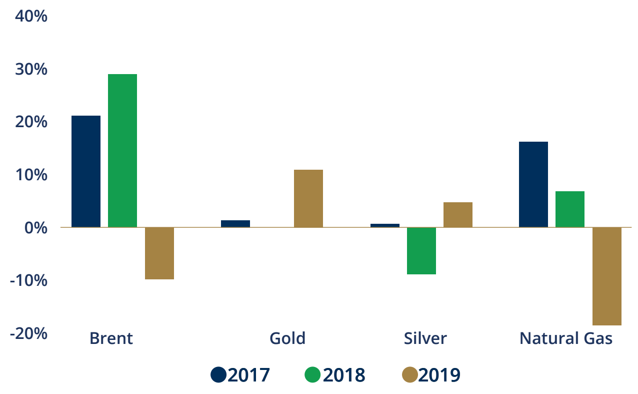


Source: Bloomberg

1.3 COMMODITY PRICES

Commodity prices fluctuated markedly during the year, while decreasing, on average by 10%. Brent crude oil prices reached USD 67 per barrel at the end of December 2019, almost 29.2% increase Y-o-Y. This was mainly attributed to the rising geopolitical tensions in the Middle East region where more than two thirds of the global oil supply are extracted.

FIGURE 1.3: SELECTED YEARLY AVERAGE COMMODITY PRICES (Y-O-Y, % CHANGE)



Source: EIA, Bloomberg

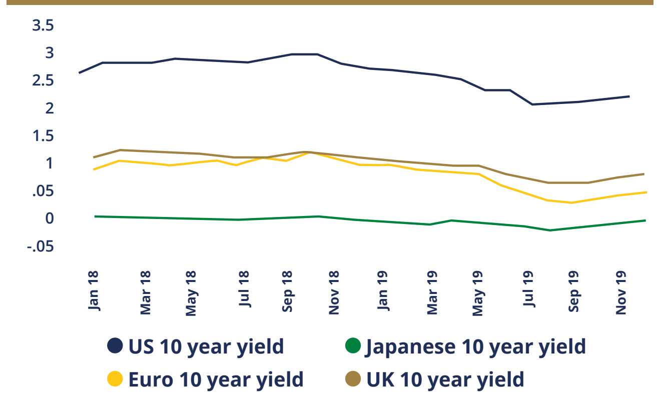
Other commodities witnessed mixed movements throughout the year. Natural gas, for instance, decreased in 2019 by 18.6%, while gold and silver prices increased on an annual basis by 10.8% and 4.6%, respectively.

1.4 GOVERNMENT BOND YIELDS

Government bond yields worldwide was decreasing at the beginning of the year and started to increase in the last quarter of 2019 as investors increased their appetite to invest in more risky assets, supported by the easing cycle by the Federal Reserve Board and the easing of trade tensions.

In the Eurozone, government bond yields reflected a downward trend since the beginning of 2019 amid positive economic performances and receding concerns about the Brexit process[1].

FIGURE 1.4: THE 10-YEAR GOVERNMENT BOND YIELDS FOR SELECTED COUNTRIES (%)



Source: Bloomberg

[1] The European Central Bank builds the euro area bond yield based on all euro area central government AAA-rated bonds.

BOX1: EASING TRADE FRICTIONS AND THEIR IMPACT ON THE UAE

Introduction

The United States and some of its major trading partners have engaged in a contentious dispute, mostly in the form of increased tariffs which in turn resulted in dragging down the global growth in 2019.

1. WORLD TRADE DISPUTES

The trade war between the U.S. and China was in response to the growing bilateral trade deficit that reached USD 347 billion in 2016 and USD 375 billion in 2017. Trade disputes extended to other countries, particularly Canada and the European Union.

2. THE GLOBAL IMPACT

The protectionist measures introduced in 2019 threatened also the rule-based international trade system and even the validity and legitimacy of the World Trade Organization (WTO). As a result, the International Monetary Fund (IMF) growth estimate for 2019 has been revised downward from 3.5%, in the WEO edition of January 2019, to 2.9% in January 2020; the revision applies to all countries that were directly involved in the trade wars, as shown in the Table below.

TABLE B1-1: IMF GROWTH ESTIMATES FOR 2019 (%)

	January 2019 edition	January 2020 edition
World	3.5	2.9
- US	2.5	2.3
- Canada	1.9	1.5
- Euro Area	1.6	1.2
- Germany	1.3	0.5
- France	1.5	1.3
- China	6.2	6.1

Source: World Economic Outlook, the IMF

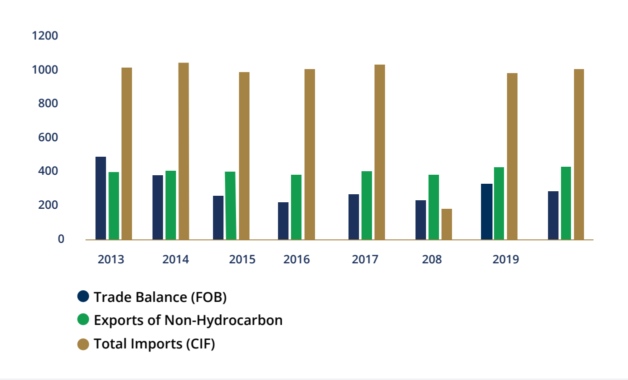
3. RECENT AGREEMENTS AND IMPACT ON THE UAE

Having realised that trade frictions led to "no win" situations for all concerned parties, the U.S. agreed in early July, to hold off the implementation of more import tariffs on EU products and reached a deal, in May 2019, to lift tariffs on steel and aluminium imports from Canada and Mexico. The move helped to put the three nations a step closer to ratifying the USMCA trade deal that would replace NAFTA.

Further, the U.S. and China announced in December 2019, (signed on the 15th of January 2020), phase I trade agreement, reducing the existing US tariffs from 15% to 7.5% on USD120 billion worth of US imports of Chinese products, while China agreed to increase its purchases of American products in the amount of USD 200 billion. This was followed by the US administration's decision to lift the "currency manipulator" designation for China in August 2019, thereby further decreasing the tensions between the two countries.

So far, the open and well-diversified UAE economy weathered relatively well the fall back from the trade wars and global economic slowdown. The Non-hydrocarbon exports are estimated to have increased from AED 380 billion in 2016 to AED 415 billion in 2019, thereby expanding the surplus in the trade balance from AED 202 billion to AED 275 billion, during the same period. Meanwhile, the increase in imports (CIF) slowed down in 2019, reaching AED 984.0 Billion. And the prospects for UAE exports remain favourable in the long term, despite the temporary slowdown due to the global fall back from the coronavirus.

FIGURE B1-1: TRADE BALANCE OF THE UAE (AED BILLION)

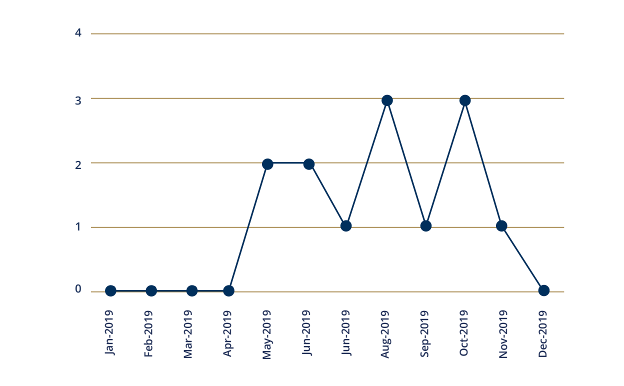


BOX 2: TRENDS IN GLOBAL MONETARY POLICY

Global growth has been decelerating since the beginning of the year 2019, a consequence of the trade tariff escalation, the Brexit uncertainty and geopolitical conflicts. In the January 2020 update of the *World Economic Outlook*, the IMF has revised downward the global growth in 2019 to 2.9% owing to the slowdown registered in both Advanced Economies (AEs) as well as several Emerging Markets and Developing Economies (EMDEs). Despite the end-of-year positive news about Phase I US-China trade deal and diminished uncertainty of no-deal Brexit, the prevailing uncertainties remain tilted to the downside. Many central banks further marked downward their economic forecasts leading to a persistent global trend of monetary easing. One of the major factors is the coronavirus outbreak, which would urge several central banks to extend their accommodative policies in the near future.

Considering the modest growth across the AEs group, policymakers in countries with sufficient monetary space (scope to lower the interest rate)—including the U.S., Iceland and Australia—reduced interest rates mainly during the last two quarters of 2019. Figure B2-1 shows that monetary easing accelerated in AEs with nine rate cut announcements from July to December 2019.

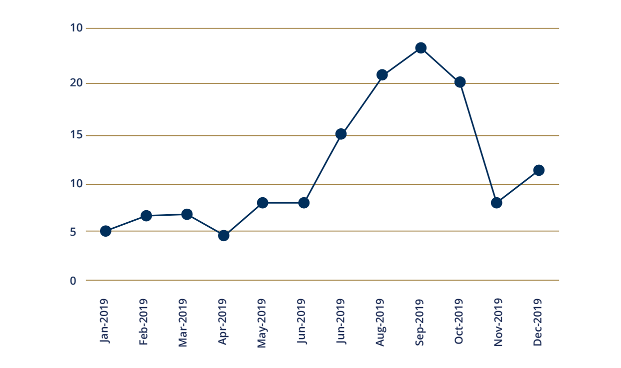
FIGURE B2-1: NUMBER OF POLICY RATE CUTS PER MONTH IN 2019 (AES)



Source: HAVER, and CBUAE staff calculation. A total of 11 central banks: Euro Area, U.S., U.K., Denmark, Norway, Sweden, Switzerland, Canada, Japan, Iceland, Australia and New Zealand

Taking advantage of the monetary policy loosening in the U.S. during the second half of 2019, a number of central banks across EMDEs—e.g., Russia, India, Malaysia, and Nigeria—have eased interest rates to counter the global headwinds. As illustrated in Figure B2-2, in the second half of the year, 99 policy rate cuts were registered in 73 EMDEs, almost three times the number of expansionary policy decisions during the first six months.

FIGURE B2-2: NUMBER OF POLICY RATE CUTS PER MONTH IN 2019 (EMDES)



Source: HAVER, and CBUAE staff calculation. Total of 73 central banks

BOX 2: TRENDS IN GLOBAL MONETARY POLICY

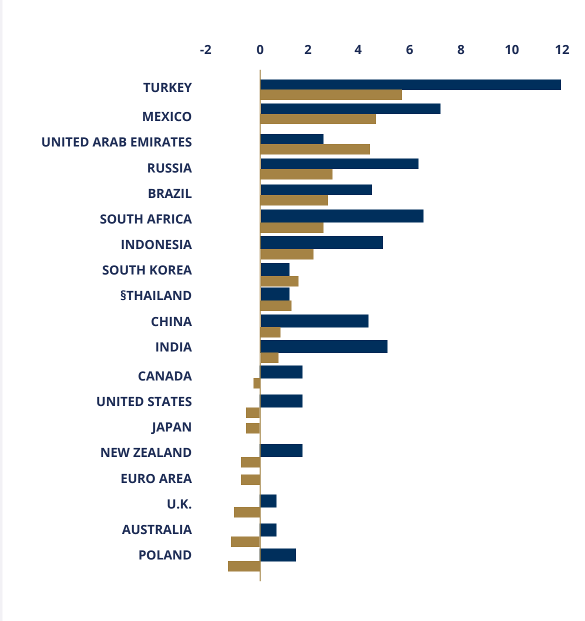
As a broad indicator of monetary policy space, the real interest rate across countries shows that EMDEs are in a more comfortable position than AEs to overcome a possible economic downturn via monetary easing.

On the other hand, policy makers in AEs need to strike a fine balance between different policy tools when reacting to future risks as their budgetary space is often limited.

Many central banks have resorted to unconventional monetary policy to stimulate the economy. The US Federal Reserve Board announced in October 2019 the extension of the ad hoc liquidity lifeline through a program of buying USD 60 billion of treasury bills per month. After a pause for a few months, some of the world's leading central banks resumed their quantitative easing (QE) programmes as they hit a binding constraint, precluding further lowering of interest rates. For instance, Bank of Japan has been undertaking monetary easing for the past decade almost on steady basis, against the backdrop of persistent negative interest rate.

Similarly, at the end of 2019, the ECB announced a new programme of buying bonds at a monthly pace of 20 billion euros while the Bank of England decided to maintain its QE policy at GBP 435 billion (the current level of government bonds in the BoE's balance sheet).

FIGURE B2-3: REAL INTEREST RATES IN AES VERSUS EMDES (IN %)



Source: Bloomberg

Blue: Nominal interest rates.
Brown: Real interest rates.

Interest rates correspond to central bank's benchmark interest rate at the end of the year and inflation is the CPI Y-o-Y change.

CHAPTER 2.
DOMESTIC ECONOMIC DEVELOPMENTS

Higher hydrocarbon output, as well as growth in non-hydrocarbon economic activity, supported the pace of overall economic growth in 2019. Meanwhile, the fading effect of VAT, the appreciating Dirham, lower energy prices and decline in rents pushed inflation in negative territory. However, employment rate registered a steady rebound. Looking ahead, the economic outlook for 2020 remains uncertain owing to the COVID-19 outbreak.

2.1 ECONOMIC ACTIVITY AND GROWTH

The UAE hydrocarbon sector is estimated to have exhibited a growth of 3.4% in 2019. However, non-oil activities advanced at a softer pace growing by 1.0%. As a result, overall real GDP is estimated by FCSA to have grown by 1.7% in 2019.

The spread of Covid-19 is expected to impact trade and supply chain movements, coupled with travel restrictions which paves way for high volatility in capital markets and commodity prices. While the outbreak is expected to negatively affect the global and domestic economies, it is still early to gauge the scale of the economic fallout.

TABLE 2.1: ECONOMIC GROWTH IN THE UAE (%)[2]

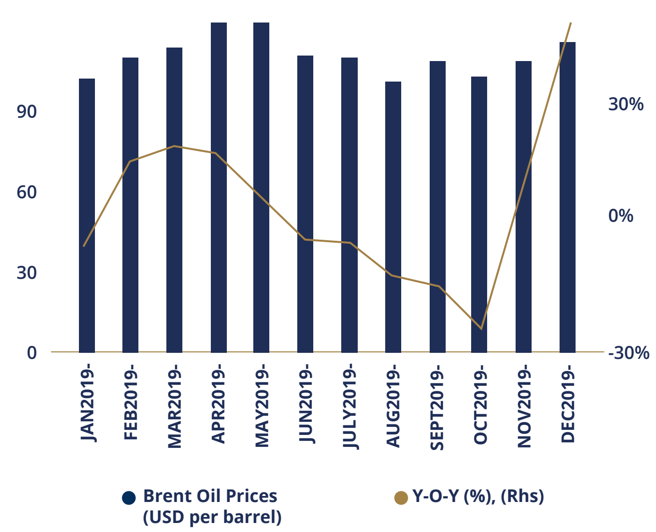
Period	2016	2017	2018	2019
Overall GDP	3.0	2.4	1.2	1.7
Hydrocarbon GDP	2.6	-3.2	2.5	3.4
Non-Hydrocarbon GDP	3.2	4.8	0.7	1.0

Source: FCSA

The oil price averaged USD 64 per barrel in 2019, bolstering the pace of economic growth in the UAE. However, this was a decline of 10% on 2018 owing to the weakening of global demand amid trade policy and Brexit uncertainties, and emerging markets underperformance.

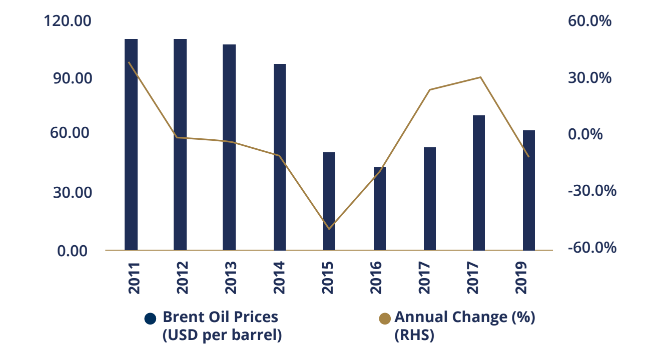
[2] The 2020 forecast will be published in the 2020 *Q1 Quarterly Economic Review.*

FIGURE 2.1.a: OIL PRICE DEVELOPMENTS IN 2019



Source: EIA

FIGURE 2.1.b: ANNUAL OIL PRICE DEVELOPMENTS

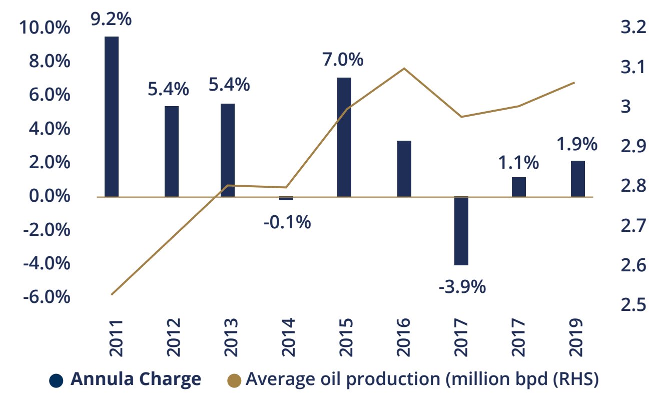


Source: EIA

OPEC's estimates of non-OPEC oil supply for 2019 are at an average of 64.34 million barrels per day. Regarding OPEC production, member countries announced additional cuts of 500 thousand barrels per day for the first quarter of 2020, which has been revised due to the effects of COVID-19.

During 2019, oil production in the UAE averaged 3.06 million barrels per day; increasing by 1.9% compared to a rise of 1.1% in 2018. Production remained relatively stable throughout the year.

FIGURE 2.1.c: UAE OIL PRODUCTION



Source: OPEC

Box 3 presents a brief on diversification policies in the UAE, Box 4 presents UAE ranking in international competitiveness indicators, while Box 5 describes the recent developments in the domestic real estate market.

1.7%

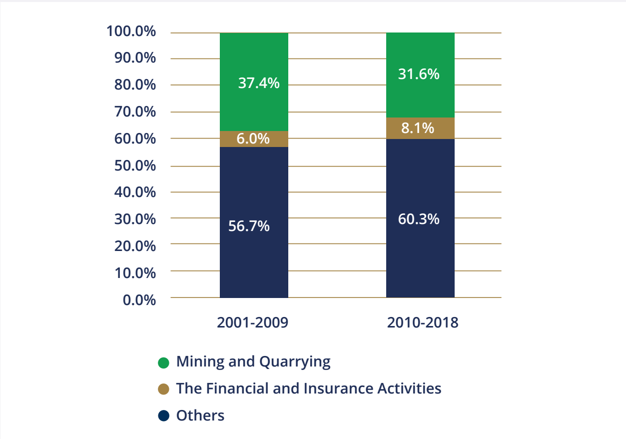
overall real GDP is estimated by FSCA to have grown by 1.7% in 2019

BOX 3: DIVERSIFICATION POLICIES IN THE UAE[3]

This Box highlights the significant efforts undertaken by the authorities in the UAE to boost further economic diversification over the last decade. The Box starts with a historical overview, and then it captures some of the reforms undertaken and remaining challenges to sustain the course of further diversification. It concludes with policy implications.

There have been three broad phases of economic transformation in the Arabian Gulf economies. The first transformation occurred after the discovery of oil in 1960s, which for the first time provided resources to start building basic infrastructure and improve standards of living. The second transformation was the result of the oil price surge in 1973-4, which tripled oil revenues for governments in the region and created fiscal space for ambitious socioeconomic and infrastructure programs. As a result, per capita income and access to public services improved dramatically, and high growth was registered in the non-oil activity.

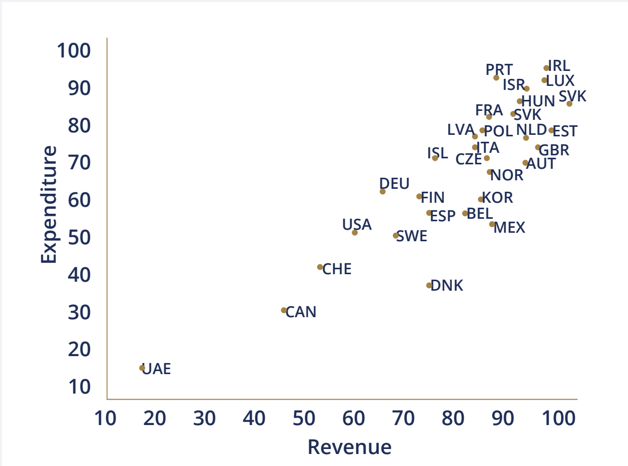
FIGURE B3-1: PERCENTAGE OF ECONOMIC SECTORS[4]



Source: FCSA and CBUAE calculations

Most recently, in the wake of the financial crisis, many countries in the Gulf region have taken steps to promote sustainable growth and reduce dependency on oil revenues going forward. In the UAE, the hydrocarbon sector has continued to decrease in relative importance, constituting 32% of GDP in 2018 versus 38% in 2010. The share of high-technology exports almost tripled over the same period.

FIGURE B3-2: SIZE OF CENTRAL GOVERNMENTS, 2015



Source: IMF

BOX 3: DIVERSIFICATION POLICIES IN THE UAE

One important initiative to sustain this development is the "In-Country-Value Programme" pursued by major Government-Related Enterprises (GREs), which aims at supporting the economy through diversification, building industrial clusters, creating jobs, intensifying the reliance on domestically produced goods and services, and supporting non-energy exports. A notable subscriber to the programme is Abu Dhabi National Oil Company (ADNOC), a state-owned Oil Company holding almost 6% of the world's largest proven oil reserves. The programme, which was announced in early 2018, involves a 5-year investment plan of AED 400 billion aiming to further increase domestic spending and activity by awarding at least 40% of contracts to local business.

Another example is the 'Ghadan 21' Programme adopted by Abu Dhabi Executive Council. The programme identifies four crucial themes to promote economic development in the country, namely improving the competitiveness of the business environment, supporting and enabling SMEs, strengthening the private sector across the board and in critical sectors, and increasing transparency and engaging with Abu Dhabi businesses.

Finally, given the unique federal structure of the UAE, one of the lessons learnt from the crisis was the need to improve policy coordination among the seven Emirates, including timely and adequate data sharing. Coordination is managed at the federal level by the CBUAE and the Ministry of Finance.

In this context, the CBUAE has successfully developed a macro-framework to analyse the impact of the collective fiscal stance across the nation on non-oil growth. The results should inform decision makers on the required policy adjustments in a timely fashion.

THE PROGRAMME, WHICH WAS ANNOUNCED IN EARLY 2018, INVOLVES A 5-YEAR INVESTMENT PLAN OF AED 400 BILLION

[3] *This box is an overview of a working research paper prepared by the Research and Analysis division at the Central Bank of UAE.*
[4] *This figure illustrates the development in the diversification efforts by the UAE authorities. Oil sector has shrunk in the second column; meanwhile, size of Financial and Insurance sector has grown.*

BOX 4: UAE INTERNATIONAL RANKINGS

High economic rankings for the UAE helped boost investor confidence as well as for its sovereign credit rating, which in turn helped attract FDI. The following is a concise presentation of UAE rankings in four major indices.

1. DOING BUSINESS REPORT

The UAE has witnessed a substantial improvement on World Bank ranking for ease of doing business, from 34 in 2015 to 16 out of 190 countries in 2019. This remarkable improvement is the result of several reforms, particularly by reducing fees to start and operate business. As an example, in July 2019, the Ministry of Economy reduced fees on renewing the registration of foreign subsidiaries, registration and renewal of foreign trademark registration, sale or acquisition services for foreign companies and dispute services. In addition, Ministry of Human Resources and Emartisation (MOHRE) reduced fees on more than 200 services, including the issuance and renewal of work permits, and the amendment of employment contracts. A significant development was the issuance of new rules by the Exchange Security and Commodity Authority (ESCA) in 2015 to protect minority shareholders. Nonetheless, challenges remain in "Getting Credit" where the UAE ranked 48 due to a need to strengthen the legal rights defined by the Doing Business Report as the rights of borrowers and lenders through collateral laws and the protection of secured creditors' rights through bankruptcy laws. There is also a need to decrease the cost of cross-border trade by reducing the cost of documentation and border compliance, which are seven times and 2.5 times higher in the UAE compared to Singapore.

2. THE GLOBAL COMPETITIVENESS INDEX

The UAE ranking in the Global Competitiveness Index, published by the World Economic Forum improved as well, reaching position 25 out of 141 countries in 2019. However, the UAE ranks 92 in "Health" due to relatively low reported life expectancy. Therefore, the UAE needs to tackle health issues and update its health-related data used to compile the Index.

3. THE GLOBAL INNOVATION INDEX

Since 2015, the UAE has improved its ranking in the Global Innovation Index from 47 to 36 in 2019, thanks primarily to advances in research and development. This was further enhanced following the issuance of a 10-year gold visa for scientists approved by the cabinet in June 2019 and the establishment of the Abu Dhabi Research & Development Authority in November of the same year.

BOX 4: UAE INTERNATIONAL RANKINGS

4. THE HUMAN CAPITAL REPORT

TABLE B4-1: UAE RANKINGS IN COMPETITIVENESS

	2015	2016	2017	2018	2019
Doing Business Report	34	26	21	11	16
The Global Competitiveness Index	12	16	17	27	25
The Global Innovation Index	47	41	35	38	36

Source: FCSA, World Bank, World Economic Forum

The HCI measures the amount of human capital that a child born today can expect to attain by the age of 18. For the UAE, it is estimated that a child born today will be only 66% as productive as they could be if enjoying complete education and full health.

Among the main findings related to the UAE-HCI is that the country score higher than the average for the region, but lower than the average of countries in the UAE income group. In particular, children in the UAE can expect to complete 13.1 years of pre-primary, primary and secondary school by age 18, but adjusted for quality, this is only equivalent to 9.5 years of schooling, i.e., a learning gap of 3.6 years.

Hence, to close this gap the challenge is to improve the quality of education so that youth will have the skills required for a knowledge-based economy.

TABLE B4-2: GCC RANKING IN WORLD BANK HCI

	Learning – Adjusted years of schooling*	Score	Ranking
UAE	9.5	0.66	49
Saudi Arabia	8.1	0.58	73
Bahrain	9.6	0.67	47
Qatar	8.5	0.61	60
Kuwait	7.6	0.58	77
Oman	8.9	0.62	54

* Refers to years completed by age 18.

Source: World Bank

BOX 5: DEVELOPMENTS IN THE RESIDENTIAL REAL ESTATE MARKET

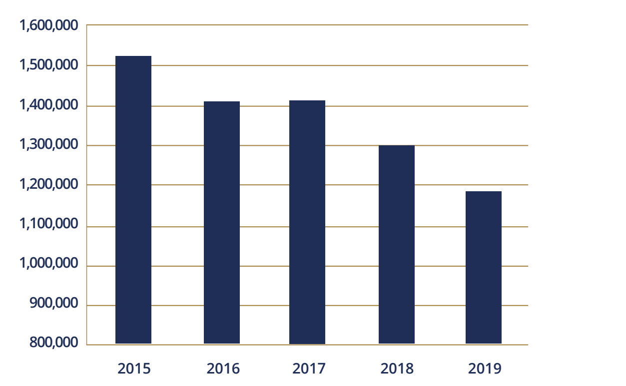
According to data for 2019, the average annual residential real estate prices in the UAE continued to decline.

Rents in Abu Dhabi in 2019 declined at a comparable pace with the decline of sale prices, stabilising the rental yield, which measures the rate of income return over the cost associated with an investment (the property price), in the Emirate. Yields in 2019 increased in Dubai, reflecting the lower rate of drop in rents than in sale prices.

DUBAI RESIDENTIAL MARKET

According to recent data from Dubai Land Department (DLD) there was a fall in residential property prices by 8.8% in 2019 in Dubai, followed by a decrease of 8.1% in 2018.

FIGURE B5-1: AVERAGE DUBAI RESIDENTIAL UNIT SALE PRICES (AED)



Source: DLD

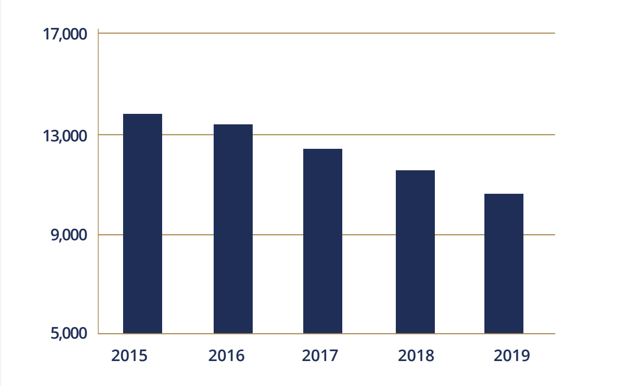
Since the downward cycle started in mid-2014, the fall in prices has been accompanied by a fall in rents, which declined by 7.2% in 2019.

The implied rental yield in Dubai largely remained unchanged at 6.4% in 2019 to 6.3% in the previous year, citing a slower pace of decline in rent relative to property values.

ABU DHABI RESIDENTIAL MARKET

For Abu Dhabi, according to the REIDIN[5] Price Index the average price in the Abu Dhabi housing market declined by 7.7% in 2019.

FIGURE B5-2: ABU DHABI RESIDENTIAL PRICES (AED/SQM)



Source: REIDIN

Rents in Abu Dhabi declined by 7.5% in 2019, a significantly lower rate than the drop of 10.6% during the previous year.

The similar declines in rents and prices meant that the rental yield was virtually unchanged, at 6.9% compared to 6.8% in 2018.

[5] *REIDIN Residential Price Index in Abu Dhabi covers 7 areas and 5 districts*

2.2 CONSUMER PRICE INDEX AND INFLATION

The Consumer Price Index in the UAE declined by 1.9% in 2019, which is the first negative annual change in CPI inflation since the Index was first reported by the Federal Competitiveness and Statistics Authority (FCSA) in 2009. Deflation was driven by the continued decline in rents and utilities prices, which represent 34% of the consumption basket, the appreciating Dirham (in nominal terms) and the fading effect of the VAT introduced at the beginning of 2018. Moreover, the CPI was influenced by the drop in oil prices, which was transmitted to the domestic fuel prices through the transportation prices, assumed to be split equally between the tradables and non-tradables.

The tradeable and non-tradeable prices have different drivers, hence their dynamics are different. Inflation in tradable prices reversed from 6.9% in the previous year to a deflation of -1.5% in 2019. Similarly, non-tradable prices decreased by 2.2% in 2019 compared to an increase by 1.2% in 2018.

TABLE 2.2.a: UAE CPI INFLATION BY MAJOR GROUPS (%)

Period Average	Weight	2019	
	%	Inflation	Contribution
Total Inflation	**100**	**-1.9**	**-1.9**
Food and soft drinks	14.3	-1.4	-0.2
Beverages and tobacco	0.3	2.0	0.0
Textiles, clothing and footwear	3.2	-2.5	-0.1
Housing	34.1	-5.2	-1.8
Furniture and household goods	5.6	1.5	0.1
Medical care	1.4	-0.1	0.0
Transportation	14.6	-4.0	-0.6
Communications	5.4	0.2	0.0
Recreation and culture	3.2	16.1	0.5
Education	7.7	1.0	0.1
Restaurants and hotels	4.0	1.4	0.1
Miscellaneous goods and services	6.3	-0.2	0.0

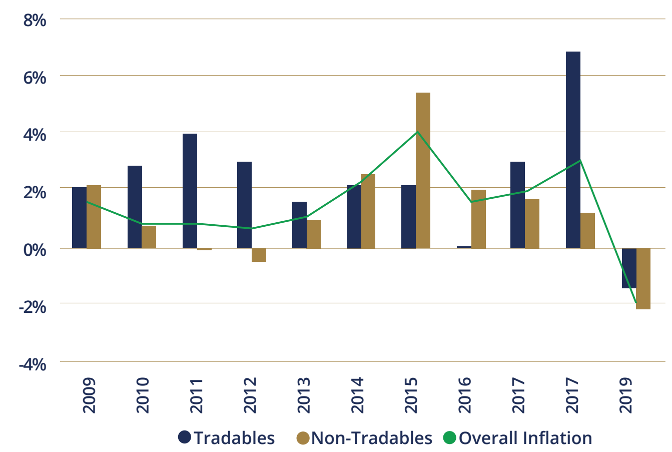
Source: FCSA

TABLE 2.2.b: UAE CPI INFLATION BY TRADABLES AND NON-TRADABLES (%)

	Weight	2019	
	%	Inflation	Contribution
Total Inflation	**100**	**-1.9**	**-1.9**
Tradables[6]	34	-1.5	-0.5
Non-Tradables[7]	66	-2.2	-1.4

Source: FCSA and CBUAE calculations

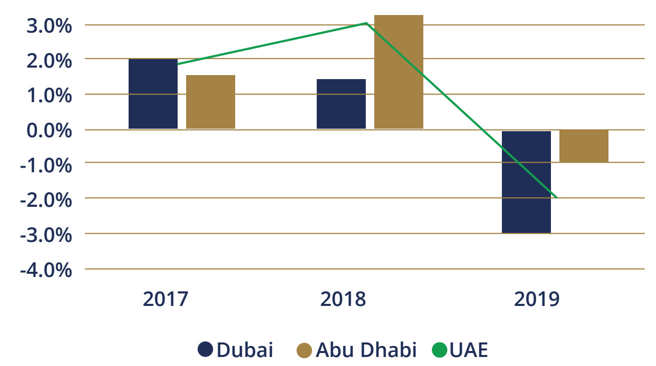
FIGURE 2.2.a: TRADABLE AND NON-TRADABLE INFLATION (%, Y-O-Y)



Source: FCSA

Looking at the inflation rate by Emirate, the CPI fell by 1.0% in Abu Dhabi, driven by the drop by 1.7% in tradables and 0.4% of non-tradables. In the Emirate of Dubai there was a deflation of -3.0%, due to a fall by 1.1% for the tradables and 3.7% for the non-tradables.

FIGURE 2.2.b: ANNUAL HEADLINE INFLATION IN THE UAE AND THE EMIRATES OF ABU DHABI AND DUBAI



Source: FCSA. SCAD and DSC

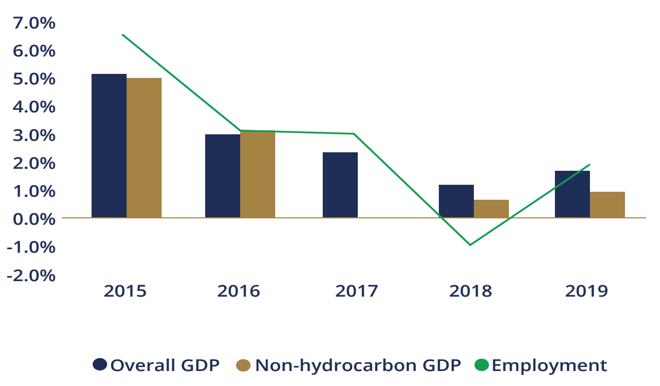
[6] As per CBUAE calculations, Tradables include the following categories of goods and services: food and soft drinks; beverages and tobacco; textiles, clothing and footwear; furniture and household goods; transportation; and miscellaneous goods and services..

[7] As per CBUAE calculations includes the following categories of goods and services: housing; medical care; transportation; communications; recreation and culture; education; restaurants and hotels; and miscellaneous goods and services.

2.3 EMPLOYMENT AND LABOUR MARKET DYNAMICS

This section covers only employment in the private sector based on data provided by the Ministry of Human Resources and Emiratisation (MOHRE)[8]. The employees in the private sector represented about 81.5% of total registered employees at the end of 2018. Positive macroeconomic developments during 2019 were reflected in the labour market as employment in the private sector increased by 2.0%. All sectors except construction recorded an increase.

FIGURE 2.3: REAL GDP AND EMPLOYMENT GROWTH



Source: MOHRE for employment, FCSA for overall and non-hydrocarbon GDP growth

The real estate and business services sector and other sectors increased in 2019 by 6.3% and 10.5%, respectively. In addition, employment in the services sector has shown recovery, growing by 0.8% in 2019 after declines in both 2018 and 2017.

However, the construction sector, representing almost a third of total private sector employment, declined by 2.4% in 2019 following a drop of 1.7% in 2018.

TABLE 2.3: EMPLOYMENT GROWTH BY SECTOR

Sector	2019		
	Share in Employment	**Growth %**	**Contribution to Growth**
Construction	**32.2%**	**-2.4%**	**-0.8%**
Services	21.7%	0.8%	0.2%
Manufacturing	9.2%	1.3%	0.1%
Real estate and Business services	12.7%	6.3%	0.8%
Transport, Storage and Communication	6.9%	0.9%	0.1%
Other sectors	17.2%	10.5%	1.2%
Total Employment	100.0%	2.0%	2.0%

Source: MOHRE and CBUAE

The construction and real estate and business services sectors together absorb some 45% of the labour force in the UAE. Employment in real estate increased by 6.3%, two-fold growth compared to 2018. Employment growth in construction remained in negative territory in 2019.

Box 6 illustrates the developments in the labour market by Emirate and by category of workers.

81.5%

The employees in the private sector represented about 81.5% of total registered employees at the end of 2018.

6.3% INCREASE

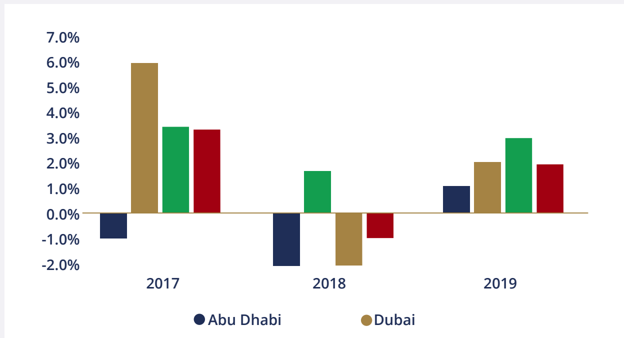
Employment in real estate increased by 6.3%, two-fold growth compared to 2018

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

BOX 6: DEVELOPMENTS IN THE LABOUR MARKET

The labour market in the UAE encompasses three main local markets: Abu Dhabi, Dubai and Northern Emirates; and covers the private sector (excluding the Free Zones). Data from the Ministry of Human Resources and Emiratisation (MOHRE) show that the total private sector employment in the UAE at the end of 2019 was 5.095 million, of which 27% are based in Abu Dhabi, 52% are in Dubai and 21% are in the Northern Emirates.

FIGURE B6-1: EMPLOYMENT CHANGE (%, Y-O-Y)



Source: MOHRE

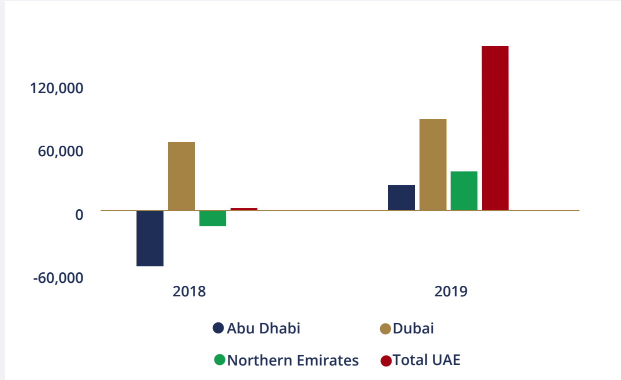
Overall, at the aggregate level, employment in the UAE rose by 2% Y-o-Y in 2019, with growth in employment in all three local markets, compared to a decline of 0.9% in the previous year.

In Abu Dhabi, employment recovered for the first time in the last three years, increasing by 1.1% Y-o-Y.

DEVELOPMENTS IN THE LABOUR MARKET (WORKING PERMITS)

According to data from MOHRE, total net newly issued work permits in the UAE increased dramatically in 2019, to over 157.000 from just over 1,500 in 2018. While all regions contributed to this change, Dubai contributed 90,216, Northern Emirates 40,039 and Abu Dhabi contributed 27,509 new work permits issued in the UAE in 2019.

FIGURE B6-2: NET WORK PERMITS



Source: MOHRE

2.4 EXCHANGE RATE DEVELOPMENTS

The UAE Dirham has been appreciating for a relatively long period since 2014 against its top non-dollarised[9] trading partners, with the exception of a depreciation in 2018 against the non-dollarised import partners.

TABLE 2.4.a: DIRHAM APPRECIATION AGAINST TOP NON-DOLLARISED IMPORT PARTNERS (%)

Country	Weights %, 2018	2016	2017	2018	2019
China	15.5	5.7	1.6	-2.0	4.4
India	9.4	4.8	-3.1	5.0	2.9
Japan	5.6	-10.1	3.1	-1.5	-1.3
Germany	4.5	0.3	-1.9	-4.5	5.4
UK	3.1	13.2	4.8	-3.4	4.5
Vietnam	3.1	2.1	1.6	1.3	0.9
Italy	2.7	0.3	-1.9	-4.5	5.4
France	2.7	0.3	-1.9	-4.5	5.4
Switzerland	2.4	2.4	-0.1	-0.6	1.6
South Korea	2.3	2.6	-2.6	-2.7	5.9
Weighted Average	51.4	1.4	0.1	-0.5	1.8

Source: Data on Import shares (weights) are provided by FCSA for 2018. Data for the bilateral exchange rates are the quarterly average observations of monthly data, recorded and reported by Bloomberg

Using the import share as a metric for measuring weights on bilateral exchange rates, the Dirham has appreciated by 1.8% in 2019 against the UAE top 10 non-dollarised import partners, which account for 51.4% of the total imports.

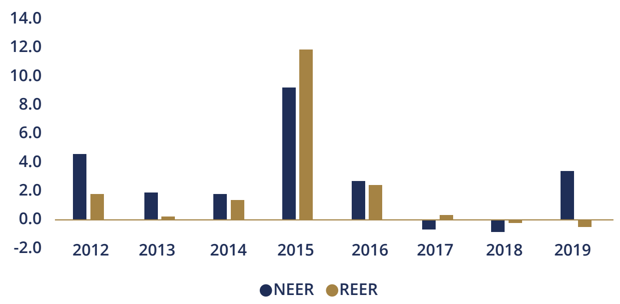
TABLE 2.4.b: DIRHAM APPRECIATION AGAINST TOP NON-DOLLARISED NON-OIL EXPORT PARTNERS (%)

Country	Weights %, 2018	2016	2017	2018	2019
India	8.7	4.8	-3.1	5.0	2.9
Turkey	5.2	11.0	20.6	32.7	17.3
Kuwait	5.1	0.4	0.4	-0.4	0.6
Iraq	4.4	-0.7	-0.8	0.4	0.1
Switzerland	3.9	2.4	-0.1	-0.6	1.6
China	2.5	5.7	1.6	-2.0	4.4
Egypt	1.9	30.7	77.1	-0.1	-5.6
Netherlands	1.9	0.3	-1.9	-4.5	5.4
Singapore	1.8	0.5	0.0	-2.3	1.1
Germany	1.6	0.3	-1.9	-4.5	5.4
Weighted Average	36.9	1.8	2.3	1.9	1.5

Source: Data on Non-oil exports shares (weights) are provided by FCSA for 2018. Data for the bilateral exchange rates are the quarterly average observations of monthly data, recorded and reported by Bloomberg

Accounting for all the UAE's trading partners, the Nominal Effective Exchange Rate (NEER) displayed the same pattern of appreciation. The average NEER increased by 3.4% in 2019, compared to a depreciation of 0.9% in the previous year.

FIGURE 2.4: NOMINAL AND REAL EFFECTIVE EXCHANGE RATES DEVELOPMENTS (%, Y-O-Y)



Source: Bank for International Settlements (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 0.6% in 2019 compared to a depreciation of 0.3% in 2018. The depreciation in the REER was due to the continued deflationary cycle in the UAE, offsetting the nominal Dirham appreciation.

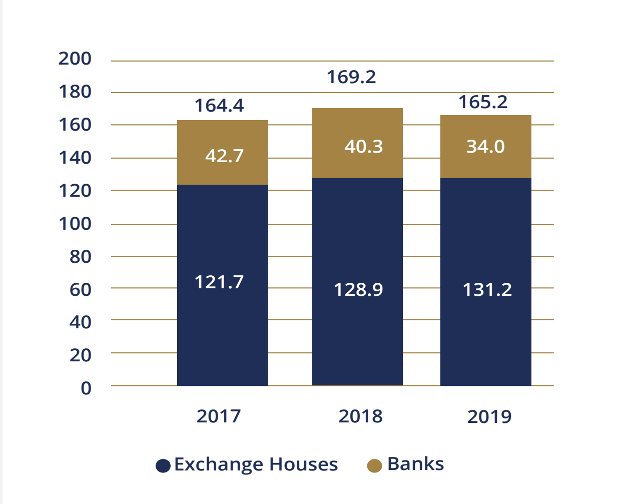
Box 7 presents the developments in the outward remittances, while Box 8 assesses the indicators of the tourism sector.

[9] Countries that do not use the US dollar or are not pegged to the dollar.

BOX 7: OUTWARD PERSONAL REMITTANCES FROM THE UAE

The outward personal remittances, based on data reported by banks and exchange houses, capture expatriates as well as personal transfers by UAE nationals. During 2019, remittances declined by AED 4 billion compared to the same period of 2018, which was mainly attributed to the decrease in outward personal remittances that were settled through the banking system (decreased by 15.7% or AED 6.3 billion). Meanwhile, the outward personal remittances that were settled through the exchange houses registered an increase of 1.7% or AED 2.2 billion, compared to 2018.

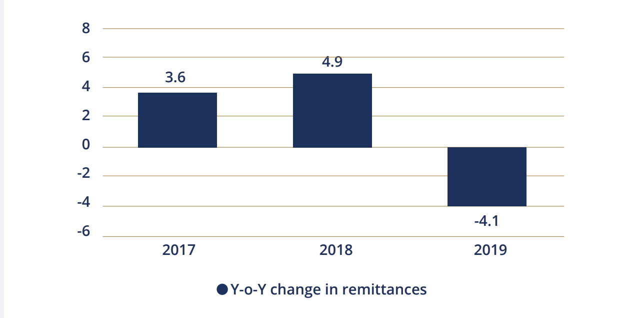
FIGURE B7-1: EVOLUTION OF OUTWARD PERSONAL REMITTANCES SETTLED THROUGH BANKS AND EXCHANGE HOUSES, 2017-2019 (AED BILLION)



Source: CBUAE

The slowdown in outward personal remittances during 2019 mainly occurred during the first quarter (AED 5.1 billion decrease compared to Q1-2018) and the second quarter (AED 1.9 billion decrease compared to Q2-2018).

FIGURE B7-2: ANNUAL PERCENTAGE CHANGE OF TOTAL OUTWARD PERSONAL REMITTANCES VERSUS THE PERCENTAGE CHANGE OF NOMINAL EFFECTIVE EXCHANGE RATE, 2017-2019



Source: CBUAE

In terms of destination countries, the highest outward personal remittances during 2019 was to India (37.9%).

The remittances to India remained high thanks to the appreciation of the Dirham which encouraged the large expatriate population in the UAE to send funds back home.The next five countries in the share of outflows of personal remittances were Pakistan, Philippines, Egypt, Bangladesh, and the U.K.

BOX 8: TOURISM ACTIVITY IN THE UAE

The analysis focuses on tourism activity in Dubai and Abu Dhabi, the two major tourist destinations in the UAE during 2019. For the Emirate of Dubai, the Department of Tourism and Commerce Marketing (DTCM) publishes data on international guests covering international tourist arrivals to Dubai regardless of whether they stay at hotels in Dubai or not. On the other hand, Department of Culture and Tourism (DCT) - Abu Dhabi.

publishes data on international guests covering only tourists that stay at Abu Dhabi's hotels (hotel guests).

The total number of international tourist arrivals in Dubai during 2019 increased by about 5% (an increase by around 810,000) compared to 2018. The published figures for international hotel guests in the Emirate of Dubai registered an increase of 9.7% (about 840,000) compared to the same period in 2018), which indicates more tourists preferred to stay at hotels as a result of continuing discounts offered by hotels in Dubai.

FIGURE B8-1: INTERNATIONAL TOURIST ARRIVALS TO DUBAI AND INTERNATIONAL HOTEL GUESTS IN DUBAI AND ABU DHABI JANUARY-DECEMBER 2018-2019 (IN MILLIONS)

Source: Department of Tourism and Commerce Marketing, Department of Culture and Tourism (DCT) - Abu Dhabi

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

Similarly, the international hotel guests in Abu Dhabi registered an increase of 2.1% (around 107,000) compared to 2018.

The number of international hotel guests in Dubai has continued to grow. The occupancy rate was supported by discounts to capitalise on existing hotel capacity. Consequently, the revenue per available room significantly decreased by 12% compared to the previous year.

International hotel guests in Abu Dhabi grew by approximately 2% in 2019, a slower growth rate than in 2018. Combined with higher average daily rate during the reference period, total revenues of hotels in Abu Dhabi significantly increased, as compared to the previous year.

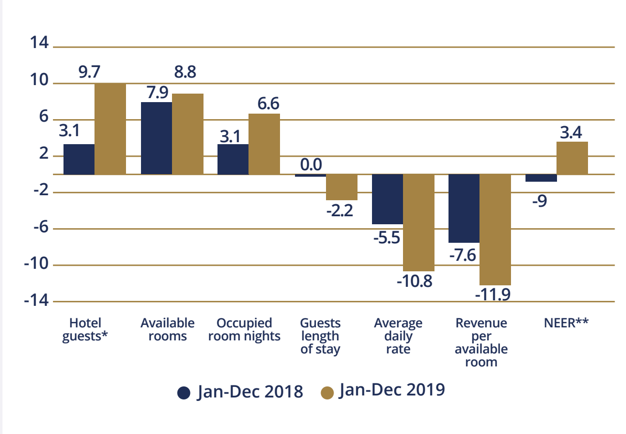
A number of international events were organised during the year as part of a strategy to boost tourism in Abu Dhabi. These included the AFC Asian Cup, the Special Olympic Games, Abu Dhabi International Book Fair, Abu Dhabi Showdown Week, DU Eminem concert, ADIPEC, F1 Abu Dhabi, and Bruno Mars concert, among others.

Countries that are major source markets for inbound tourism to Dubai recorded increase in the arrival of international tourists during 2019, when compared to 2018. Specifically, there was a notable increase of visitors from Oman (24.2%) and Philippines (23.3%), followed by China (15.4%), France (9.8%), and Russia (7.4%). Tourists from other countries, such as Kuwait (-4.4%), India (-3.1%), Pakistan (-2.3%), Germany (-1.2), the U.K. (-1%), and Saudi Arabia (-0.2 %), registered a decrease during the same period.

BOX 8: TOURISM ACTIVITY IN THE UAE

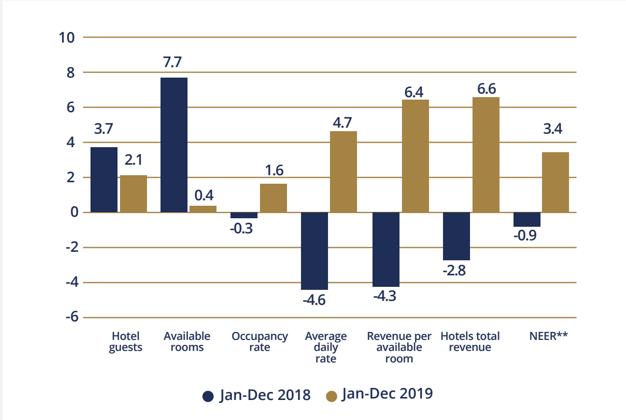
FIGURE B8-2: ANNUAL PERCENTAGE CHANGE IN MAJOR INDICATORS OF DUBAI & ABU DHABI INBOUND TOURISM JANUARY-DECEMBER 2018-2019 (%)

A. DUBAI



Source: Department 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



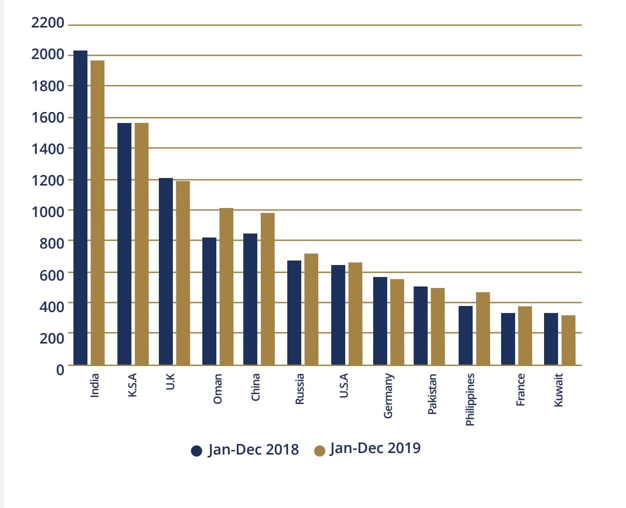
Source: Department of Culture and Tourism (DCT) - Abu Dhabi

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

The vast majority of tourists to Dubai originate from GCC countries and the MENA region (28% combined, 18% and 10% of the total, respectively). The number of tourists from Western Europe is slightly higher than the GCC (20% versus 18%). Tourists from North America represented 7% of the total visitors.

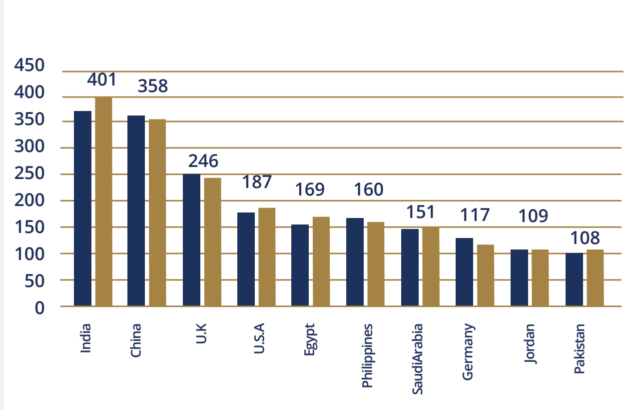
FIGURE B8-3: MAJOR MARKETS OF INBOUND TOURIST ARRIVALS JANUARY-DECEMBER 2018-2019 IN MILLIONS

A. DUBAI



Source: Department of Tourism and Commerce Marketing

B. ABU DHABI



Source: Department of Culture and Tourism (DCT) - Abu Dhabi

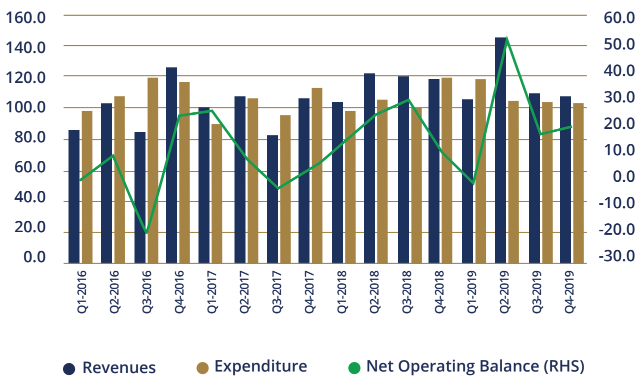
2.5 CONSOLIDATED FISCAL STANCE

The rise in oil prices in 2019 Q4 increased by 2.4% Q-o-Q, resulting in an increase in net operating surplus to AED 19.9 billion, compared to AED 16.9 billion in 2019 Q3. The surplus was also higher than in 2018 Q4. The 2019 Q4 surplus was a result of a drop in expense of 18.4% Y-o-Y, compared to a milder drop in revenue by 8.8%.

The second and third quarters have also been marked with surpluses, while in 2019 Q1 there has been a small deficit of AED 1.2 billion, mainly due to the 16.3% rise Y-o-Y in expense.

The main revenue categories in the four quarters of 2019 were taxes and other revenues, while the major expense categories were use of goods and services and employees' compensation.

FIGURE 2.5: FISCAL STANCE (AED BILLION)



Source: Ministry of Finance

TABLE 2.5: CONSOLIDATED GOVERNMENT FINANCES (AED BILLION)

Consolidated	2018				2019				2018 (% Y-o-Y)				2019 (% Y-o-Y)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Operating Balance	**12.7**	**23.9**	**29.5**	**10.4**	**-1.2**	**50.6**	**16.9**	**19.9**	-----	-----	-----	-----	-----	-----	-----	-----
Revenues (a)	**103.8**	**122.7**	**120.6**	**118.5**	**104.8**	**145.1**	**109.3**	**108.1**	**4.2%**	**13.7%**	**45.7%**	**11.5%**	**0.9%**	**18.2%**	**-9.4%**	**-8.8%**
- Taxes	46.7	49.5	60.6	57.5	42.4	72.3	52.1	57.8	-5.1%	23.7%	86.9%	42.6%	-9.3%	46.1%	-14.0%	0.6%
- Social contributions	1.3	1.3	1.3	1.2	1.3	1.3	1.1	1.2	3.9%	24.3%	0.8%	1.5%	-0.3%	-2.4%	-14.3%	0.6%
- Other revenues	55.9	71.9	58.8	59.9	61.2	71.5	56.4	49.1	13.6%	7.5%	19.7%	-7.7%	9.5%	-0.5%	-4.0%	-18.0%
Expenditure	**97.9**	**105.9**	**99.9**	**119.4**	**119.0**	**104.4**	**103.2**	**103.6**	**9.4%**	**-0.5%**	**4.9%**	**6.2%**	**21.6%**	**-1.4%**	**3.3%**	**-13.2%**
-Expense (b)	**91.1**	**98.8**	**91.2**	**108.1**	**105.9**	**94.5**	**92.4**	**88.3**	**22.8%**	**-0.5%**	**6.3%**	**5.4%**	**16.3%**	**-4.4%**	**1.3%**	**-18.4%**
Compensation of employees	19.5	21.2	21.1	21.2	27.3	27.1	26.6	26.2	22.8%	5.1%	12.3%	4.1%	39.8%	28.1%	26.0%	23.7%
Use of goods and services	27.0	16.0	17.1	25.2	36.4	25.9	24.3	28.3	157.0%	-52.4%	-31.4%	-2.0%	34.7%	61.8%	42.1%	12.3%
Consumption of fixed capital	1.1	1.0	1.0	1.0	1.1	1.5	1.1	1.5	-13.1%	-27.3%	3.4%	-29.2%	-3.8%	43.3%	5.4%	53.6%
Interest	0.5	1.1	0.6	1.4	0.8	1.6	0.7	1.7	-2.4%	85.1%	111.0%	168.4%	68.8%	39.5%	13.8%	20.8%
Subsidies	3.2	7.5	3.1	5.3	3.8	9.5	7.4	4.7	12.7%	-23.9%	-60.5%	-26.1%	16.7%	26.0%	138.7%	-12.1%
Grants	4.1	2.6	7.0	6.1	8.6	1.9	4.3	1.6	22.6%	-60.5%	487.7%	0.7%	111.1%	-28.1%	-38.4%	-73.8%
Social benefits	10.5	22.2	14.8	18.3	20.2	17.5	19.4	18.4	7.8%	120.0%	43.6%	68.2%	92.1%	-21.1%	31.3%	0.7%
Other expenses	25.2	27.1	26.5	29.6	7.8	9.4	8.7	5.9	-16.2%	61.7%	23.7%	-2.8%	-69.1%	-65.4%	-67.2%	-80.2%
Net acquisition of non-financial assets	6.7	**7.0**	**8.7**	**11.3**	**13.1**	**9.9**	**10.8**	**15.4**	**-56.0%**	**-0.5%**	**-7.8%**	**14.3%**	**94.1%**	**41.2%**	**23.8%**	**36.2%**
Net Operating Balance (a-b)	12.7	**23.9**	**29.5**	**10.4**	**-1.2**	**50.6**	**16.9**	**19.9**	-----	-----	-----	-----	-----	-----	-----	-----

Source: Ministry of Finance

- Other Revenues covers: Property income (interest, dividends, rent), Sales of goods and services (including administrative fees), Fines and penalties and other revenues not elsewhere classified. Effective 2016Q1, the Emirate of Abu Dhabi has added some transfers of important investment authorities from financing accounts to revenues, included in the distributed profit computation.
- Subsidies are current unrequited transfers that government units make to enterprises on the basis of the levels of their production activities, which include transfer to GREs.
- Other expenses include the payments of Abu Dhabi made on behalf of the Federal Government.
- Grants include current or capital transfers from the Government to other Government units, international organisations or foreign Governments, excluding transfers between Federal and Local Governments.

2.6 BALANCE OF PAYMENTS DEVELOPMENTS

The current account surplus is estimated to have decreased from AED 148.7 billion (9.8% of GDP) in 2018 to AED 108.9 billion in 2019 (7.4% of GDP). The decrease in the current account surplus in 2019 is mainly attributable to lower oil prices, which decreased from an average of USD 71 per barrel in 2018 to an average of USD 64 per barrel in 2019, for Brent crude. The decrease in the trade balance surplus was complemented by a wider deficit in the services and transfers balances, despite an increase in the surplus of the investment income.

In 2019, the hydrocarbon exports decreased by 14.7%, or AED 36.2 billion, compared to 2018, primarily due to the decrease in the price of crude oil and other products. Meanwhile, non-hydrocarbon exports in 2019 increased at a slower pace by 1.1% (or AED 4.5 billion). The slower growth in export of non-hydrocarbon in 2019 was mainly attributed to the slowdown in global economic growth, including in major exporting destinations of the UAE.

Meanwhile, total imports (FOB), i.e., excluding the cost of insurance and freight for the transport of the goods from the importing partners, increased by AED 21.2 billion or 2.5% in 2019, contributing to the decrease by AED 40 billion in the trade balance in FOB prices.

As regards the services balance, the marginal increase in the travel and transport accounts led to a narrower increase in both the credit and debit sides of the services balance, where the accounts of travel and transport items (combined) represent 69% of credits and 45.4% of debits. Net travel recorded an inflow of AED 12.6 billion, slightly increased compared to AED 12.4 billion in 2018, in line with the increase in inbound tourism in the UAE during 2019.

Net investment income recorded inflow of AED 7.6 billion in 2019, compared to AED 5.2 billion in 2018, mainly due to lower interest rates that resulted in lower outflow in investment income. Transfers, however, recorded net outflow of AED 171.1 billion (a modest increase on 2018).

The deficit of the financial account in 2019 narrowed noticeably by AED 53.4 billion, compared to 2018, reaching AED -73.5 billion or 5% of GDP. The change in 2019 was mainly due to the increase in banks' investments abroad by AED 50.1 billion.

The combined effects of contraction in the current account surplus and a narrower deficit in the financial account, resulted in larger surplus in the overall balance of payments that was recorded at AED 35.4 billion in 2019 (2.4% of estimated GDP). The net foreign assets of the CBUAE, including the reserve position with the IMF, increased by AED 35.8 billion.

7.6 BILLION

Net investment income recorded inflow of AED 7.6 billion in 2019,

TABLE 2.6: UAE BALANCE OF PAYMENTS STATISTICS (AED BILLION)

	2018R	% change	% GDP	2019*	% change	% GDP
Current Account Balance	**148.7**	**47.3**	**9.8**	**108.9**	**-26.8**	**7.4**
Trade Balance (FOB)	**314.6**	**27.4**	**20.7**	**274.6**	**-12.7**	**18.6**
Trade Balance (CIF)	**218.6**	**49.4**	**14.4**	**176.2**	**-19.4**	**11.9**
Total Exports of Hydrocarbon	**247.2**	**15.8**	**16.3**	**211.0**	**-14.7**	**14.3**
Crude Oil Exports	117.5	2.2	7.7	98.6	-16.1	6.7
Petroleum Products Exports	95.0	33.9	6.2	83.7	-11.9	5.7
Gas Exports	34.6	25.9	2.3	28.7	-17.1	1.9
Total Exports of Non-Hydrocarbon	**410.6**	**4.9**	**27.0**	**415.1**	**1.1**	**28.1**
Free Zone Exports	261.3	15.9	17.2	264.8	1.3	17.9
Other Exports [1]	149.3	-10.1	9.8	150.4	0.7	10.2
Re Exports [2]	**521.2**	**-4.6**	**34.3**	**534.1**	**2.5**	**36.1**
Total Exports & Re Exports (-FOB-)	**1,179.0**	**2.4**	**77.5**	**1,160.2**	**-1.6**	**78.5**
Total Imports (-FOB-) [3]	**-864.4**	**-4.5**	**-56.8**	**-885.6**	**2.5**	**-59.9**
Total Imports (CIF-)	**-960.4**	**-4.5**	**-63.1**	**-984.0**	**2.5**	**-66.6**
Other Imports [4]	-600.6	-13.2	-39.5	-614.5	2.3	-41.6
Free Zone Imports	-347.0	14.9	-22.8	-356.5	2.7	-24.1
Imports (gas)	-12.8	11.7	-0.8	-12.9	0.8	-0.9
Services (-NET-)	**-1.8**	**-62.4**	**-0.1**	**-2.2**	**22.1**	**-0.1**
Credits	**263.8**	**1.9**	**17.3**	**269.8**	**2.3**	**18.3**
Travel	78.5	1.5	5.2	80.1	2.0	5.4
Transport	104.0	1.5	6.8	106.1	2.0	7.2
Air	103.4	1.5	6.8	105.4	2.0	7.1
Postal	0.7	2.5	0.0	0.7	2.1	0.0
Government Services	3.5	2.9	0.2	3.6	2.0	0.2
Other services	77.8	2.7	5.1	80.1	2.9	5.4
Construction	9.8	2.4	0.6	10.1	2.8	0.7
Intellectual property	13.6	2.5	0.9	14.1	3.0	1.0
Information & Computer & Telecommunication	24.7	4.2	1.6	25.4	2.8	1.7
Computer	18.0	3.9	1.2	18.5	2.8	1.3
Information & Telecommunication	-10.2	6.6	-0.7	-10.5	3.3	-0.7
Other [5]	29.6	1.8	1.9	30.5	3.0	2.1

[1] Including estimates of other exports from all Emirates.

[2] Including re-exports of non-monetary gold and the published re-export number in CBUAE's publications for the balance of payments, estimated by CBUAE staff and reflects estimated re-export value from the UAE to other destinations at the rate of 55% of the total imports.

[3] The revision in the import (FOB) and freight & insurance (debit side of the service account) was due to changes in the ratio to compute FOB values of imports based on CIF values of imports. The ratio changed from 15% to 10% based on the survey conducted by a consultancy firm, which better reflects all-UAE trade aggregation using UAE 2017 import structure.

[4] Including estimates of imports from all Emirates and imports of non-monetary gold.

[5] Includes estimation for financial services, research and development services, professional and management consulting services, technical, trade-related and other business services and the rest of insurance services apart from cargo.

UAE BALANCE OF PAYMENTS STATISTICS (CONTINUED)

	2018R	% change	% GDP	2019*	% change	% GDP
Debits	**-265.6**	**0.7**	**-17.5**	**-272.0**	**2.4**	**-18.4**
Travel	-66.1	2.0	-4.3	-67.5	2.1	-4.6
Transport	-54.9	3.8	-3.6	-56.0	2.0	-3.8
Air	-54.5	3.8	-3.6	-55.5	2.0	-3.8
Postal	-0.4	4.0	0.0	-0.5	2.3	0.0
Government Services	-4.8	5.6	-0.3	-4.9	2.3	-0.3
Freight & Insurance[3]	-96.0	-4.5	-6.3	-98.4	2.5	-6.7
Other services	-43.8	6.9	-2.9	-45.2	3.3	-3.1
Construction	-9.6	6.5	-0.6	-9.9	3.2	-0.7
Intellectual Property	-10.2	7.3	-0.7	-10.6	3.2	-0.7
Information & Computer & Telecommunication	-12.7	6.6	-0.8	-13.2	3.3	-0.9
Computer	-2.6	6.3	-0.2	-2.6	3.4	-0.2
Information & Telecommunication	-10.2	6.6	-0.7	-10.5	3.3	-0.7
Other[5]	-11.2	7.3	-0.7	-11.6	3.4	-0.8
Investment Income (NET)	**5.2**	**-48.7**	**0.3**	**7.6**	**44.4**	**0.5**
Banking System[6]	-6.9	-2.5	-0.5	-5.1	-25.7	-0.3
Private non-banks	-4.8	-3.5	-0.3	-6.0	24.5	-0.4
Enterprises of Public Sector	35.3	2.2	2.3	35.6	1.0	2.4
Official Debt Services (Interest)	-6.5	20.4	-0.4	-6.6	2.3	-0.4
Foreign Hydrocarbon Companies in UAE	-11.8	73.5	-0.8	-10.3	-13.0	-0.7
Transfers (NET)	**-169.3**	**11.9**	**-11.1**	**-171.1**	**1.1**	**-11.6**
Public	-28.6	30.1	-1.9	-31.5	10.0	-2.1
Inflows	0.0		0.0	0.0		0.0
Outflows	-28.6	30.1	-1.9	-31.5	10.0	-2.1
Private	-140.7	8.8	-9.3	-139.6	-0.8	-9.4
Inflows	28.5	-18.7	1.9	25.5	-10.7	1.7
Outflows	-169.2	2.9	-11.1	-165.1	-2.4	-11.2

[3] The revision in the import (FOB) and freight & insurance (debit side of the service account) was due to changes in the ratio to compute FOB values of imports based on CIF values of imports. The ratio changed from 15% to 10% based on the survey conducted by a consultancy firm, which better reflects all-UAE trade aggregation using UAE 2017 import structure.

[5] Includes estimation for financial services, research and development services, professional and management consulting services, technical, trade-related and other business services and the rest of insurance services apart from cargo.

[6] Central Bank and all banks.

UAE BALANCE OF PAYMENTS STATISTICS (CONTINUED)

	2018R	% change	% GDP	2019*	% change	% GDP
Financial Account	**-126.9**	**102.8**	**-8.3**	**-73.5**	**-42.1**	**-5.0**
Capital Account						
Financial Account	-126.9	102.8	-8.3	-73.5	-42.1	-5.0
a. Private capital	-116.9	96.3	-7.7	-63.1	-46.0	-4.3
a-1 Direct Investment	-17.2	26.7	-1.1	-7.8	-55.0	-0.5
a-1-1 Outward	-55.3	7.3	-3.6	-58.4	5.5	-3.9
a-1-2- Inward	38.1	0.3	2.5	50.6	32.8	3.4
a-2 Portfolio Investment	4.0	-15.4	0.3	4.1	1.5	0.3
a-3 Banks	-80.2	141.6	-5.3	-30.1	-62.4	-2.0
a-3-1 Securities	-20.1	63.2	-1.3	-63.4	215.9	-4.3
a-3-1 Other investment (loans, deposits)	-60.1	187.7	-4.0	33.3	-155.4	2.3
a-4 Private nonbanks	-23.5	34.2	-1.5	-29.3	24.8	-2.0
b. Enterprises of Public Sector	-10.0	233.3	-0.7	-10.3	3.2	-0.7
Errors and omissions	-8.9			0.0		
Overall balance	**13.0**	**-64.4**	**0.9**	**35.4**	**173.0**	**2.4**
Change in Reserves at the Central Bank **	-13.0	-64.4	-0.9	-35.4	173.0	-2.4
Change in Reserve Position with IMF & SDR**	-0.3	-286.9	0.0	-0.3	25.2	0.0
Total change in International Reserves **	**-13.3**	**-63.5**	**-0.9**	**-35.8**	**169.9**	**-2.4**
CBUAE						
Foreign Assets (including the IMF)	365.4	4.3	24.0	397.9	8.9	26.9
Foreign Assets of the Central Bank	362.6	4.3	23.8	394.7	8.9	26.7
Reserve Position with IMF & SDR	2.9	10.6	0.2	3.2	12.0	0.2
Reserve Position with IMF	2.1	4.9	0.1	2.4	16.6	0.2
SDR	0.8	29.4	0.1	0.8	-0.6	0.1
Foreign Liabilities	7.0	36.9	0.5	3.7	-46.5	0.3
Net Foreign Assets (including the IMF)	358.5	3.8	23.6	394.2	10.0	26.7
Net Foreign Assets at the Central Bank	355.6	3.8	23.4	391.0	10.0	26.5

Notes:
- The data for services account and outward FDI has been revised following the results of surveys conducted with consultancy firm and the data for services account have been updated again due to new survey results.
- The average price of oil of 2018 was USD-73 per barrel and the price in 2019 down to USD64.6 per barrel.
- The trends in the evolution of growth of the economic activity of the UAE as well as the main trading partners are used from the World Economic Outlook to estimate subcomponents where survey results are not currently available.
- Final inputs were reported from the Ministry of Foreign Affairs on public transfers and from the CBUAE on workers' remittances and international reserves.

R Revised figures
* Preliminary estimates, subject to revision.
** Negative numbers of international reserves indicate an increase, positive numbers indicate a decrease.

CHAPTER 3. BANKING AND FINANCIAL DEVELOPMENTS[10]

In 2019, deposits increased, mainly driven by the increase in GRE and private sector deposits. Credit growth also picked up pace led by lending to the Government and GREs. Overall, the financial soundness indicators support the health and stability of the financial sector.

3.1 BANKING STRUCTURE[11]

In 2019, the number of licensed commercial banks decreased by one, due to merger of two local banks, to reach 59 in total. The third quarter of 2019 also saw the acquisition of a Turkish bank by a UAE bank.

The total number of banks comprises 21 national banks and 38 foreign banks, including 11 wholesale banks. National banks continued to reduce their branches, which declined to 656 at the end of December 2019 compared to 743 in the previous year. The number of employees in national and foreign banks decreased slightly to 35,637 in December 2019.

3.1.1. BANKS' DEPOSITS

Customer deposits in UAE banks increased by 6.5% Y-o-Y to reach AED 1,870 billion. Almost 90% of total deposits are held by residents.

TABLE 3.1.1.a: TOTAL DEPOSITS AT UAE BANKS

Item	Dec-17	Dec-18	Dec-19
Bank Deposits	**1,627.3**	**1,755.6**	**1,870.2**
(Y-o-Y change %)	4.1%	7.9%	6.5%

TABLE 3.1.1.b: RESIDENT AND NON-RESIDENT DEPOSITS AT THE UAE BANKS

Item	Dec-17	Dec-18	Dec-19
Resident Deposits	**1,435.6**	**1,542.2**	**1,648.8**
(Y-o-Y change %)	5.3%	7.4%	6.9%
Non-Resident Deposits	191.7	213.4	221.4
(Y-o-Y change %)	-3.7%	11.3%	3.7%

The increase in resident deposits was essentially due to the change in private sector deposits, which increased by AED 48.5 billion, in addition to the rise in GRE deposits by AED 36.6 billion.

TABLE 3.1.1.c: UAE RESIDENT DEPOSITS

Item	Dec-17	Dec-18	Dec-19
Government Sector	**212**	**290.3**	**301**
(Y-o-Y change %)	13.5%	36.9%	3.8%
GREs	**191.5**	**207.1**	**245**
(Y-o-Y change %)	13.7%	8.1%	18.4%
Private Sector	**1001**	**1009.3**	**1058**
(Y-o-Y change %)	2.1%	0.8%	4.8%
NBFI	**31.1**	**35.5**	**44**
(Y-o-Y change %)	10.3%	14.1%	24.8%

Deposits by the type of banks, i.e. conventional vs. Islamic banks represent 78.5% and 21.5% of total deposits at the end of 2019, respectively. Meanwhile, the share of national and foreign banks deposits represents 88.6% and 11.4%, respectively.

[10] In this chapter: (1) all data indicate the end-of-period values, unless specified otherwise, (2) Values are expressed in billions of AED, unless specified otherwise and (3) The source of the data is the Central Bank of the UAE, unless specified otherwise.

[11] In this section, all December 2019 data are preliminary and subject to revision.

3.1.2. BANKS' ASSETS AND CREDIT

Total Assets increased by 7.5% in 2019, while Gross Credit increased by 6.2%.

TABLE 3.1.2.a: ASSETS AND CREDIT AT UAE BANKS

Item	Dec-17	Dec-18	Dec-19
Total Assets	**2,693.8**	**2,868.5**	**3,083**
(Y-o-Y change %)	3.9%	6.5%	7.5%
Gross Credit	**1,580.3**	**1,656.2**	**1,759.2**
(Y-o-Y change %)	1.7%	4.8%	6.2%
Domestic Credit	**1,452.7**	**1,509.4**	**1,593**
(Y-o-Y change %)	1.4%	3.9%	5.5%
Foreign Credit	**127.6**	**146.8**	**166**
(Y-o-Y change %)	6.0%	15.0%	13.1%

For the underlying domestic credit, the lending growth was mainly driven by lending to the Government sector, which increased by 34% as well as to GREs, which rose by 10%.

TABLE 3.1.2.b: DOMESTIC CREDIT

Item	Dec-17	Dec-18	Dec-19
Government	**175.4**	**191.5**	**257**
(Y-o-Y change %)	1.7%	9.2%	34.4%
GREs	**172.3**	**167.9**	**185**
(Y-o-Y change %)	-8.1%	-2.6%	10.4%
Private Sector	**1,086.4**	**1,130**	**1,134.9**
(Y-o-Y change %)	3.0%	4.0%	0.4%
NBFI	**18.6**	**20**	**15**
(Y-o-Y change %)	-2.1%	7.5%	-23.5%

Despite the decline in lending to individuals (less than 30% of total domestic credit to the private sector), the increase in credit to private corporates led to a rise in overall credit growth to the private sector.

Table 3.1.2.c illustrates sectors of lending by economic activity, which increased on a yearly basis. The sectors with the highest Y-o-Y growth were Manufacturing; Electricity, Gas and Water; Transport, Storage and Communication, and Financial Institutions (excluding banks).

TABLE 3.1.2.c: LENDING BY ECONOMIC ACTIVITY, SECTORS WITH CREDIT GROWTH Y-O-Y, DECEMBER 2019

Item	Dec-18	Dec-19
Manufacturing	**77.0**	**80.4**
(Y-o-Y change %)	2.3%	4.5%
Electricity, Gas and Water	**17.0**	**22.7**
(Y-o-Y change %)	1.6%	33.7%
Transport, Storage and Communication	**51.5**	**57.1**
(Y-o-Y change %)	-6.3%	10.8%
Financial Institutions (Excluding Banks)	**130.1**	**131.1**
(Y-o-Y change %)	2.0%	0.8%

The sectors experiencing a decline in credit on Y-o-Y basis as at the end of 2019 are Agriculture, Mining and Quarrying, Construction and Real Estate, Trade, and all others.

TABLE 3.1.2.d: LENDING BY ECONOMIC ACTIVITY, SECTORS WITH CREDIT DECLINING Y-O-Y, DECEMBER 2019

Item	Dec-18	Dec-19
Agriculture	**2.0**	**1.1**
(Y-o-Y change %)	-6.7%	-47.0%
Mining and Quarrying	**14.7**	**10.7**
(Y-o-Y change %)	21.8%	-27.7%
Construction and Real Estate	**315.5**	**311.1**
(Y-o-Y change %)	5.8%	-1.4%
Trade	**154.0**	**152.7**
(Y-o-Y change %)	0.8%	-0.9%
All Others	**148.8**	**143.2**
(Y-o-Y change %)	7.6%	-3.7%

Islamic banks have a share of 18.6% in the total assets and 20.8% in the total gross financing of the banking system. During 2019, the main drivers of domestic lending were Government and GREs for both conventional and Islamic banks.

Foreign banks have a share of 12.8% of the system in terms of assets and 11% in terms of gross financing at the end of 2019. Total assets and gross credit at national banks expanded by 6.9% while total assets at foreign banks grew by 12.3%.

Box 9 shows the developments in SME lending.

3.1.3. FINANCIAL SOUNDNESS INDICATORS

Banks operating in the UAE remain well capitalised, with an average Capital Adequacy Ratio (CAR) of 17.7%, Tier 1 Capital Ratio at 16.5%, and Common Equity Tier 1 Ratio (CET 1) at 14.7%, by the end of 2019[12].

The Loan to Deposit (L/D) ratio for the whole banking system decreased slightly to 94% by December 2019.

Eligible liquid assets[13], as a ratio of total liabilities[14], increased to reach 18.1% at the end of December 2019. This level of liquid assets constitutes an adequate buffer as it is well above the 10% regulatory minimum required by the CBUAE.

The level of total liquid assets at banks as at the end of December 2019 stood at AED 455.9 billion, or AED 48.3 billion higher compared to the end of December 2018, which corresponds to a 12% increase.

TABLE 3.1.3.a: FINANCIAL SOUNDNESS INDICATORS IN THE UAE (IN %, UNLESS OTHERWISE INDICATED)

	Dec-17	Dec-18	Dec-19
Total Banking System			
Lending to Stable Resources Ratio	84.5%	82.3%	81.0%
Eligible Liquid Assets Ratio (ELAR)	18.3%	17.5%	18.1%
Capital Adequacy Ratio (CAR)	18.1%	17.5%	17.7%
Tier 1 Capital	16.6%	16.2%	16.5%
CET 1	14.6%	14.3%	14.7%
Conventional Banks			
Lending to Stable Resources Ratio	85.0%	82.5%	81.1%
Eligible Liquid Assets Ratio (ELAR)	17.7%	16.6%	17.6%
Capital Adequacy Ratio (CAR)	18.5%	17.6%	17.6%
Tier 1 Capital	16.9%	16.2%	16.3%
CET 1	15.4%	14.7%	14.9%
Islamic Banks			
Lending to Stable Resources Ratio	83.1%	81.6%	80.5%
Eligible Liquid Assets Ratio (ELAR)	20.0%	19.6%	19.8%
Capital Adequacy Ratio (CAR)	16.4%	17.3%	17.7%
Tier 1 Capital	15.3%	16.2%	16.5%
CET 1	11.4%	12.7%	13.2%
National Banks			
Lending to Stable Resources Ratio	86.1%	83.4%	82.6%
Eligible Liquid Assets Ratio (ELAR)	17.1%	16.6%	16.6%
Capital Adequacy Ratio (CAR)	17.7%	17.2%	17.2%
Tier 1 Capital	16.3%	16.0%	16.0%
CET 1	14.0%	13.7%	14.0%
Foreign Banks			
Lending to Stable Resources Ratio	74.8%	74.0%	69.5%
Eligible Liquid Assets Ratio (ELAR)	26.2%	24.4%	29.3%
Capital Adequacy Ratio (CAR)	21.3%	20.3%	20.8%
Tier 1 Capital	18.9%	18.4%	19.5%
CET 1	18.9%	18.4%	19.5%

[12] The minimum regulatory requirement for CARis 13% (10.5% minimum adequacy and 2.5% capital conservation buffer), 8.5% for Tier 1, and 7% for CET 1.

[13] In the ELAR, the eligible liquid assets include required reserves, mandated by the Central Bank, certificates of deposits held by banks.

[14] Balance sheet total assets less (capital and reserves + all provisions except staff benefit provisions + refinancing + subordinated borrowing/ deposits).

3.2 FINANCIAL DEVELOPMENTS

3.2.1. SHARE PRICE MOVEMENT

The Abu Dhabi Securities Exchange (ADX) market capitalisation grew by 5.1% in 2019. Similarly, the Dubai Financial Market (DFM) exhibited an increase in its market capitalisation by 9.0%.

On the ADX, the average share price index increased by 3.3% on a yearly basis in 2019, while in Dubai, the average share price index rose by 9.3% in 2019 after a decline in 2018.

TABLE 3.2.1: UAE – SECURITIES MARKETS

			Dec-17	Dec-18	Dec-19
Abu Dhabi	Share Price Index	Y-o-Y	-3.3%	11.7%	3.3%
	Market Capitalisation	Y-o-Y	3.0%	10.5%	5.1%
	Turnover (Traded Value)	Y-o-Y	-26.1%	105.6%	-32.5%
Dubai	Share Price Index	Y-o-Y	-4.6%	-24.9%	9.3%
	Market Capitalisation	Y-o-Y	16.7%	-12.9%	9.0%
	Turnover (Traded Value)	Y-o-Y	-42.2%	-57.2%	13.3%

Source: Securities and Commodities Authority (SCA)

Note: Changes computation are based on annual average values for the share price index and market capitalisation.

THE AVERAGE SHARE PRICE INDEX ROSE BY 9.3% IN 2019

3.2.2. CREDIT DEFAULT SWAPS PREMIUMS

Sovereign risk premiums, as measured by the Sovereign Credit Default Swaps, remained low in 2019 compared to historical levels. For the Emirate of Abu Dhabi, the premium decreased in 2019 by 8.6 basis points (bps) to reach 54. For the Emirate of Dubai, the premium increased by 10 bps.

TABLE 3.2.2: UAE – SOVEREIGN CREDIT DEFAULT SWAPS (CDS) (IN BPS)

Yearly Average	2016	2017	2018	2019
Abu Dhabi	88.5	53.8	62.6	54.0
Dubai	193.8	123.7	118.2	128.2

Source: Bloomberg

Note: All annual data are yearly averages.

BOX 9: SMES IN THE UAE

Micro, Small and Medium Enterprises (MSMEs) play a vital role in diversifying the economy and boosting job creation. Therefore, it is important to enhance the eco-system and ensure adequate financing for the sector. This box provides: (1) A background on bank financing of the sector, (2) the main findings of the CBUAE recent survey on the topic, and (3) a brief on the holistic approach currently undertaken by the main stakeholders to boost the profile of MSMEs and their access to finance.

1. BANK CREDIT TO MSMES

Bank lending to MSMEs reached AED 84.7 billion at the end of 2019, representing 10.6% of credit to the private corporate sector, and 5.3% of total domestic credit.

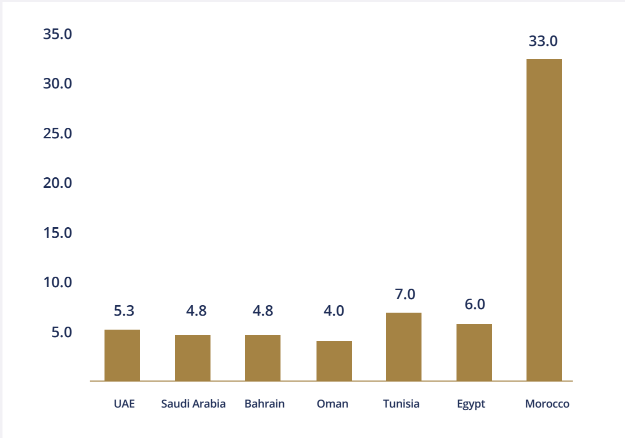
TABLE B9-1: BANK LENDING TO MSMES IN THE UAE (AED BILLION)

		2017	2018	2019
1	**Microenterprises**	11.5	12.2	11.2
	-Share of total SME lending	12.5%	13.7%	13.2%
2	**Small Enterprises**	33.4	30.0	27.5
	- Share of total SME lending	36.4%	33.9%	32.5%
3	**Medium Enterprises**	46.8	46.6	46.0
	- Share of total SME lending	51.0%	52.5%	54.3%
4	**SME Total (1+2+3)**	91.7	88.8	84.7

Source: CBUAE

This is below the benchmarks of 8% average in MENA countries and 18% average in Emerging Economies. Excluding Morocco, the UAE is comparable to other GCC countries and countries such as Egypt (6%) and Tunisia (7%).

FIGURE B9-1: SHARE OF MSMES IN DOMESTIC CREDIT (%)



Source: Arab Monetary Fund

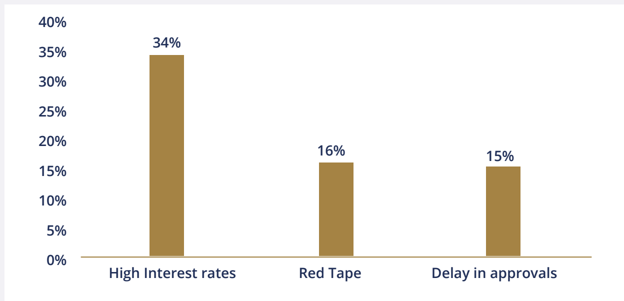
BOX 9: SMES IN THE UAE

2. MAIN CHALLENGES

The CBUAE administered a large-survey of 629 MSME's that fairly represent the MSME landscape in the UAE. comprising 22% of micro-enterprises, 21% small and 57% medium, further representing-52% in services, 34% in trade and 14% in money factoring industry. The Survey revealed that the primary challenge MSMEs face is related to financial statements which at least 25% of the respondents (of which 52% represent micro-enterprises) fail to provide. Inadequately audited accounts preclude firms from gaining easy access to finance. Conversely, 71% of the MSMEs that do have audited statements have reported improvement in access to bank credit and at a lower cost.

Furthermore, 69% of the respondents consider themselves financially constrained with high-interest rates as 32% of those surveyed reporting they pay an interest rate of 10% or more. Some are obliged to resort to costly means of financing like the use of credit cards to manage cash flow. The high-interest rate was closely followed by delays in approvals to secure credit as MSMEs applications for financing tend to take a longer time to process.

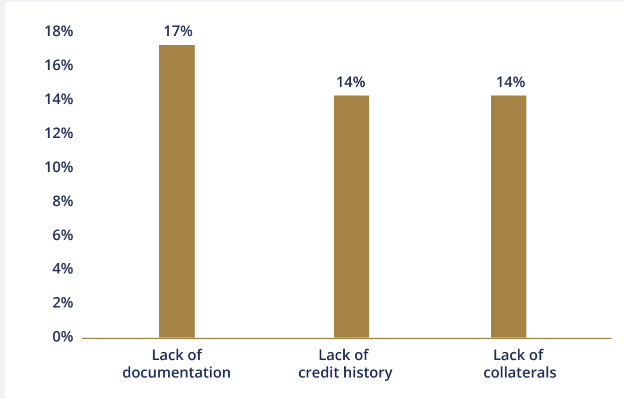
FIGURE B9-2: CHALLENGES FOR FINANCIALLY CONSTRAINED MSMES (%)



Source: CBUAE MSMEs survey

As regards the reasons for credit denial by banks (28% of cases), the main reasons reported are: (1) lack of sufficient documentation, and (2) inadequate credit history/adequate collateral.

FIGURE B9-3: REASONS FOR CREDIT DENIAL BY BANKS (%)



Source: CBUAE MSMEs survey

3. THE NATIONAL STRATEGY

Well aware of the need to improve the eco-system and increase the bankability of the sector, a high-level SME Coordination Committee has been established. The Committee comprises representatives of the CBUAE, the Ministry of Economy, the Ministry of Finance, the Ministry of State Youth Affairs and the Ministry of Justice, also the UAE Banks Federation (UBF) , the Emirates Development Bank, the Etihad Credit Bureau, and SME Development Funds (Khalifa Fund and SME Dubai, and others). The Committee is currently focusing on finalising a national strategy to enhance the financing and development of MSMEs (For more details, see Box 9, Quarterly Economic Review, 2019 Q3).

CHAPTER 4. MONETARY DEVELOPMENTS AND THE CBUAE'S FINANCIAL POSITION

The CBUAE balance sheet exhibited an increase in 2019, reflecting the rise in foreign exchange inflows to the economy. Meanwhile, interest rates in the UAE witnessed a downward trend, especially in the second half of the year, in line with the US Federal Reserve's decisions to lower the target Fed Funds rate. The 3-month EIBOR vs. the USD LIBOR spread remained positive during the year, while exhibiting some decline, due to the tightening liquidity in the US money markets seen in the second half of 2019. The average of the 10-year Dirham interest rate swaps' Spread vs. the US dollar has increased for most of the year, before declining by year's end.

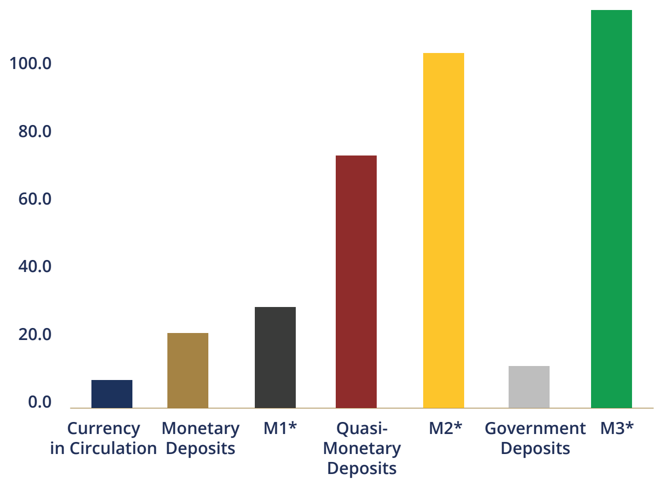
4.1 MONETARY AGGREGATES[15]

Monetary Aggregate M1 increased in 2019 by 6.0% to reach AED 514.8 billion, due to an increase in Currency Issued (18.2% of M1) by AED 7.9 billion and an increase in Monetary Deposits (84.8% of M1) by AED 21.5 billion.

M2 increased by 7.9% to reach AED 1,411.5 billion, due to an increase in Quasi-monetary Deposits (63.5% of M2) by AED 73.9 billion.

M3 increased by 7.2% to reach AED 1,717.4 billion, due to an increase in Government Deposits (17.8% of M3) by AED 12 billion.

FIGURE 4.1: 2019 CHANGE IN MONETARY AGGREGATES (AED BILLION)



Source: CBUAE

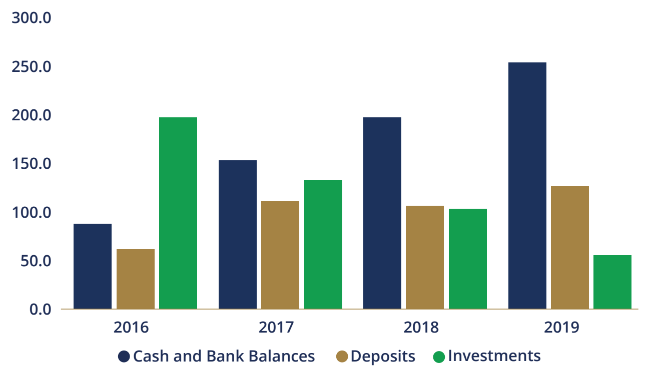
[15] M1= Currency in Circulation and Monetary Deposits. M2= M1 + Quasi-monetary Deposits. M3= M2 + Government Deposits.

4.2 CBUAE BALANCE SHEET[16]

The total of banks' liquid assets is composed of: (1) Required Reserves, (2) Current Accounts & Deposits Reserves and (3) Certificates of Deposits. These assets increased from AED 301.0 billion at the end of 2018 to AED 321.2 billion at the end of 2019. The relevant increase (22 bn AED) in CD investments by the banks highlights the ample liquidity available in the UAE's financial system.

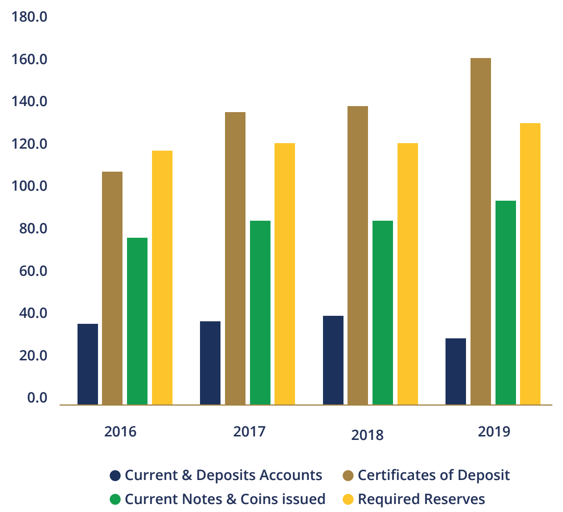
During 2019, Required Reserves increased by AED 9.4 billion mostly due to an increase in customer deposits at banks, comprising required reserves on demand deposits that require 14% Reserve Ratio and on Time Deposits that require 1%. Meanwhile, CDs issued by CBUAE and purchased by banks rose by AED 22.0 billion, while Current Accounts and Deposits decreased by AED 11.2 billion.

FIGURE 4.2.a: CBUAE ASSETS (AED BILLION)



Source: CBUAE

FIGURE 4.2.b: CBUAE LIABILITIESS (AED BILLION)



Source: CBUAE

TABLE 4.2: CBUAE BALANCE SHEET

	2016	2017	2018	2019
Total Assets	**364.5**	**406.4**	**417.7**	**446.2**
Foreign Assets	311.0	347.7	362.6	394.7
Other Assets	53.5	58.7	55.1	51.5
Total Liabilities and Equity	**364.5**	**406.4**	**417.7**	**446.2**
Required Reserves	116.9	121.2	120.6	130.0
Current Accounts & Deposits Reserve	37.8	38.6	42.2	31.0
Certificate of Deposits	108.2	135.1	138.2	160.2
Currency Notes & Coins issued	77.6	85.4	85.8	93.7
Equity	21.0	22.1	23.3	25.0
Other Liabilities	3.0	4.0	7.6	6.3

Source: Finance Department, CBUAE

4.3 CBUAE FOREIGN ASSETS

The CBUAE Foreign Assets increased by 8.9% in 2019 to reach AED 394.7 billion, due mostly to an increase in Current Account Balances and Deposits at Banks Abroad by AED 71.7 billion.

TABLE 4.3: CBUAE'S FOREIGN ASSETS (AED BILLION)

	2016	2017	2018	2019
Total Foreign Assets	**311.0**	**347.7**	**362.6**	**394.7**
Foreign Securities	**149.5**	**84.6**	**55.3**	**9.3**
Current Account Balances & Deposit with banks Abroad	**147.9**	**256.6**	**294.1**	**365.8**
Current & Call Accounts	86.2	145.3	187.2	238.2
Deposits	61.2	98.8	93.3	116.4
Tri-Party Deposits	0.6	12.5	13.6	11.2
Other Foreign Assets	**13.7**	**6.6**	**13.3**	**19.7**

Source: CBUAE

[16] The Central Bank Balance Sheet summarises the stock at the end of the period of the Net Foreign Assets and the Net Domestic Assets, while the liabilities comprise, in addition to capital, banks' reserves at the Central Bank and non-monetary liabilities (like Central Bank Issued securities).

4.4 THE INTERNATIONAL RESERVE POSITION

Table 4.4 reports the International Reserve Position of the CBUAE, including Current Account Balances, Deposits at Banks Abroad, and IMF Reserve Position and SDR holdings. The International Reserve Position of CBUAE increased from AED 365.4 billion at the end of 2018 to AED 397.9 billion at the end of 2019. As a ratio of the monetary base, the International Reserve Position increased during this period, from 96.2% to 97.2%. The high ratio, which is well above the minimum cover ratio of 70% required by Decretal Federal Law No. 14 of 2018, underpins the peg of the Dirham to the US dollar.

TABLE 4.4: INTERNATIONAL RESERVE POSITION (AED BILLION)

	2016	2017	2018	2019
1. International Reserve Position	**313.6**	**350.3**	**365.4**	**397.9**
Current Account Balances & Deposits with Banks Abroad	147.85	256.6	294.1	365.8
Foreign Securities	149.34	84.5	55.2	9.3
IMF Reserves Position + SDR Holdings	2.7	2.6	2.9	3.2
Other Foreign Assets	13.7	6.6	13.3	19.7
2.Monetary Base	**338.1**	**377.4**	**379.7**	**409.6**
Currency Issued	77.6	85.4	85.8	93.7
Reserve Requirements	116.9	121.4	120.6	129.7
Banks & OFCs Current Account at CBUAE	35.4	35.5	35.1	25.9
Ratio (1/2)	92.75%	92.8%	96.2%	97.2%

Source: CBUAE, end of quarter data

Gross International Reserves including IMF Reserve Position and SDR Holdings.

4.5. INTEREST RATES

The fixed exchange rate arrangement means that the CBUAE has to adjust its policy rate to changes in the interest rate policy in the U.S.

4.5.1 SHORT-TERM INTEREST RATES

The 3-month EIBOR was on a declining trend in 2019 in line with the Fed's monetary easing. Overall, the average 3-month EIBOR decreased to 2.30% in 2019 H2, down from an average of 2.63% during the same period in 2018.

The decrease in the 3-month EIBOR and cheaper credit in the UAE bodes well for the banking system, benefiting individual borrowers and businesses alike. In particular, it is a relief for UAE citizens participating in the National Loan Scheme, as EIBOR 3-month serves as a basis for the interest rate cap applied to rescheduled payments in this regard.

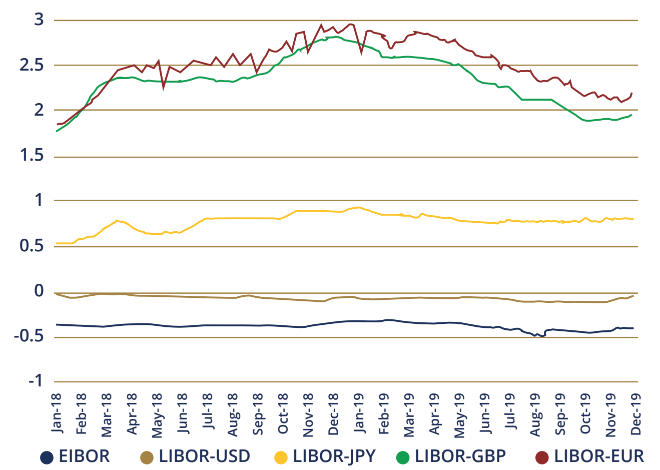
As regards, the LIBOR 3-month on the USD, it declined by 54 bps from early January 2019 to the end of July, followed by an additional decline by 32 bps till the end of the year.

The 3-month LIBOR of the British Pound fluctuated in response to a variety of factors that were pulling the currency in opposite directions. However, the Bank of England held the policy rate unchanged awaiting further clarity on economic data post Brexit. On average, the 3-month LIBOR on GBP increased from 0.73% in 2018 to 0.81% in 2019.

The Euro Interbank rate remained in negative territory in 2019, consistent with the policy orientation of the European Central Bank (ECB). The ECB kept its benchmark rates on hold for most of the year, despite sluggish growth and below target inflation. The exception was the interest rate cut on 12 September 2019 by 10 basis points to -0.5% on deposits, which was announced by the ECB in tandem with the resumption of a programme of quantitative easing. This policy decision was in response to downgraded inflation outlook, rising geopolitical risks, trade wars, and weaknesses in some emerging economies.

The Bank of Japan (BoJ) maintained its short-term interest rate target at -0.1% along with a pledge to guide the 10-year government bond yields around 0% in 2019. The BoJ refrained from cutting the policy rate, despite below target inflation and the economic slowdown that was aggravated by the impact of the consumption tax hike introduced in October, relying instead on its asset purchase programme.

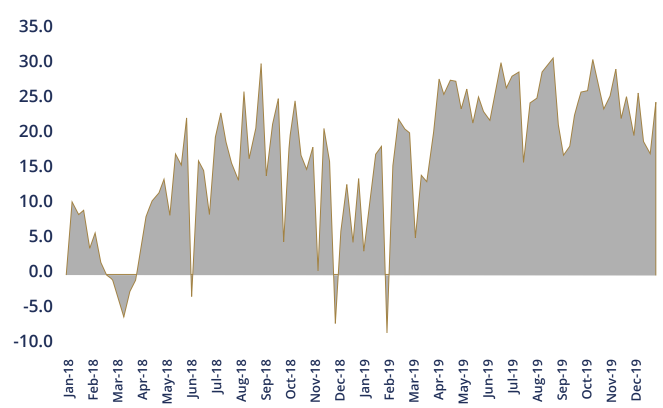
FIGURE 4.5.1.a: LIBOR RATES (3-MONTH) FOR THE DIRHAM AND KEY OTHER CURRENCIES (%)



Source: CBUAE

As regards the 3-month EIBOR vs. USD LIBOR spread, it remained positive during most of the year, rising from 3.2 bps in early January to a peak of 27.5 bps in early April, before declining gradually to 24 bps at the end of the year. The tighter spread was mainly due to tightening money market conditions in the US, which forced the New York Fed to inject liquidity in financial markets via overnight repurchase agreements, or repos. These injections started in mid-September when the overnight repo rate spiked suddenly from 2% to 10% and continued till-most of October. At that point, the New York Fed injected USD 99.9 billion in temporary liquidity (cash in exchange for high-quality assets like government bonds) and USD 7.5 billion in permanent reserves. This was followed by an increase in temporary overnight repo operations to USD 120 billion from USD 75 billion, in an attempt to keep the markets operating smoothly and to hold the overnight funds rate within its target range.

FIGURE 4.5.1.b: DIRHAM - USD LIBOR SPREAD (3 MONTHS, BPS)



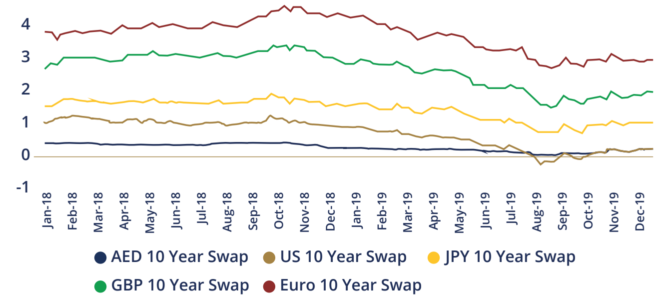
Source: Bloomberg

4.5.2 LONG-TERM SWAP RATES

As shown in Figure 4.5.2.a, the 10-year interest rate swaps fluctuated during 2019 around a declining trend, before turning upward in September-October as global liquidity tightened and risks remained high.

The 10-year Dirham interest rate swaps, as an example, decreased from 4.1% in early 2019 to a trough of 2.6% in early October, before increasing to 2.8% at the end of the year.

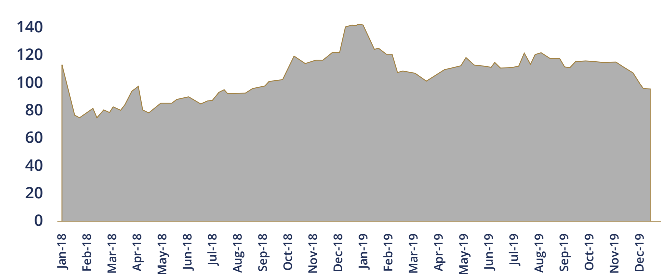
FIGURE 4.5.2.a: 10-YEAR SWAP RATES (%)



Source: Bloomberg

As per historical trends, the 10-year Dirham interest rate swaps traded higher than the 10-year US dollar interest rate swaps.

FIGURE 4.5.2.b: SPREAD 10-YEAR SWAP DIRHAM/USD (BPS)



Source: Bloomberg

PART 2.
KEY HIGHLIGHTS IN 2019

This review summarises critical initiatives undertaken by the CBUAE in 2019 covering financial stability, monetary and reserve management, supervision and regulation, governance and consumer protection, among others.

It also elaborates on the progress achieved in delivering the CBUAE's Strategic Vision 2017—2021. Highlights include work done across CBUAE in compliance with international standards, developing a monetary framework roadmap, mitigating risks through financial crisis prepares management and financial sector assessment while protecting consumers and businesses.

CBUAE FOR THE FIRST TIME PUBLISHED THE FINANCIAL STABILITY REPORT IN ARABIC

1. ENHANCING FINANCIAL STABILITY FOR A RESILIENT ECONOMY

Being one of the major centres of global finance, the UAE requires a robust financial stability framework that promotes and protects the stability of the financial system in the UAE.

In order to achieve this, CBUAE worked towards creating early warning and financial surveillance systems that identify and mitigate any serious disruptions affecting the banking and financial sector which can lead to negative effects on the economy. This thorough financial stability analysis serves as the cornerstone for policy recommendations and decisions to maintain the resiliency of the banking and financial system. Findings and recommendations of analysis are shared with the CBUAE Board of Directors on a monthly and quarterly basis.

We published the CBUAE Financial Stability Report in 2019, providing relevant information, data and stability assessments related to the strength and vulnerabilities of the UAE financial system. In keeping with international standards, the Financial Stability Report provides comprehensive and thematic information and assessments on monetary, banking and economic issues in the UAE. The report was also published in Arabic.

During the year, the CBUAE continued its role in assessing potential risks and their impact on the stability of the banking and financial system.

The CBUAE conducted regular macroprudential analysis in 2019 covering macro-financial conditions such as credit development, real estate market, various early warning indicators and annual analysis of Domestic Systemically Important Banks (DSIBs).

Furthermore, CBUAE performed a through surveillance of the banks' cross-border exposures, sectoral concentration, liquidity and funding, capital adequacy, cost-efficiency and asset quality, among others.

Aimed at improving the overall assessment of asset quality of the UAE banks, CBUAE enhanced reporting of non-performing loans (NPL) aligning its methodology with international best practices, in consultation with the International Monetary Fund. The introduction of Net NPL ratio increased transparency and comparability with other jurisdictions, reflecting the high specific provision coverage in the UAE banking system.

During the year, the CBUAE continued to evaluate banks' management of credit, liquidity and capital related risks through its annual banking system stress-test exercise to ensure the resilience of the banking sector. The hypothetical adverse scenario in the stress test was characterised by further downward repricing of real estate and its impact on real estate developers, as well as adverse effect on oil price and global trade.

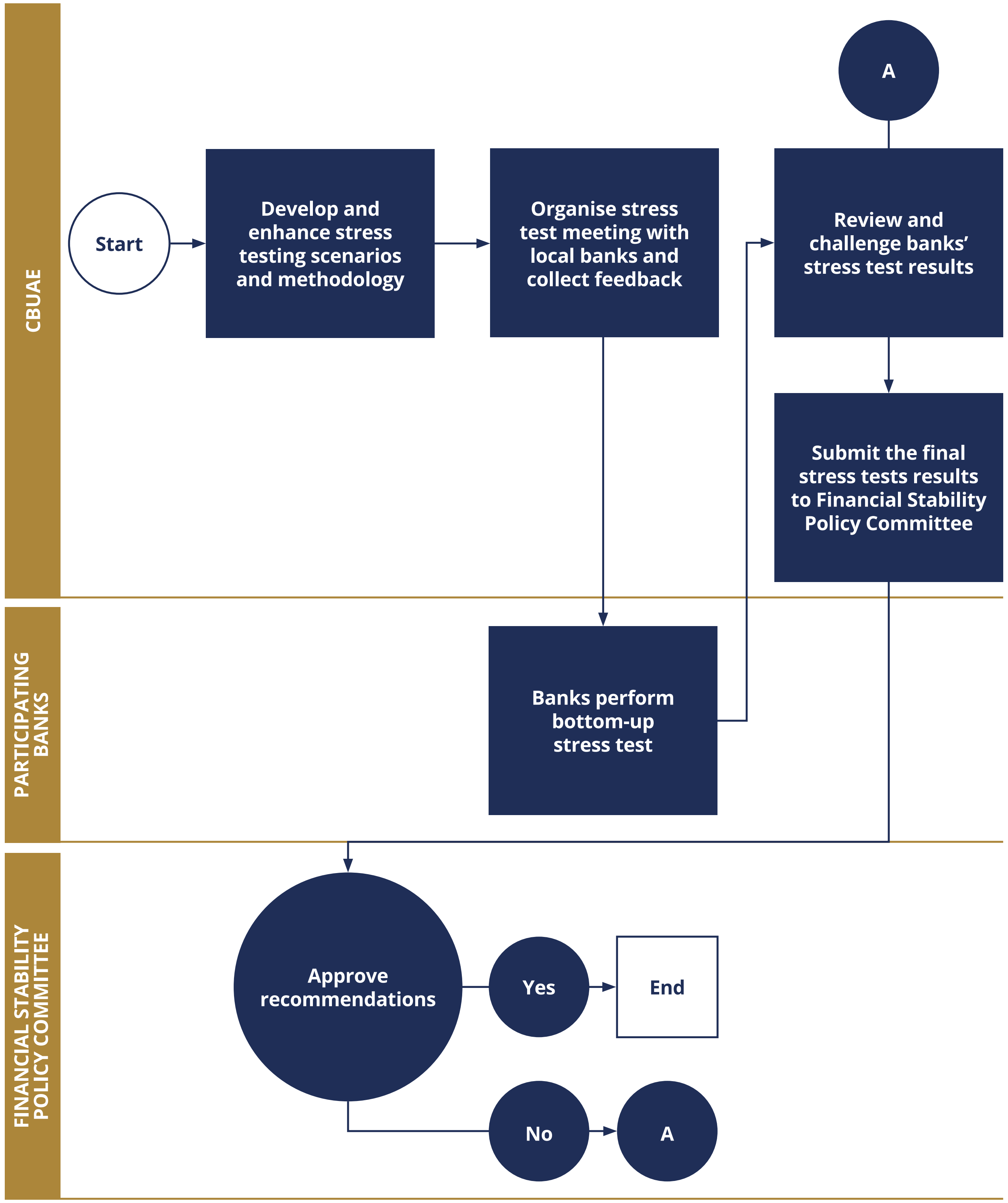
All UAE national banks and four foreign banks operating in the UAE participated in the stress test. The results of the stress tests served as an input to banking supervision and their supervisory actions where relevant. In addition, the CBUAE conducted thematic stress tests during the year focusing on liquidity and Government Related Enterprises (GRE).

During the year, the CBUAE also implemented its financial crisis management and preparedness framework, ensuring adequate governance, crisis preparedness, and if necessary, prompt crisis management response.

2.4%
NET NPL RATIO

by the end of 2019, introduced by CBUAE to improve comparability and transparency, by excluding specific provisions by banks

FINANCIAL BOTTOM-UP STRESS TESTING PROCESS



2. STRENGTHENING THE FINANCIAL SYSTEM

Liquidity remains at the heart of any financial system and a prudent policy and system is imperative to economic resilience, especially during a slowdown or times of global uncertainty – similar to global economic headwinds that have been witnessed over the last decade.

To ensure liquidity in the market, the CBUAE in 2019 approved the Dirham Monetary Framework, a series of new monetary management tools and facilities. Aimed at enhancing transparency in the UAE's domestic money markets, the framework will be implemented in 2020 which will have a positive effect in improving the day-to-day liquidity management of banks operating in the UAE.

The framework introduces and consolidates liquidity provision and drainage facilities to ensure short-term market interest rates align to the US levels, helping to support and maintain the peg, a crucial aspect during an economic slowdown. It provides a clear distinction between Standing Facilities and Open Market Operations, so as to improve the CBUAE's capacity to manage liquidity to support market development and collateralisation while maintaining the peg. The framework also creates incentives for Deposit-Taking Financial Institutions to proactively manage their day-to-day liquidity stance and encourage money market developments in the UAE.

In terms of reserve management, the CBUAE's foreign exchange reserves continued to grow strongly and remained adequate, covering 96% of the monetary base by end-2019.

The CBUAE has also proactively developed its risk management policies and procedures to build its defences against any major domestic or global adverse development. In particular, the ongoing efforts of the CBUAE focused on maintaining financial and operational resilience.

Financial resilience is important to maintain the ability to support the UAE banking system if and when needed, and to conduct efficient and effective monetary policy operations.

Financial resilience is safeguarded by a prudent management of the CBUAE's assets, supported by an extensive risk management framework. Operational resilience aims at maintaining CBUAE's key functions and services to the public under adverse scenarios, including but not limited to cyberattacks, natural disasters and fraudulent behaviour affecting the integrity of the UAE financial system. To this end, the CBUAE worked relentlessly to improve its defences by adopting best practices and following recognised national and international standards, in close cooperation with the relevant authorities.

Financial stability is pre-emptive by nature, but it prepares also for potential crises in financial and payment systems by maintaining crisis readiness. During the year, the CBUAE has implemented an internal financial crisis management and preparedness framework, which includes a series of rapid response measures to stabilise the financial system to ensure adequate governance, crisis preparedness, and if necessary, prompt crisis management.

With the right monetary and reserve management regulations, CBUAE ensures stability in the financial system in the UAE. varying foreign exchange rates and reducing This delivers confidence in the local economy and financial system, thereby facilitating overall growth.

MAIN BENEFITS
CONSOLIDATES LIQUIDITY PROVISION AND DRAINAGE FACILITIES TO MAINTAIN THE CURRENCY PEG IT IMPROVES CBUAE'S

3. A ROBUST PRUDENTIAL REGULATION AND SUPERVISION FRAMEWORK

In 2019, the CBUAE continued to place its supervisory focus on Basel standards in the UAE and completed the regulatory standards for the implementation of Basel III capital framework for banks. The Basel III Regulation on Capital Adequacy was originally issued in 2017, and subsequently in 2018 the accompanied Standards on Capital Supply and Tier capital was issuance. In 2019, CBUAE announced Capital Conservation Buffer (CCB) requirements at a rate of 2.5%, reflecting the Basel III phase-in provisions. The CBUAE's Countercyclical Capital Buffer (CCyB), based on the Basel III regulatory capital framework, for the UAE stands at 0%.

Minimum Capital Requirement	As of January 2020
Minimum CET-1 ratio	7.0%
Minimum Tier-1 ratio	8.5%
Minimum Capital Adequacy Ratio (CAR)	10.5%
Capital Conservation Buffer (CCB)	2.5%
Domestic Systemically Important Banks (D-SIB) buffer	0.5%-2.0% individual capital surcharge for identified D-SIBs
Counter-Cyclical Capital Buffer (CCyB)	0% CCyB for UAE exposures stands at 0%

Enhancing corporate governance has been a key focus of the Central Bank in developing its new regulatory framework. In 2019, the CBUAE issued a landmark regulation and accompanying standards on corporate governance for banks operating in the UAE. The new regulation and standards establish the overarching prudential framework for corporate governance in banks and are designed to ensure that Boards of the banks continue to be proactive in developing a strong and healthy corporate governance culture. A three-year transition timeframe has been built into the regulation and banks have been requested to provide the CBUAE with a detailed plan of implementation by the beginning of 2020.

During the year, the CBUAE issued new supervisory and enforcement provisions relating to Anti-Money Laundering and Counter-Terrorist Financing and Illegal Organisations (AML/CFT) in accordance with Decree Federal Law No. (20) of 2018 as well as a new Registered Hawala Providers Regulation. In addition, the CBUAE published detailed Guidelines for financial institutions in coordination with various UAE government entities and financial free zones.

In parallel, the CBUAE undertook focused supervisory initiatives that included a comprehensive risk assessment of all financial institutions and prioritization of the banks' and exchange houses' examinations on AML/CFT. During 2019, the CBUAE also hosted the Financial Action Task Force's delegation, which conducted the mutual evaluation of the UAE on its compliance with the international standards for AML/CFT. It further organised the first National Summit on Counter Terrorist Financing and Sanctions that joined banks, national authorities and key international stakeholders to raise awareness and insight.

In 2019, the CBUAE implemented a new risk-based supervision approach and methodology, consistent with the Core Principles issued by the Basel Committee on Banking Supervision. The CBUAE's supervisory arm also commenced the assessment of banks' information security risk management strategy and their compliance with the UAE Information Assurance Standards. In addition, the CBUAE enhanced significantly its supervisory cooperation with other authorities with the organisation of two supervisory colleges for national D-SIBs with overseas operations and the participation in two supervisory colleges for foreign banks.

97.2%

of the money base covered by CBUAE's foreign exchange at December 2019

The CBUAE's licensing activity expanded in line with market requirements and granted the first license to a retail Payment Service Provider (Noor Bank-Etisalat) for providing eWallet services. It also updated its licensing manual and rolled out a project aiming to fully automate its licensing services and application forms.

The CBUAE's payment systems oversight unit continued in 2019 to assess the payment systems owned and operated by the CBUAE for compliance with the international standards. It further commenced the update of its oversight framework to cover all financial infrastructure systems across the UAE as per the new Central Bank Law introduced in 2018.

In 2019 the CBUAE introduced a new enforcement mandate and policy which, together with concrete enforcement measures, aim to further protect the stability and integrity of the UAE's financial system. In addition, the integration of enforcement in the supervisory examinations and consumer protection was a strategic priority in 2019. To this end, a new internal and external enforcement referral procedure following ISO 9001 document management standards was established to ensure a managed process for all enforcement referrals, from their initiation until serving the final enforcement notification on the licensed financial institution and/or authorised individual.

In line with the national and economic agenda of the UAE government, the CBUAE in partnership with several national banks and the UAE Banks Federation launched in 2019 the 'National Loan Scheme'. This landmark initiative's objective is to ease the burden of debt accumulation and management of debt settlements for UAE nationals. Since its launch, the scheme has already benefitted more than 4,000 UAE nationals with total loans disbursed amounting to AED 5.5 billion and concessions provided to AED 3.3 billion.

In line with the UAE's vision to become an international hub for Islamic finance, the Higher Shari'ah Authority (HSA) continued pursuing the alignment of practices of Islamic Financial Institutions (IFI) with international standards. In 2019, the HSA's work focused on:

(i) Compliance with the internationally recognized Shari'ah Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), with the adoption of the new Standard on sale of debt and the initiation of a new generation of Standards regarding Murabaha;

(ii) Issuance of updated guidance for new Shari'ah-compliant product application process; and

(iii) Strengthening of the Shari'ah governance of IFIs. In conducting its work, the HSA collaborates closely with the UAE market participants and the UBF. During the year, it held nine meetings and organized an inaugural executive program delivered by the HSA Members on the effective integration of Shari'ah in the regulatory and legal framework of the Shari'ah-compliant financial industry.

SINCE ITS LAUNCH, THE NATIONAL LOAN SCHEME HAS ALREADY BENEFITTED MORE THAN 4,000 UAE NATIONALS WITH TOTAL LOANS DISBURSED AMOUNTING TO AED 5.5 BILLION

4. RESEARCH AND STATISTICS

In 2019, the research activity was focused on regular publications, namely the 2018 annual report and four issues of the Quarterly Economic Review that have covered the latest developments in the international economy, in the domestic economy, in the banking and financial sector and in the Central Bank financial position and reserves adequacy.

Moreover, the research supports informed policy decision-making at CBUAE as well as the UAE national agenda, by collaborating with the national stakeholders at the federal and local levels. Meanwhile, collaboration with regional and international organisations enhances the reputation of the UAE and improves its rankings in international competitiveness indicators.

In addition, the progress made in the compilation and dissemination of Monetary, Banking, and the balance of payments statistics, allowed the timely publication of data and statistical reports that capture largest share of the financial sector regulated by CBUAE. Moreover, an electronic database covering historical time-series is readily available on the CBUAE's website to meet the regular needs of researchers, and domestic and external stakeholders.

Research will continue to be a focus area for the CBUAE in 2020 and will proactively examine issues relevant to UAE's monetary and financial stability, its economy and reserves adequacy, and where appropriate, recommend measures to strengthen them.

To enhance data-driven and well-informed decision-making at the Central Bank, some efforts were made in 2019 to enhance the collection, processing and dissemination of the data fall within the mandate of the CUBAE.

In the area of monetary and financial statistics, the CBUAE started compiling monetary data for other financial institutions (comprising finance companies, insurance corporation, and investment banks), which complemented the existing monetary data for the central bank and other depository corporations.

In the area of external sector statistics, the CBUAE started collecting information from SWIFT cross-border transactions conducted by banks and exchange houses to compile balance of payments statistics. This innovative approach will provide a break-through in the availability and quality of Balance of Payments statistics for the UAE to be published on a regular basis by international organisations in line with international standards.

RESEARCH OUTPUT IN 2019

01 Dynamics of housing prices in the UAE (December 2019), internal presentation.

02 Fiscal policy in the GCC: Challenges of sustainability (December 2019), presented at a regional conference in Oman, where the paper won the best paper award.

03 Transitory and Permanent Shocks in the Global Market for Crude Oil, published as IMF Working Paper (WP No.20/47).

PUBLISHED RESEARCH IN REFEREED JOURNALS

01 The Balance between Fiscal Consolidation and Non-Oil Growth: The Case of the UAE, Borsa Istanbul Review, 19-1 (2019), March, pp. 73-93.

02 Fiscal Sustainability Challenges in the New Normal of Low Oil Prices: Empirical Evidence from GCC Countries, International Journal of Development Issues, (2019), Vol.18, issue 1, pp. 109-134.

03 UAE Banks' Performance and the Oil Price Shock: Evidence across Conventional and Islamic Banks," Review of Middle East Economics and Finance, December (2019), Vol. 15, Issue 3, pp. 1-23.

5. BANKING OPERATIONS ALIGNED WITH THE GOVERNMENT VISION

The success of any central bank is underpinned by the degree of pertinent services offered, that enable economic growth and convenience for the nation. The UAE has seen consistent growth in the banking sector over the last decade, facilitated by innovative and efficient banking operations that ensured resilient growth even with an uncertain global economy.

Domestic payments and fund transfers have shown encouraging growth for the 10th year in a row, including interbank and consumer payment transactions. For instance, in 2019, the total number of transactions and related amount of the UAE Funds Transfer System increased by 9% from 43.67Mn to 47.49Mn, and by 10% from AED 10,000Bn to AED 11,000Bn, respectively when compared to 2018.

The newly implemented Immediate Payment System also recorded an effective adoption by banks after the successful launch in January 2019, reaching in volume terms 2.2Mn transactions, and in value terms of AED 5.8Bn. In addition, Direct Debit Claims rose by 17.2%, from 13.4Mn to 15.7Mn, and an increase by 5% in Wage Protection System for registered employers and employees. Separately, paper cheques continued to decrease by 4.2%, from 28.1Mn to 26.9Mn, due to growing acceptance of electronic payments.

As the economy continues to grow, the UAE aims to further strengthen its role as a global financial hub through the National Payment Strategy, which is expected to ensure safe, innovative and convenient electronic payment that will make the UAE a leading cashless economy. The CBUAE finalised the strategic and payment systems migration roadmap, and the build, operate and transfer (BOT) operating model for the system and is expected to be ready for implementation in 2020.

The CBUAE also leveraged its best practices to partner with regional central banks. During the year, it facilitated Regional Payments through completion of the joint Central Bank Digital Currency (CBDC) and Distributed Ledger Technology Proof Project (Aber) with the Saudi Arabian Monetary Authority (SAMA). Furthermore, the CBUAE completed the UAE Switch upgrade to enable settlement of Regional POS Transactions and related switching operations. The year also witnessed the CBUAE develop the regional and cross-border Real-Time Gross Multi-Currency Settlement Systems GCC, RTGS and ARBS.

The CBUAE continued to conduct annual assessments of systemically important payment systems that it owns and operates. It further commenced the update of an oversight framework to cover all relevant financial infrastructure systems in the UAE, as per the requirements of the Central Bank Law introduced in 2018.

As Financial Technology continues to define the financial sector, the CBUAE will continue to work on implementing its FinTech strategy and establish the CBUAE FinTech office in 2020.

The CBUAE also prepared a list of priority enablers to inform the UAE national strategy on SMEs.

9%

Increase in total number of transactions to AED 47.9 million

4.2%

Growth in electronic payments. Effecting in decrease in paper cheques to AED 26.9 million

10%

Rise in amount of payment to AED 11,000 billion

6. CONSUMER FOCUS

Being the region's financial hub requires the CBUAE to ensure the security of financial transactions and effective communication with consumers. In 2019, one of its key areas of focus was understanding its consumers and amplifying their requirements.

Moreover, the CBUAE has commissioned several consumer surveys to gauge emerging consumer needs. As a result of several awareness initiatives, the CBUAE registered a significant spike in customer calls.

These surveys have also allowed the CBUAE to better understand the relationship between customers and their banks and will provide a basis for developing a new financial consumer protection regulatory framework in 2020.

To improve service to the public, the CBUAE upgraded call centre technology and increased staffing in its contact centre that is responsible for responding to consumer complaints and inquiries.

The CBUAE and the UAE Banks Federation (UBF) together created a consumer protection committee to address market conduct matters and improve transparency.

In its work for improving security on behalf of consumers, the CBUAE enhanced its framework of Cash Management Operations by promoting security features. It also provided the public with the opportunity to purchase commemorative coins for the Year of Zayed and denomination 100 Dirham banknotes and facilitated Cash Services through automation to banks, retail merchants and consumers.

These programmes allowed the CBUAE to help consumers become aware of their rights and protect them against illegal and fraudulent activities.

CONSUMER PROTECTION COMMITTEE ESTABLISHED BY CBUAE AND UAE BANKS FEDERATION IN 2019

7. PROMOTING A CULTURE OF INNOVATION AND EXCELLENCE

The UAE is at the centre of global finance, a sector that is evolving swiftly to accommodate the various technological and socioeconomic developments around the world. To remain at the forefront of this transformation, the CBUAE continued to improve its policies and processes.

In 2019, CBUAE strengthened its innovation proposition in 2019, which focused on improving core services and identifying crucial new projects and areas of research. This remains a core focus for the CBUAE as it moves into 2020. The CBUAE's goal is to identify industry breakthroughs and sustainable projects that can improve efficiency of its work and bring about disruptive advancement in its policies, processes and services.

Although the CBUAE remains a regulatory body that embraces international standards, it believes in continuous improvement to keep itself ahead of challenges in a rapidly changing global economy. In 2019, it launched a bid for gaining four ISO certifications for several critical subjects to improve its integrated management system.

The CBUAE held four awareness sessions in 2019 with over a hundred staff attending these sessions. Key focus areas include aligning its activities with internationally recognised best practices, policies and services. These sessions are expected to be carried forward into 2020.

Meanwhile, a 'Know-Your-Customer survey – Account Opening Process at Banks' was conducted by the CBUAE in mid-2019. The results of the survey revealed that MSME customers are challenged in financing. The turnaround time for opening an account can take up to one month. Based on these results, CBUAE intends to strengthen customer protection in this regard, while ensuring due diligence requirements are in place to safeguard the stability of the financial system.

During the year, CBUAE also aligned with the Emirates Government Services Excellence Programme by the Prime Minister's Office (PMO) that aims to raise the efficiency of government services to 7-star rating.

As the world moves towards a digital world, one of CBUAE's major focus areas of 2020 is Data Strategy which designs a framework to improve method of ways in which the CBUAE collects, stores, manages, shares and uses data.

MAJORITY OF THE BANKS AND FIS PARTICIPATED IN WELL-BEING AND HAPPINESS WEEK INITIATIVES

PART 3.
FINANCIAL REPORTING

STATEMENT OF FINANCIAL POSITION — AS AT 31 DECEMBER

	2019 AED'000	2018 AED'000
Assets		
Cash and balances with banks	**254,466,126**	200,893,145
Deposits	**127,591,049**	106,841,471
Loans and advances	**49,908**	3,138,064
Investments at amortised cost	**54,813,558**	104,228,518
Investments at fair value through other comprehensive income	**498,098**	469,905
Derivative financial instruments	**3,818,157**	177,142
Gold bullion	**4,044,436**	1,134,287
Property and equipment	**125,684**	107,720
Other assets	**838,594**	720,834
Total assets	**446,245,610**	417,711,086
Liabilities		
Current accounts and deposits	**160,706,555**	162,833,024
Certificates of deposit	**160,183,125**	138,156,591
Currency issued	**93,728,577**	85,838,829
Derivative financial instruments	**16,813**	2,435,958
Other liabilities	**6,561,518**	5,198,110
Total liabilities	**421,196,588**	394,462,512
Equity		
Fully paid up capital	**20,000,000**	20,000,000
General reserve	**4,602,639**	3,108,288
Fair value reserve	**446,383**	140,286
Retained earnings	**-**	-
Total equity	**25,049,022**	23,248,574
Total liabilities and equity	**446,245,610**	417,711,086

APPENDIX

SELECTED MACROECONOMIC INDICATORS 2011—2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019E
WORLD GDP Growth (%)	4.2	3.5	3.4	3.5	3.4	3.2	3.8	3.6	2.9
US GDP G(%)	1.6	2.2	1.7	2.4	2.6	1.6	2.2	2.9	2.3
Oil Price ($/Bl)	111.3	111.6	108.6	99.0	52.3	43.6	54.1	71.3	64.3
Oil production UAE (Million Barrels/day)1	2.5	2.7	2.8	2.8	3.0	3.1	3.0	3.0	3.1
In Billions of AED									
UAE Real GDP (2010 prices)	1,138	1,189	1,249	1,304	1,370	1,411	1,445	1,462	1,486
Real Non-Oil GDP	768	801	849	904	949	979	1,026	1,033	1,043
Real Oil GDP	370	388	400	401	421	432	419	429	443
UAE Nominal GDP	1,288	1,376	1,433	1,481	1,315	1,311	1,416	1,551	1,547
Nominal Non-Oil GDP	786	838	904	975	1,028	1,058	1,126	1,148	1,160
Nominal Oil GDP	501	537	529	505	287	253	290	403	387
Annual percent change (%)									
UAE Real GDP	6.9	4.5	5.1	4.4	5.1	3.0	2.4	1.2	1.7
Real Non-Oil GDP	4.7	4.3	5.9	6.4	5.0	3.2	4.8	0.7	1.0
Real Oil GDP	11.8	4.8	3.2	0.1	5.2	2.6	-3.2	2.5	3.4
UAE Nominal GDP	21.0	6.8	4.1	3.3	-11.2	-0.3	8.0	9.5	-0.3
Nominal Non-Oil GDP	7.3	6.6	7.8	7.9	5.4	2.9	6.4	1.9	1.0
Nominal Oil GDP	51.5	7.2	-1.6	-4.5	-43.2	-11.8	14.6	38.9	-3.9
UAE CPI (2014 base year)	96.0	96.6	97.7	100.0	104.1	105.8	107.8	111.1	109.0
UAE CPI Inflation (%)	0.9	0.7	1.1	2.3	4.1	1.6	2.0	3.1	-1.9

Source: FCSA, OPEC, IMF, and CBUAE

[1] MAs reported by OPEC

E: Estimates

FIGURES

BOXES

TABLES

LIST OF ABBREVIATIONS

ADNOC	Abu Dhabi National Oil Company
ADX	Abu Dhabi Securities Exchange
AED	Arab Emirates Dirham
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering/ Countering Financing of Terrorism
BCM	Business Continuity Management
BIA	Basic Indicator Approach
BIA	Business Impact Analysis
BOP	Balance of Payments
CAGR	Compounded Annual Growth Rate
CAR	Capital Adequacy Ratio
CBUAE	Central Bank of the UAE
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCyB	Countercyclical capital buffer
CDs	Certificates of Deposit
CET1	Common Equity Tier 1 Capital
CIBAFI	Council for Islamic Banks and Financial Institutions
CIF	Cost of Insurance and Freight
CPD	Consumer Protection Department
CPI	Consumer Price Index
CRWA	Credit Risk Weighted Asset
CVA	Credit Valuation Adjustment
DCT	Department of Culture and Toursim - Abu Dhabi
DCTM	Department of Commerce and Tourism Marketing - Dubai
DDS	Direct Debit System
DET	Dubai Economy Tracker
DFM	Dubai Financial Market
DLD	Dubai Land Department
DNFBPs	Designated Non-Financial Businesses and Professions
D-SIB	Domestic Systemically Important Bank
ECB	European Central Bank
ECDD	Enhanced Customer Due Diligence

LIST OF ABBREVIATIONS

ECQ	Effective Compliance Questionnaire
EIBOR	Emirates Inter-Bank Offer Rate
EIF	Equity in Investment Funds
ELAR	Eligible Liquid Asset Ratio
EMDE	Emerging Markets and Developing Economies
FATF	Financial Action Task Force
FCSA	Federal Competitiveness and Statistics Authority
FDI	Foreign Direct Investment
Fed	The Federal Reserve System, US
FI	Financial Institutions
FIU	Financial Intelligence Unit
FMI	Financial Market Infrastructure
FOB	Free on Board
FOMC	Federal Open Market Committee
FSAP	Financial Sector Assessment Program
G-20	Group of Twenty
GCC	Gulf Cooperation Council
GCC-RTGS	Gulf Cooperation Council Real Time Gross Settlement
GDP	Gross Domestic Product
GREs	Government Related Entities
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ICCS	Image Cheque Clearing System
ICV	In-Country Value
IFIs	International Financial Institutions
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organization of the Securities Commissions
ISM	Institute for Supply Management
L/D	Loan-to-Deposit

LIST OF ABBREVIATIONS

LCR	Liquidity Coverage Ratio
LIBOR	London Inter-Bank Offer Rate
LSRR	Lending to Stable Resources Ratio
M1	Money Aggregate 1
M2	Money Aggregate 2
M3	Money Aggregate 3
Mb/d.	Million Barrels per Day
MENA	Middle East and North Africa
MENAFATF	Middle East and North Africa Financial Action Task Force
MENAP	Middle East, North Africa, Afghanistan and Pakistan
MoF	Ministry of Finance
MOHRE	Ministry of Human Resources and Emiratisation
MOU	Memorandum of Understanding
MSMEs	Micro, Small and Medium Enterprises
NAMLCFTIOC	Anti-Money Laundering & Combating Financing of Terrorism and Illegal Organization Committee
NEER	Nominal Effective Exchange Rate
NPSS	National Payment Systems Strategy
NSFR	Net Stable Funding Ratio
OPEC	Organisation of Petroleum Exporting Countries
OTC	Over-the-counter
PCE	Private Consumption Expenditure
PFMIs	Principles on Financial Market Infrastructures
PMI	Purchasing Managers Index
PMO	Project Management Office

LIST OF ABBREVIATIONS

Q-o-Q	Quarter on Quarter
RBI	Reserve Bank of India
RBS	Risk Based Supervision
RWA	Risk Weighted Assets
SA	Standardised Approach
SA-CCR	Standardised Approach for Counterparty Credit Risk
SCA	Securities and Commodities Authority
SDR	Special Drawing Right
SIA	Signal Intelligence Agency
SME	Small and Medium Enterprises
STR	Suspicious Transaction Report
TCQ	Technical Compliance Questionnaire
UAE Switch	UAE Electronic Switch
UAE	United Arab Emirates
UAEDDS	UAE Direct Debit System
UAEFTS	UAE Funds Transfer System
UK	The United Kingdom
UK-FIU	UK Financial Intelligence Unit
US	The United States
USD	United States Dollar
VaR	Value at Risk
VAT	Value Added Tax
WEO	World Economic Outlook
WPS	Wages Protection System
Y-o-Y	Year-on-Year

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