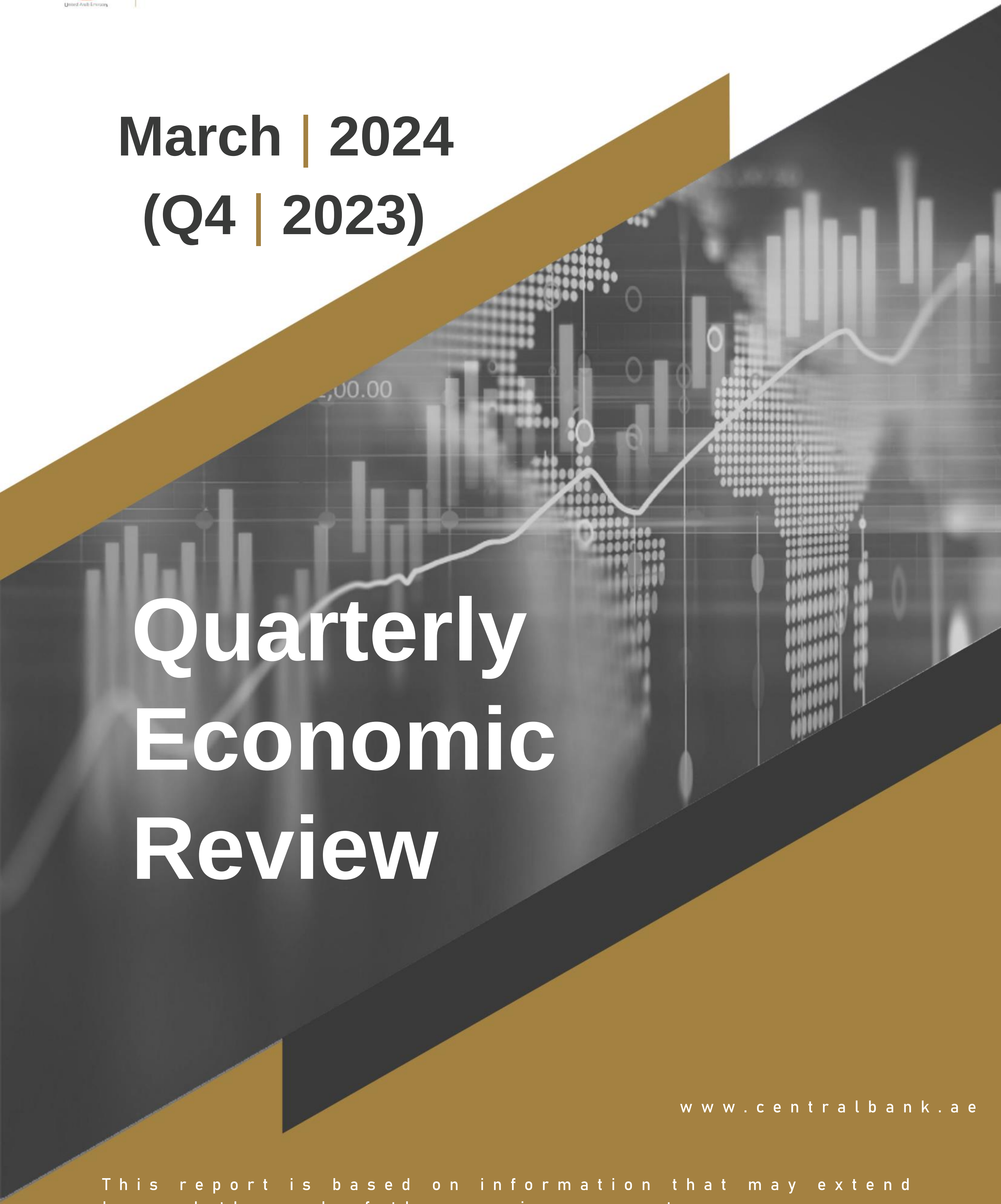
مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

March | 2024
(Q4 | 2023)



Quarterly Economic Review

www.centralbank.ae

This report is based on information that may extend beyond the end of the previous quarter

Table of Contents

Chapter 1: International Economic Developments and UAE External Sector

Chapter 2: Domestic Economic Developments

Chapter 3: Monetary and Financial Markets Developments

List of Abbreviations

AED	*United Arab Emirates Dirham*
AEs	*Advanced Economies*
ALOS	*Average Length of Stay*
ARR	*Average Room Rate*
BoE	*Bank of England*
CBUAE	*Central Bank of the UAE*
CDs	*Certificates of Deposit*
CPI	*Consumer Price Index*
DONIA	*Dirham Overnight Index Average*
DSC	*Dubai Statistics Center*
ECB	*European Central Bank*
EIBOR	*Emirates Inter-Bank Offer Rate*
EMDEs	*Emerging Markets and Developing Economies*
Fed	*Federal Reserve*
GCC	*Gulf Cooperation Council*
GDP	*Gross Domestic Product*
GREs	*Government Related Entities*
IMF	*International Monetary Fund*
M1	*Monetary Aggregate 1*
M2	*Monetary Aggregate 2*
M3	*Monetary Aggregate 3*
M-o-M	*Month-on-Month*
MENA	*Middle East and North Africa*
MGF	*Minimum Guarantee Fund*
NEER	*Nominal Effective Exchange Rate*
NBFI	*Non-Banking Financial Institutions*
OPEC	*Organization of Petroleum Exporting Countries*
PMI	*Purchasing Managers' Index*
REER	*Real Effective Exchange Rate*
REVPAR	*Revenue per Available Room*
SCA	*Securities and Commodities Authority*
UAE	*United Arab Emirates*
UK	*United Kingdom*
US	*United States of America*
USD	*United States Dollar*
WEO	*World Economic Outlook*
Y-o-Y	*Year-on-Year*

Chapter 1

International Economic Developments and UAE External Sector

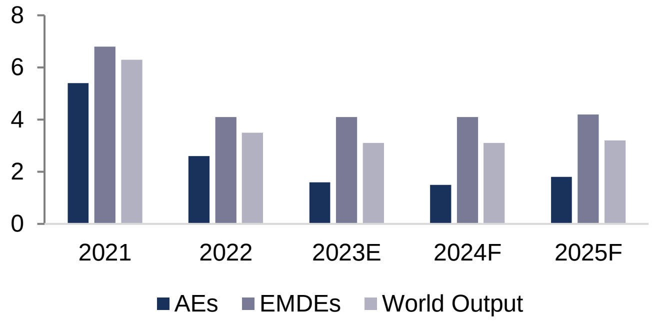
I.1. Growth Outlook of Major UAE Economic Partners

Global growth is projected to stabilize at 3.1% in 2024, with an uptick to 3.2% in 2025	Advanced economies' growth is set to marginally slow from 1.6% in 2023 to 1.5% in 2024, and then recover to 1.8% in 2025	Growth in emerging markets is forecasted to remain steady at 4.1% in 2024, with GCC's growth rebounding from 0.6% in 2023 to 3.3% in 2024

Global

In the January 2024 update of the World Economic Outlook (WEO), the International Monetary Fund (IMF) projects global growth to remain unchanged from 2023 to 2024 at 3.1%, followed by a slight increase to 3.2% in 2025. The forecast for 2024 was revised upward by 0.2 percentage points since October 2023, due to greater-than-expected resilience in the United States (US) and several large emerging market and developing economies, along with fiscal support in China. However, expected growth in 2024 and 2025 falls below the historical average of 3.8% during the period from 2000 to 2019. This deceleration in global growth prospects reflects the implementation of restrictive monetary policies, the phasing out of fiscal stimuli, and the prevailing challenges associated with subdued productivity growth.

Figure 1.1 Global Real GDP Growth (%)



Source: International Monetary Fund, World Economic Outlook‒January 2024 update.
Notes: E=Estimate, F=forecast, AEs= Advanced Economies, EMDEs= Emerging Market and Developing Economies.

Advanced Economies

For advanced economies, the IMF forecasts a slight deceleration in economic growth, from 1.6% in 2023 to 1.5% in 2024, followed by an acceleration to 1.8% in 2025. A stronger-than-expected economic expansion in the US led to a 0.1 percentage point upward revision for 2024 relative to the forecasts published in October 2023. Recent data for the US economy indicates that growth reached 3.1% Y-o-Y in Q4 2023, primarily fuelled by increased consumer spending on the back of rising wages in the context of a tight labour market and augmented inventory levels.

Conversely, the eurozone recorded a modest growth rate of 0.1% Y-o-Y in Q4 2023. The region is confronting significant challenges, including elevated inflation rates, historically high interest rates, and the gradual implementation of fiscal tightening measures. Among the major economies within the eurozone, Germany experienced a real GDP contraction of 0.2% Y-o-Y, while France and Italy reported an expansion by 0.7% and 0.5% respectively Y-o-Y. Beyond the eurozone, the United Kingdom's economy contracted by 0.2% Y-o-Y in Q4 2023, while in Japan economic growth remained positive at 1.0% Y-o-Y in Q4 2023, but decelerating from 1.7% Y-o-Y in Q3 2023. The Japanese economy was particularly impacted by sluggish consumption and exports, largely due to reduced demand from China.

Table 1.1 Real GDP Growth in Advanced Economies (%)

	2022	2023E	2024F	2025F	Q3 2023 (Y-o-Y)	Q4 2023 (Y-o-Y)
Global	3.5	3.1	3.1	3.2	-	-
AEs	2.6	1.6	1.5	1.8	-	-
US	1.9	2.5	2.1	1.7	2.9	3.1
Eurozone	3.4	0.5	0.9	1.7	0.0	0.1
UK	4.3	0.5	0.6	1.6	0.2	-0.2
Japan	1.0	1.9	0.9	0.8	1.7	1.0

Sources: International Monetary Fund, World Economic Outlook‒January 2024 update; country authorities.
Notes: E=Estimate, F=forecast, AEs=Advanced Economies.

Emerging market and GCC Economies

The IMF forecasts that growth in emerging market and developing economies is expected to remain steady at 4.1% in 2024 and 4.2% in 2025. In emerging and developing Asia, the growth rate is expected to moderate from 5.4% in 2023 to 5.2% in 2024. Growth in Emerging Europe is projected to marginally increase from 2.7% in 2023 to 2.8% in 2024. A confluence of factors including more stringent policy measures, a deteriorating external economic environment, and declining commodity prices are expected to negatively impact the economic outlook for Latin America. In this region, growth is projected to decelerate from 2.5% in 2023 to 1.9% in 2024.

In Q4 2023, the Chinese economy expanded by 5.2% on a Y-o-Y basis, surpassing the growth rate of 4.9% recorded in the third quarter. This acceleration can be attributed to increased governmental expenditure, the relaxation of certain borrowing regulations to support prospective homebuyers, and the expansion of loan access for developers. These measures were implemented to mitigate the adverse impacts of the downturn in the property sector and the challenges faced in the trade domain.

The Indian economy is projected to grow by 5.0% Y-o-Y in the fourth quarter of 2023, after a 7.6% increase in the previous quarter, mainly due to strong domestic demand. In Brazil, the economy's growth rate for the same period is estimated at 2.3% Y-o-Y, reflecting both a dynamic domestic demand and better-than-expected performance from its major trading partners. South Africa's economic growth for the fourth quarter of 2023 is estimated at 1.0% Y-o-Y, marking a significant improvement from the -0.7% Y-o-Y contraction observed in the previous quarter. This positive shift reflects a reduction in electricity shortages, a development that has been expedited by the advent of novel private-sector initiatives in renewable energy generation and that reduced interruptions to commercial activities.

The IMF forecasts a significant increase in economic growth for the GCC region, from 0.6% in 2023 to 3.2% in 2024. The subdued growth of GCC economies in 2023 was largely due to ongoing oil production cuts. However, the non-hydrocarbon sectors in several GCC countries are experiencing strong growth, fuelled by rising domestic demand, increased gross capital inflows, and the implementation of structural reforms to diversify the economy away from oil.

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

	2022	2023E	2024F	2025F	Q3 2023 (Y-o-Y)	Q4 2023E (Y-o-Y)
EMDEs	4.1	4.1	4.1	4.2	-	-
Brazil	3.0	3.1	1.7	1.9	2.0	2.3
India	7.2	6.7	6.5	6.5	7.6	5.0
China	3.0	5.2	4.6	4.1	4.9	5.2*
South Africa	1.9	0.6	1.0	1.3	-0.7	1.0

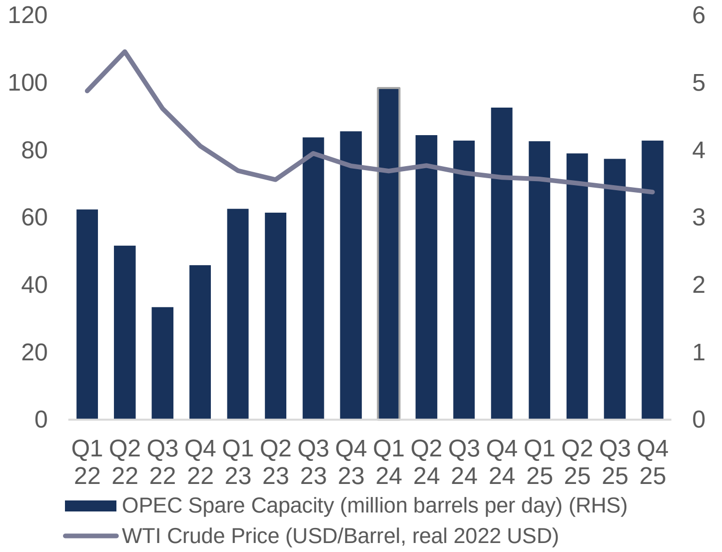
Source: International Monetary Fund, World Economic Outlook- January 2024 update.
Notes: F=forecast, EMDEs=Emerging Market and Developing Economies, *actual number.

Table 1.3 Real GDP Growth in GCC Economies (%)

	2022	2023E	2024F
GCC	7.9	0.6	3.2
UAE*	7.9	3.1	4.2
Saudi Arabia	8.7	-0.9	2.7
Qatar	4.9	2.4	2.2
Kuwait	8.9	-0.6	3.6
Oman	4.3	1.2	2.7
Bahrain	4.9	2.7	3.6

Sources: International Monetary Fund, World Economic Outlook- January 2024 update; International Monetary Fund, Gulf Cooperation Council - December 2023.
Notes: E=Estimate. F=forecast. *Federal Competitiveness and Statistics Centre for 2022 and CBUAE for 2023-24.

Figure 1.2 OPEC Oil Spare Capacity and Oil Prices



Source: US Energy Information Administration.

I.2. Inflation and Monetary Policy Responses

Global inflation is projected to decline to 6.8% in 2023 from 8.7% in 2022	**Inflation is declining in most regions, due to the resolution of supply-side constraints and restrictive monetary stances**	**The majority of central banks kept interest rates unchanged due to the fact that, although inflation is declining, it still remains above the targets set by central banks in major developing economies**

Global

Global inflation is showing signs of moderation. According to the IMF's January 2024 WEO, global inflation is projected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.8% in 2024. The disinflation reflects reduced core inflation due to stringent monetary policies, the easing of supply-chain disruptions, and the impact of previous and continuous decreases in energy prices.

Advanced Economies

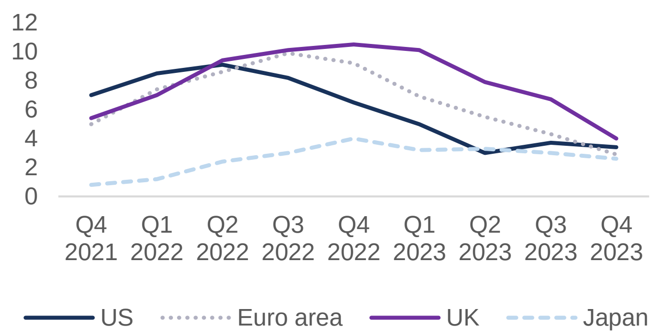
In the US, headline inflation fell to 3.4% Y-o-Y in December 2023 from 3.7% Y-o-Y in September, mainly owing to a drop in fuel and food prices. In January 2024, inflation further eased to 3.1% Y-o-Y. In January 2024, the Federal Funds rate remained at 5.25-5.5%, due to ongoing robust economic activity.

The annual inflation rate in the Eurozone dropped to 2.8% Y-o-Y in January 2024 from 4.3% Y-o-Y in September 2023, reflecting declines in both food and energy prices. The European Central Bank (ECB) kept its key interest rate for the main refinancing operations unchanged at 4.5% in January 2024.

The annual inflation rate in the UK fell to 4.0% Y-o-Y in January 2024 from 6.7% Y-o-Y in September 2023, largely due to the decrease in the prices of energy, core goods and services. The BoE held its policy interest rate steady at 5.25% in February, at the highest level since 2008.

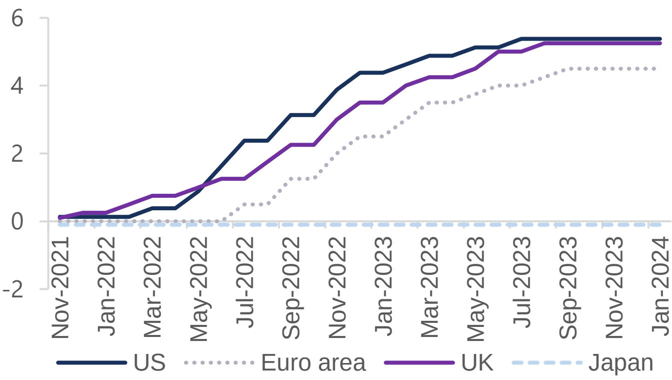
Japan's annual inflation rate decreased to 2.2% Y-o-Y in January 2024 from 3.0% Y-o-Y in September 2023, owing to a drop in food and energy inflation. In the January 2024 monetary policy meeting, the Bank of Japan kept its policy rate unchanged at -0.1%.

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



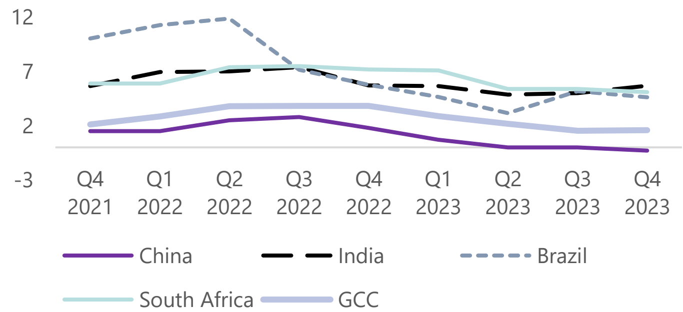
Source: Bloomberg.

Figure 1.4 Policy Rates in Selected Advanced Economies (%)



Source: Bloomberg.

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



Source: Bloomberg, Global Source Partners. GCC CPI is calculated based on the GDP weighted average.

Emerging and GCC Economies

In China, deflation continued through January 2024, with the annual rate dropping to -0.8% Y-o-Yfrom a flat reading in September 2023. In the face of deflationary pressures, the People's Bank of China (PBoC) maintained its benchmark lending rate at 3.45% in February, amid a slow economic recovery and a weak currency. Additionally, the PBoC injected a net CNY 500 billion into the banking system via a medium-term lending facility, committed to ensuring adequate liquidity in the banking system.

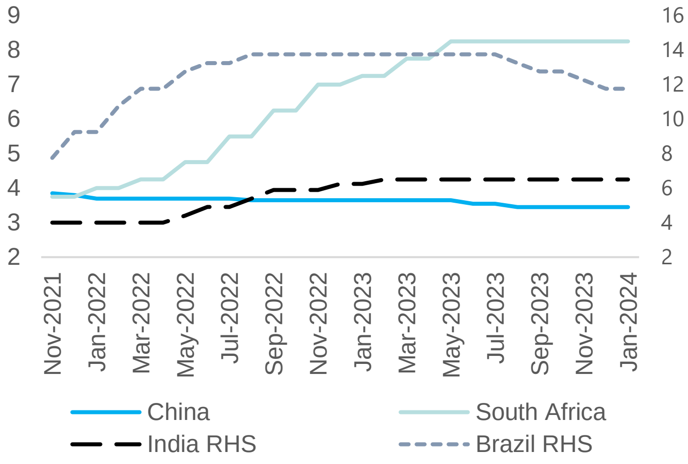
In December 2023, India's annual inflation rose to 5.7% Y-o-Y from 5.0% in September, mostly as a result of the increase in food prices brought about by irregular monsoon across the country. In January 2024, however, inflation eased back to 5.1% Y-o-Y. In the February 2024 monetary policy meeting, the Reserve Bank of India (RBI) kept its benchmark policy repo rate unchanged at 6.5%.

The drop in transportation prices has been a contributing factor to the recent decreases in inflation observed in Brazil and South Africa. In Brazil, inflation decreased to 4.5% Y-o-Y in January 2024 from 5.2% in September 2023. Inflation in South Africa dropped to 5.1% Y-o-Y in January 2024 compared with 5.4% in September 2023. In its last monetary policy meeting in January 2024, the Central Bank of Brazil reduced its Selic rate by 50 bps to 11.25%. The South African Reserve Bank held its repo rate at 8.25% in January 2024.

Saudi Arabia's inflation rate marginally decreased to 1.6% Y-o-Y in January 2024 from 1.7% in September 2023, mainly due to a decline in housing and utilities and transportation prices. Falling transportation prices also contributed to a decline in inflation in Kuwait from 3.7% Y-o-Y in September 2023 to 3.4% in January 2024. Oman's inflation decreased by 0.1% Y-o-Y in January 2024 from 1.3% Y-o-Y in September 2023, driven by reductions in food prices. Bahrain continued the deflation streak of September 2023 in January 2024, with prices declining by 0.3% Y-o-Y due to reductions in housing and utility prices. On the other hand, in Qatar inflation surged to 3.0% Y-o-Y in January 2024 from 1.8% in September 2023, reflecting the rise in food prices.

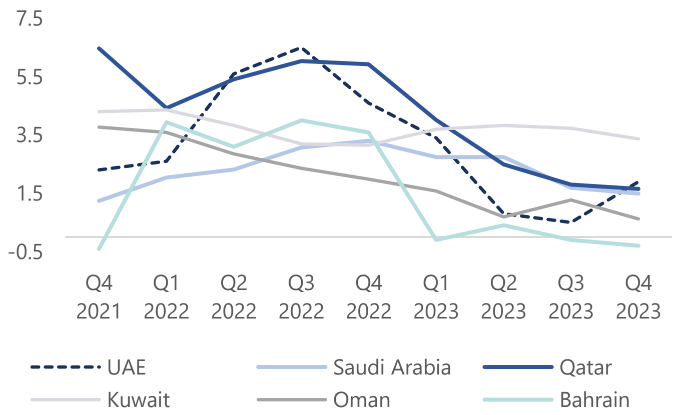
In February 2024, the central banks of the GCC economies, whose currencies are pegged to the USD, kept their policy rates steady to align with the US federal funds rate. Kuwait, whose currency is pegged to an undisclosed basket of currencies, also kept its policy rate steady.

Figure 1.6 Policy Rates in Selected Emerging Economies (%)



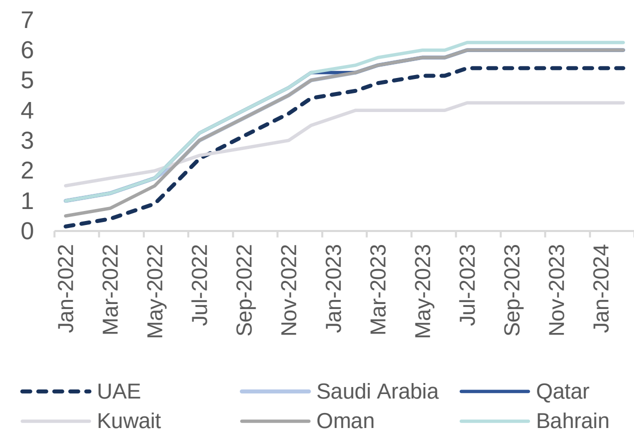
Source: Bloomberg.

Figure 1.7 Average Consumer Price Inflation in GCC Countries (Y-o-Y, %)



Sources: Bloomberg, CBUAE.

Figure 1.8 Policy Rates in GCC Countries (%)



Sources: GCC central banks.

I.3. Global Markets' Developments

Global financial conditions tightened with major central banks likely to keep higher interest rates for longer	Commodity markets are exhibiting mixed trends due to weak demand and geopolitical factors	Growth in non-oil exports and imports of the UAE continues in 2023

Global Financial Conditions

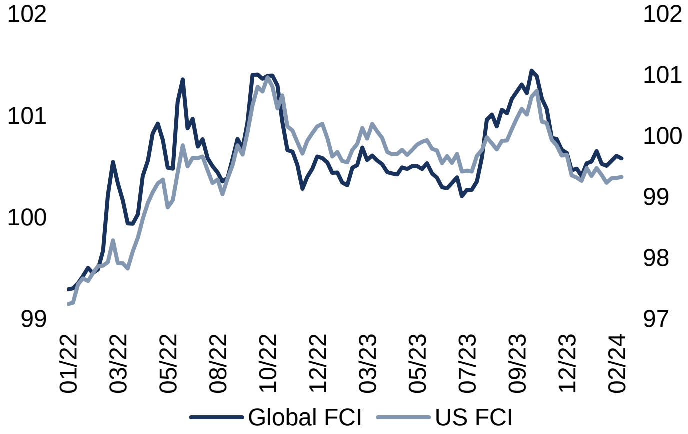
Although global and US financial conditions loosened somewhat towards the end of 2023on the back of easing inflation, this trend reversed slightly at the onset of 2024, with robust US labour market data, heightened manufacturing activity, and a higher-than-anticipated inflation rate in January. Additionally, recent disruptions in the Red Sea have led to rerouted trade flows, extending transit times and fuel costs, which are expected to eventually affect inflation. In response to these ongoing price pressures, major central banks became more likely to keep higher interest rates for longer, which contributed to a tightening of global financial conditions compared to one month ago.

Commodities

In the last quarter of 2023 and through February 2024, oil price movements fluctuated within a USD 10 range per barrel, settling at an average of USD 81.7 by the end of the month. This restrained fluctuation was the result of a balance between factors including lower demand from key importers, notably China, geopolitical tensions and OPEC+'s production cuts. Furthermore, with the winter season drawing to a close, worries over a tight market have dissipated, shifting attention towards the summer period, a time traditionally associated with the replenishment of reserves. As a result of this transition, natural gas prices experienced a significant drop, falling from USD 3.1 per MMBtu in October 2023 to USD 1.8 per MMBtu in February 2024.

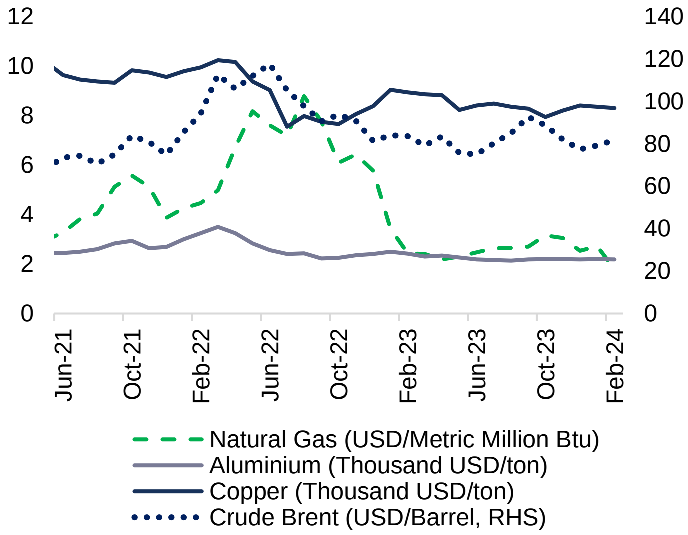
Copper and aluminum prices followed somewhat different trajectories. Copper prices faced downward pressure compared to December 2023 as China grappled with slower economic activity. Additionally, accumulating copper inventories signaled slowing industrial activity. In contrast, aluminum prices showed more resilience. Growing demand from renewable energy industries and the electric vehicle sector countered a softening construction market, contributing to relatively stable aluminum prices. During January 2024, the FAO Food Price Index decreased by 1% from its level in December 2023, primarily due to reductions in the price indices for cereals and meat, which outweighed a rise in the sugar price index. Compared to its value from one year earlier, the index was 10.4% lower.

Figure 1.9 Financial Conditions Indices



Source: Goldman Sachs Financial Conditions Index.

Figure 1.10 Commodity Prices



Sources: Bloomberg, US Energy Information Administration

UAE's International Trade

At the time of writing this report, the trade data by the Federal Competitiveness and Statistics Centre was available up to September 2023. The sum of non-oil exports and re-exports in the first nine months of 2023 increased by 12.3% Y-o-Y, reaching AED 755.7 billion and up from AED 672.8 billion during the same period in 2022. This increase largely reflects higher exports of gold, diamonds and telecommunications equipment.

Non-oil exports of the UAE increased by 12.4% during the reporting period compared to the same period of the previous year, reaching AED 298.9 billion. Türkiye, with 10.8% of exports, emerged as the UAE's major non-oil export partner, followed by India (9.1%) and Saudi Arabia (9.1%). Overall, the most exported non-oil goods was gold, accounting for 39.7% of total non-oil export, followed by aluminum (6.5%), and petroleum oils and oils obtained from bituminous minerals (6%).

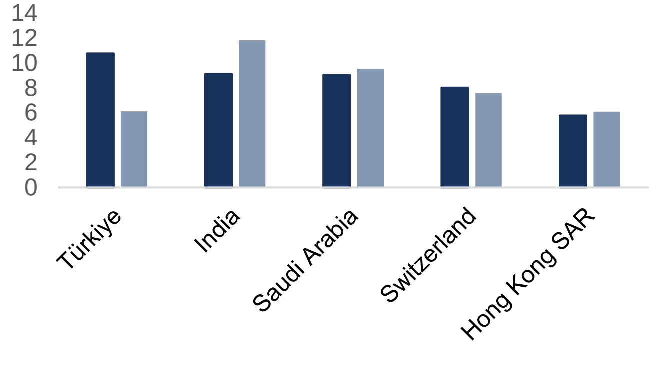
Re-exports also grew in the first three quarters of the year, by 12.2% Y-o-Y, reaching AED 456.8 billion. Saudi Arabia, with a share of 10.6%, remained the most important destination for UAE re-exports, followed by Iraq (10.4%), and India (7.7%). Telecommunications equipment and diamonds dominated re-exports, accounting for 17.5% and 12.3% of the total, respectively.

Imports increased significantly by 16.9% Y-o-Y during the reporting period of 2023 compared to the same period of 2022, reaching AED 1013.4 billion. The increase was supported by a robust growth in non-oil sector and a slight appreciation of the currency vis-à-vis trading partners. Gold topped the list of the most imported goods, accounting for 19.2% of imports, followed by telecommunications equipment (9.8%), motor vehicles (6.4%) and diamonds (5.2%). China was the most important trading partner, accounting for 19% of total imports, followed by India (7.7%), and the US (7%).

Exchange rate

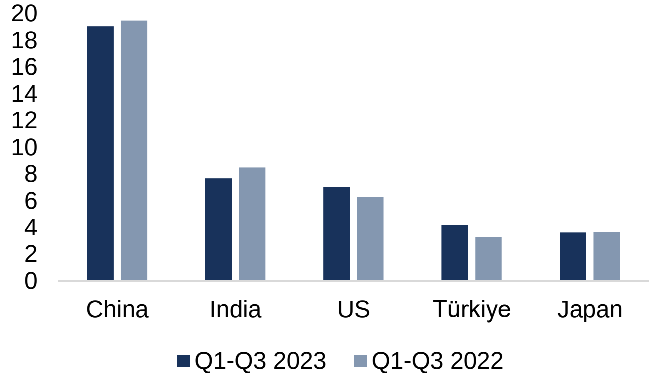
The nominal effective exchange rate (NEER), which considers the bilateral exchange rates of the UAE's trading partners, appreciated by 2.9% Y-o-Y in January 2024, mainly due to the appreciation of the USD. The real effective exchange rate (REER), which accounts for inflation differentials between the UAE and its trading partners, remained broadly unchanged compared to a year ago. This indicates that the nominal appreciation was offset by the inflation differential, with inflation in the UAE being lower than in its trading partners.

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



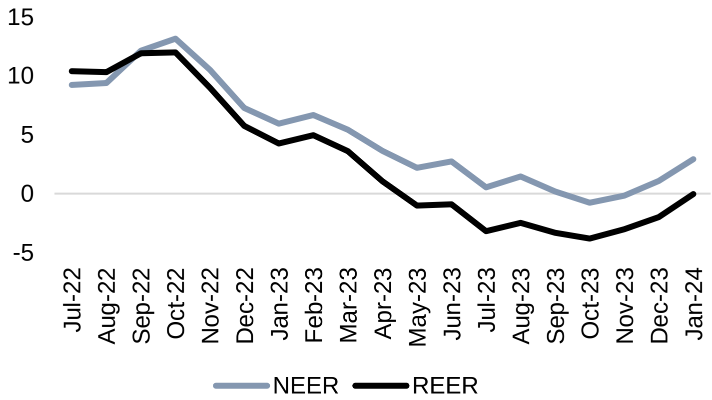
Source: Federal Competitiveness and Statistics Centre.

Figure.1.12. UAE Imports from Major Trading Partners (% of Imports)



Source: Federal Competitiveness and Statistics Centre.

Figure.1.13. Nominal and Real Effective Exchange Rates Appreciation/Depreciation (Y-o-Y, %)



Source: Bank for International Settlements.

Chapter 2

Domestic Economic Developments

II.1. Economic Growth

Real GDP slowed to 2.5% Y-o-Y in Q3 2023, reflecting a decline in oil production and a deceleration in non-oil growth

Real GDP growth is estimated to have slowed to 3.1% in 2023, but it is projected to rebound to 4.2% in 2024 and further accelerate to 5.2% in 2025

OPEC+ agreements weigh on the outlook for oil GDP, while non-oil GDP growth is expected to remain robust yet declining in 2024 and 2025

Real GDP Outlook

In the third quarter of 2023, the UAE economy expanded by 2.5% Y-o-Y, compared to 8.3% Y-o-Y over the same period in 2022 and below the 3.8% registered in Q2 2023. The decline with respect to the second quarter of 2023 is due to both non-oil growth decelerating (which accounts for close to 75% of GDP) and further cuts in oil production.

The CBUAE maintained its GDP growth estimates for 2023 at 3.1%, largely reflecting the extension of oil production cuts which lasted until the end 2023. For 2024, the CBUAE projects real output growth to rebound to 4.2%, a downgrade from 5.7% previously projected. The revision is due to a slower recovery in oil production in light of the OPEC+ agreement in November 2023, and a robust yet declining growth in the non-oil sector. Growth is forecasted to increase to 5.2% in 2025, as projected trends in the non-oil sector are expected to continue and oil production to remain at the levels of end-2024.

The forecasts for 2024 and 2025 remain subject to significant uncertainty. Downside risks include an intensification of geopolitical tensions (Red Sea disruptions, conflicts in Gaza and between Russia and Ukraine), a global slowdown triggered by the need to hold higher interest rates for longer, as well as the possibility of further OPEC+ agreed reductions in oil output. On the other hand, successful reform implementation and decline in interest rates in advanced economies that could boost external demand and trigger capital inflows in emerging markets pose upside risks to growth.

Non-Oil GDP

Non-oil GDP growth decelerated to 5.8% Y-o-Y in Q3 2023, down from 7.3% Y-o-Y in the previous quarter and 6.7% Y-o-Y over the same period a year ago. The lower non-oil growth in Q3 compared to the previous quarter was mainly due to the deceleration in the financial and insurances services and manufacturing, partially offset by significant expansions in construction, transportation and storage, and accommodation and food services. Non-oil GDP growth is expected to decline to 4.7% in 2024 from 5.9% in 2023 due to the base effect and decelerating demand as migration inflows stabilized, and to remain steady in 2025.

Oil GDP

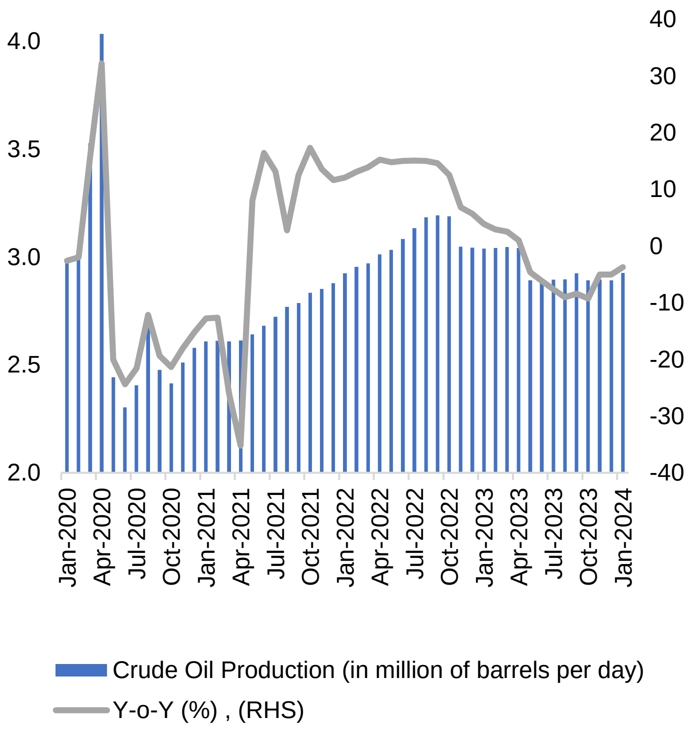
Oil GDP contracted by 5.6% Y-o-Y in the third quarter of 2023, continuing the decline of 5.1% Y-o-Y of Q2 2023. The April 2023 OPEC+ oil production cuts led to a fall in oil output to an average of 2.9 million barrels per day during the quarter. Oil GDP is estimated to have contracted by 3.9% in 2023, a downward revision from the 3.4% reduction previously estimated. Based on the November

Table 2.1 Real GDP Growth in the UAE (%)

	2021	2022	2023E	2024F	2025F
Overall GDP	4.4	7.9	3.1	4.2	5.2
Non-oil GDP	6.5	7.2	5.9	4.7	4.7
Oil GDP	-1.1	9.5	-3.9	2.9	6.2

Sources: Federal Competitiveness and Statistics Centre for 2021-22, CBUAE for 2023-25.
Note: E=estimate and F=forecast.

Figure 2.1 Average UAE Crude Oil Production



Source: Organization of the Petroleum Exporting Countries.

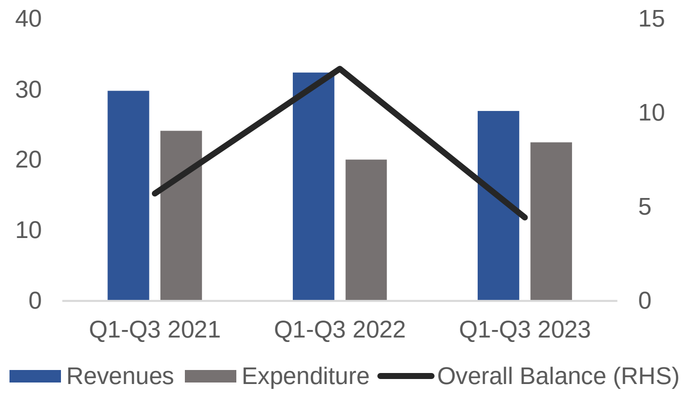
2023 and March 2024 OPEC+ agreements, production is projected to remain subdued while starting from Q3 2024, oil production is expected to resume in line with the cartel agreement of June 2023. As a result, oil GDP growth is forecasted to rebound to 2.9% in 2024, down from the previously projected 8.1%, corresponding to an average of 3 million barrels per day. In 2025, the CBUAE expects hydrocarbon output to further expand by 6.2%, continuing with the Q4 2024 production levels for the entire year.

Government Investment and Consumption

The consolidated fiscal balance for the first nine months of 2023 posted a surplus of AED 61 billion, equivalent to 4.4% of GDP. This figure represented a 64.7% decline compared to the same period in 2022, primarily attributed to reduced oil-related revenues resulting from declines in both the value and volume of produced and exported crude oil. Total revenue fell by 18.4% Y-o-Y to AED 370 billion (26.8% of GDP). The recent introduction of a federal corporate tax is poised to further strengthen government finances, contributing to diversify revenue sources away from the oil sector.

Government expenditure increased by 10.1% to AED 309 billion (22.4% of GDP) in the first three quarters of 2023 compared to the same period in 2022. This increase reflects a rise in current expenditure by 7.9% to AED 291 billion (21.2% of GDP), and an increase in capital expenditure by 64.1% to reach AED 18 billion (1.3% of GDP). Capital spending, however, remains still below the pre-COVID 5-year average of 2.9% of GDP.

Figure 2.2 Consolidated Fiscal Balance (% of GDP)



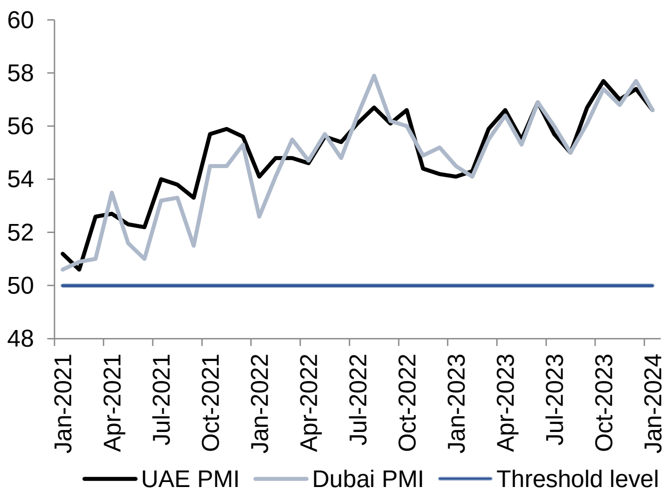
Sources: UAE Ministry of Finance; Federal Competitiveness and Statistics Centre; CBUAE.

Private Investment and Consumption

The non-oil private sector continues to show signs of strong economic activity. In January 2024, the UAE's Purchasing Managers' Index (PMI) reached 56.6, on the back of sustained business confidence in the economic outlook. This optimism is based on expectations of continued strong demand and sales, which are anticipated to support a steady expansion in output, alongside the prospect of new projects and increased investment. Additionally, Dubai's PMI hit 56.6 in January 2024, matching the PMI for the entire UAE and signaling sustained growth in the non-oil private sector of the Emirate. The flow of new projects is increasing quickly, although the pace has slightly slowed compared to the previous month.

Positive readings for employment and wage growth point to robust consumption going forward. Number of employees in the private sector, as measured by 3-month moving average, increased by 3.1% Y-o-Y in Q4 2023. And the 3-month moving average salary in the last quarter of 2023 was 7.4% higher compared to the same period in 2022, strengthening individuals' purchasing power.[1]

Figure 2.3 UAE PMI (above 50 means expansion)



Source: S&P Global.

[1]Employment and wage numbers are based on the CBUAE Wage Protection System (WPS) as of mid-February 2024.

In Q4 2023, median residential property sales prices increased by 3.8% Y-o-Y in Abu Dhabi, whereas Dubai experienced a decline of 2.3% Y-o-Y	Tourism and hospitality registered high occupancy rates	Abu Dhabi and Dubai International Airports passengers' traffic increased significantly

The rest of this section summarizes the recent developments in the real estate and construction sectors, the tourism and hospitality sector, and the transportation sector, which collectively represent around 30% of the Q3 2023 non-oil GDP.

Residential Real Estate

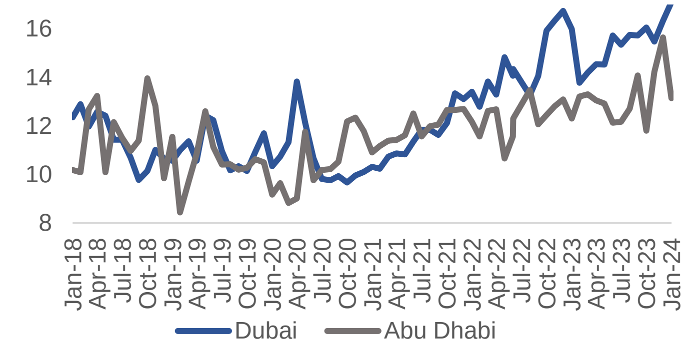
Data from Quanta indicate that residential real estate sales transactions in Abu Dhabi increased by 33.9% Y-o-Y in Q4 2023, reflecting a 175.5% surge in apartment sales, primarily consisting of off-plan sales in premium locations. Conversely, villa sales declined by 29.2% due to a limited supply in the market, with new units being quickly sold out. Differences in supply of apartments and villas are reflected in the price dynamics. The median residential properties sales price in Abu Dhabi increased by 3.8% Y-o-Y in Q4 2023, where prices for apartments increased by 0.8% Y-o-Y, while the median villa sales prices were 8.1% higher Y-o-Y.

Rental prices in Abu Dhabi posted mild growth rates, with the median rental price for villas and apartments up by 2.3% and 1.8% Y-o-Y in Q4 2023, respectively. The average rental yield[2] in the last quarter of 2023 was recorded at 5.1% in the Emirate.

According to data from the Dubai Land Department (DLD), residential real estate sales transactions in Dubai increased by 20.7% Y-o-Y during the last quarter of 2023. Apartment sales in Q4 2023 were 21.4% Y-o-Y higher, while villa sales increased by 16.8%. The median sales price of residential real estate in Dubai contracted by 2.3% Y-o-Y in the last quarter of 2023, with apartment prices decreasing by 5.6% Y-o-Y, whereas villa prices going up by 14.4% Y-o-Y.

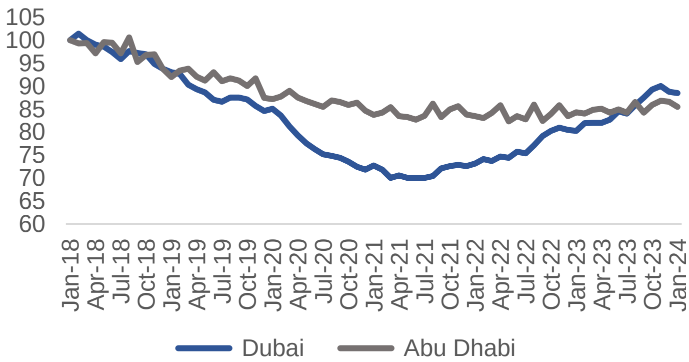
Rental prices in Dubai continued to rise in Q4 2023, with the median rental price for apartments and villas up by 10.2% and 16.2% Y-o-Y. Rental yield in Dubai increased to 4.4% at the end of 2023 from 3.4% at the end of 2022.

Figure 2.4 Median Residential Sale Prices (Thousands of AED per SQM)



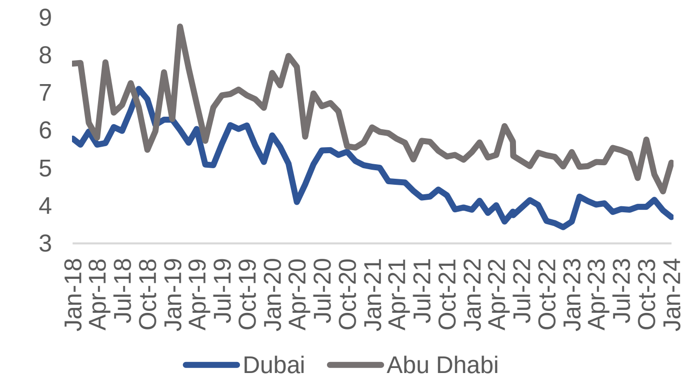
Sources: Dubai Land Department, Quanta, CBUAE calculations.

Figure 2.5 Figure 2.5 Median Residential Rent Price Indices (January 2018=100)



Sources: Dubai Land Department, Quanta, CBUAE calculations.

Figure 2.6 Rental Yield (%)



Sources: Dubai Land Department, QUANTA, CBUAE calculations.

[2] The rental yield is calculated as the ratio of the median annual rental income per square meter to the median market price per square meter.

Tourism and Hospitality

In the hospitality sector of Abu Dhabi, the first ten months of 2023 displayed significant strength. The total count of hotel guests surged to 4.1 million, marking a 28% increase compared to the same period in the previous year. Occupancy rates stood at 71%, with the average duration of stay at 2.6 nights, down by 14% with respect to 2022. The average revenue per available room saw a 24% increase Y-o-Y, reaching AED 293.

Data from the twelve months of 2023 indicates that Dubai maintained its status as a leading global tourism destination. Hotel occupancy rates rose to 77%, a 4 percentage point increase from the corresponding period in 2022 and 2 percentage points higher than the pre-COVID figures of 2019. While the average stay per guest remained broadly unchanged at 3.8 nights, the total number of occupied room nights was up by 11% Y-o-Y in 2023 or a 30% increase from 2019, totaling 41.7 million nights.

The influx of international visitors to Dubai reached over 17 million in 2023, representing a 19.4% rise compared to 2022. The data indicate that the number of visitors has surpassed pre-pandemic levels, also helped by the arrivals related to the COP28 conference, which attracted approximately 85,000 delegates.

Transportation

Abu Dhabi Airports experienced a substantial increase in passenger traffic, reaching almost 23 million passengers in 2023, up 44.5% Y-o-Y. Moreover, Abu Dhabi's global reach has notably widened, with 117 destinations now accessible via 28 airlines from the airport. In addition, the Abu Dhabi International Airport's Terminal A opened in November 2023 and welcomed 4.5 million passengers in its first 60 days with more than 24,000 flights during this time. This new terminal is capable of accommodating 45 million passengers per year.

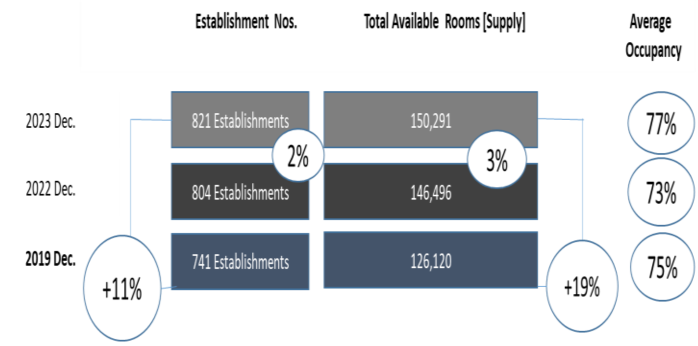
Dubai Airports recorded high traffic reaching 87 million passengers in 2023. This figure marks a significant increase by 31.7% compared to 2022. In terms of passenger destinations, India, Saudi Arabia and the UK remain the top source of travelers. Dubai International Airport connects to 262 destinations in 104 countries worldwide via just over 100 international carriers.

Figure 2.7 Tourism Sector Performance in Abu Dhabi in October 2023 (YTD)

YTD Oct. 2023 Performance	Hotel Guests 4,078K	Hotel Occupancy 71%	Hotel ALOS 2.6 Nights	ARR (AED) 415	REVPAR (AED) 293	Revenues (AED) 4, 938million
% Change vs 2022	+28%	+1%	-14%	+22%	+24%	+25%

Source: Abu Dhabi Department of Culture and Tourism.
Notes: ALOS refers to average length of stay, ARR is average room rate and REVPAR is revenue per available room.

Figure 2.8 Accommodation Supply and Demand in Dubai in 2023



Source: Dubai Department of Economy and Tourism.

II.3. Inflation

CPI inflation picked up to 1.9% Y-o-Y in the last quarter of 2023 from 0.5% Y-o-Y in the previous quarter	The CBUAE forecasts inflation to accelerate to 2.5% in 2024 due to higher commodity prices and the expected depreciation of the USD[4], and remain constant at 2.5% in 2025	Inflationary pressures from domestic demand are expected to be subdued as migration inflows decelerate and non-oil output slows down

Inflation Outlook[3]

In 2024, the CBUAE forecasts inflation to accelerate to 2.5%, still significantly below the world average, on the back of higher commodity prices (oil, wheat, and corn) and the expected depreciation of the USD[4]. At the same time, inflationary pressures from domestic demand are expected to be subdued in light of the deceleration in migration inflows, a slowdown in non-oil output, and some inertia from the previous year. In 2025, inflation is projected to remain unchanged at 2.5%.

Inflation Developments

CPI inflation picked up in Q4 Q-o-Q of 2023, mainly due increases in transportation prices Q-o-Q in line with global trends, but remained well below the global average. The CPI headline inflation averaged 1.9% Y-o-Y in Q4 of 2023, compared with 0.5% Y-o-Y in Q3 2023. Inflation of non-tradeable goods and services was 2.2% Y-o-Y in Q4 2023, up from 0.7% Y-o-Y in the previous quarter. Similarly, inflation of tradable goods and services recorded an increase from -0.1% Y-o-Y in Q3 2023 to 1.2% Y-o-Y in the last quarter of the year.

Inflation in housing, water, electricity, gas and other fuels group, accounting for 35.1% of the consumer basket, decelerated to 3.3% Y-o-Y in Q4 compared to 3.7% in Q3. The transportation category (12.7% of the consumer basket) prices experienced a decline by 1.5% Y-o-Y in the fourth quarter of 2023, compared to a drop by 11.5% in the previous quarter, mainly due to a recovery in global energy prices. Similarly, the food and beverage group (12% of the consumer basket) inflation decreased to 2% Y-O-Y in Q4 2023, from 2.7% in Q3. All other categories, with lesser weight in the consumer basket, have seen their prices increase, except communications; the textiles, clothing and footwear; miscellaneous goods and services; restaurants and hotels; and medical care, where decline was insignificant.

Table 2.2 UAE CPI Inflation (Y-o-Y, %)

	Weight	Q2 23	Q3 23	Q4 23
General Index	100.0	0.8	0.5	1.9
Non-Tradeable	71.1	0.9	0.7	2.2
Tradeable	28.9	0.6	-0.1	1.2
Housing, Water, Electricity, Gas	35.1	3.1	3.7	3.3
Transportation	12.7	-10.4	-11.5	-1.5
Food and Beverages	12.0	4.6	2.7	2.0
Education	7.6	1.2	1.4	2.2
Communications	5.9	0.5	0.6	0.6
Textiles, Clothing and Footwear	5.2	3.9	3.0	1.3
Miscellaneous Goods and Services	4.9	2.7	1.9	1.8
Restaurants and Hotels	4.6	8.2	6.7	3.6
Recreation and Culture	3.1	-3.5	-4.7	-1.2
Medical Care	2.2	0.2	2.3	2.2
Insurance and Financial Services	1.3	1.0	3.2	5.1
Tobacco	0.1	-4.1	-3.3	-2.8

Source: Federal Competitiveness and Statistics Centre.

.

[3] All inflation numbers in this section are averages over the period.

[4] Based on current FX futures as reported by Bloomberg.

Chapter 3

Monetary and Financial Markets Developments

III.1. Money Supply and Interest Rates

Monetary aggregates M1, M2 and M3 grew in Q4 2023 by 13.2%, 18.8% and 16.0% Y-o-Y, respectively	**CBUAE's Base Rate remained unchanged at 5.4% since July 2023**	**The DONIA remained below the Base Rate, but the gap has narrowed to 23 bps on average in Q4 2023**

Monetary Aggregates

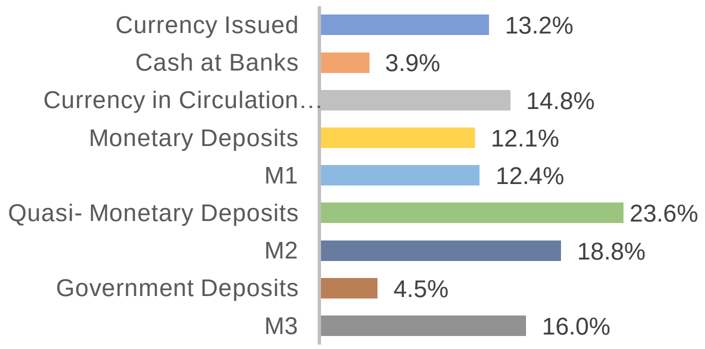
Money supply continued to grow at a solid pace through the latter part of 2023. M1 rose by 12.4% Y-o-Y and stood at AED 829 billion at the end of December 2023.[5] This reflects a 13.2% Y-o-Y increase in issued currency (16.4% of M1) and a 12.1% increase in monetary deposits (85.9% of M1). M2 increased by 18.8% Y-o-Y to AED 2,023 billion due to a sharp rise in quasi-monetary deposits (59.0% of M2) by 23.6% Y-o-Y.[6,7] M3 grew by 16% Y-o-Y, reaching AED 2,445 billion, largely reflecting a 4.5% increase in government deposits of AED 421 billion at commercial banks and at the CBUAE (17.3% of M3).[8]

Interest Rates

In line with the Federal Reserve's Interest on Reserve Balances rate, the CBUAE has kept its key policy rate (Base Rate) unchanged since July 2023 at 5.4%. As a consequence, the overnight interbank rates have been somewhat range-bound since then and remain below the Base Rate. The Dirham Overnight Interest Average (DONIA) rate has averaged around 23 basis points lower than the Base Rate during Q4, which reflects large system-wide excess reserves of AED 108.6 billion on average in the banking sector. However, the gap between DONIA and the Base Rate has begun to narrow marginally, despite excess reserves climbing to AED 124.8 billion at the end of December 2023. Also the gap to the US overnight interest rate (SOFR) remained negative but has declined during the quarter. Monetary operations during the last quarter have helped absorb the rise of net capital inflows during the quarter; however, these inflows have turned the monetary impulse distinctly positive, with excess reserves exceeding AED 130 billion on average.

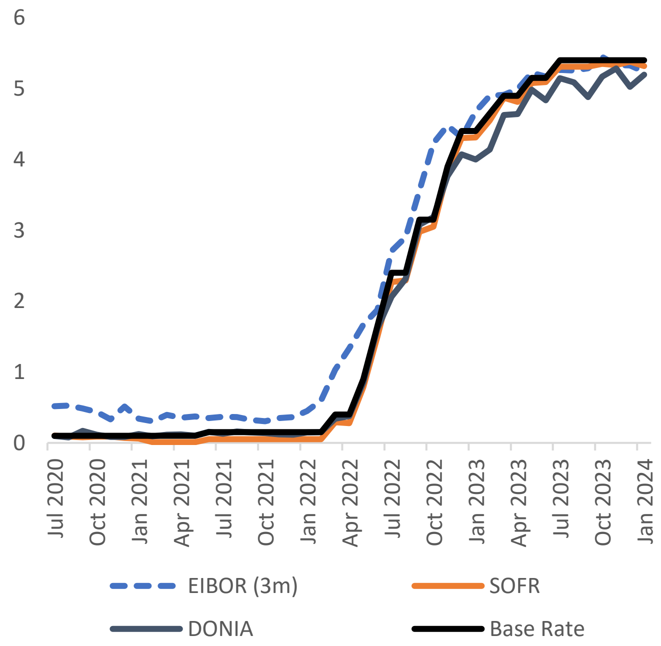
Longer-dated domestic rates (M-Bills) have slightly declined especially around the 6-month maturity band. This trend is consistent with overnight rates following market expectations of declining USD rates. The US Federal Reserve is generally expected to start cutting the Fed Funds rate only in June, which contributed to a narrowing of spreads between the longest and shortest tenors in recent M-Bills auctions. Thus, the M-Bills curve flattened slightly as disinflationary pressures and stronger-than-expected US growth suggested a moderate pace of policy rate cuts during 2024. Elevated price volatility at longer M-Bill tenors imply continued uncertainty about the

Figure 3.1 Change in Monetary Aggregates and their Components in December 2023 (Y-o-Y, %)



Source: CBUAE.
Note: Data as of end of period.

Figure 3.2. Base Rate and Money Market Rates (%)



Sources: Bloomberg, CBUAE.

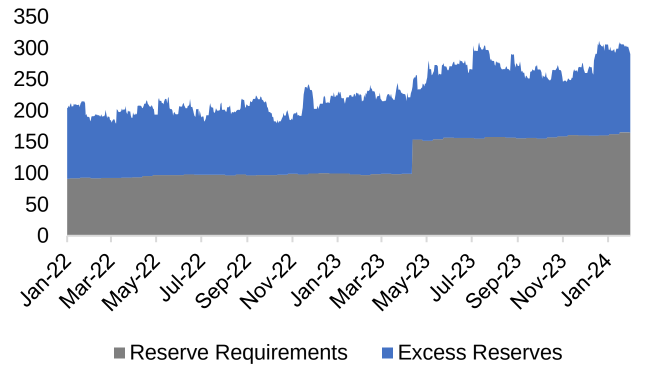
5 M1 consists of monetary deposits and currency in circulation outside banks.
6 M2 is equal to M1 plus the quasi-monetary deposits.
7 Quasi-monetary deposits include resident time deposits in AED and all types of foreign currency deposits.
8 M3 is equal to M2 plus government deposits at the CBUAE and commercial banks.

timing and magnitude of potential rates cuts. As inflation decelerates, US monetary policy will tighten in real terms while policy rates are kept on hold, implying that the CBUAE's monetary stance will remain restrictive.

M-Bill yields effectively transmit the CBUAE's monetary stance by closely following the Base Rate, which is essential to reducing surplus liquidity. M-Bill auctions are very efficient, with a low marginal cost of additional allotment. The outstanding stock of M-Bills reached AED 172.3 billion at the end of Q4 2023. Primary market yields tend to be marginally higher than secondary market yields (at about 5 basis points) due to differences in quotes and volumes offered.

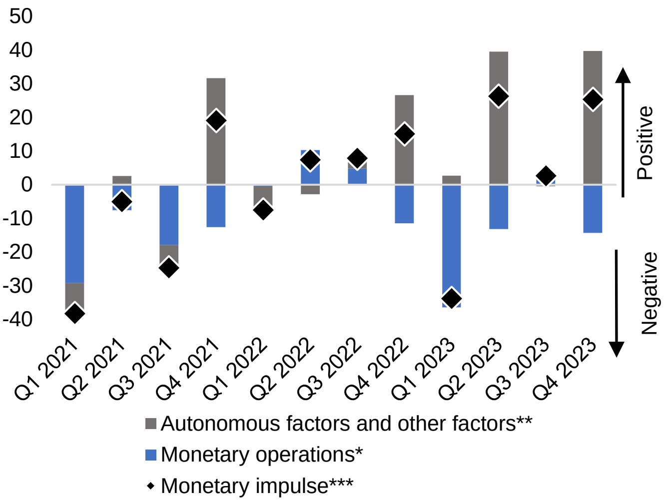
The CBUAE's regular and scaled-up issuance of M-Bills continues to foster greater collateral availability within the UAE's financial system. Demand for M-Bills continues to be driven by the prevailing structural surplus liquidity due to FX inflows (net CBUAE purchases of foreign exchange for a total of about USD 45.8 billion during the quarter), and the growing appetite of market participants to hold a marketable and safe AED-denominated asset. A sufficiently high stock of outstanding M-Bills enhances the collateralization within the financial system, and, thus, widens access to central bank money during times of stress. The continuous issuance of M-Bills also contributes to the effective implementation of the Dirham Monetary Framework and the development of the UAE's local capital market via creating a risk-free pricing benchmark (yield curve) for financial transactions within the UAE in accordance with the prevailing monetary policy and strategic plan of the CBUAE.

Figure 3.3. Banking Sector Aggregate Balance (%)



Sources: Bloomberg, CBUAE.

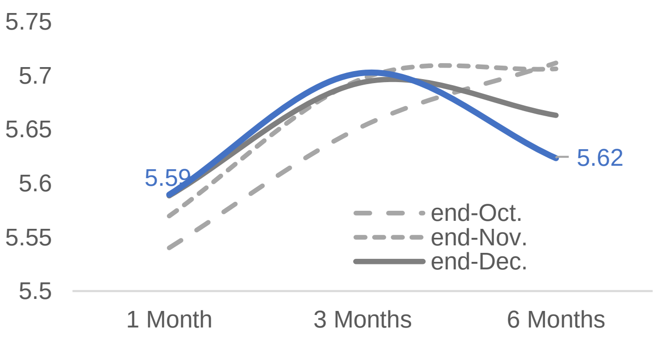
Figure 3.4 Monetary Impulse (AED bn)



Source: CBUAE

Notes: */ Structural and fine-tuning monetary operations (monetary bills, Islamic certificates of deposit, FX swaps). **/ Autonomous factors (comprise currency in circulation, state account balances, net capital flows, and other factors) ***/ The monetary impulse reflects the net change of the aggregate balance of the banking sector, autonomous factors as well as monetary operations. A positive impulse indicates an expansionary monetary base due to either a general increase of the CBUAE balance sheet or a higher increase of assets (liabilities) relative to the decrease of liabilities (assets).

Figure 3.5 Monetary Bills Yield Curve (%)



Source: CBUAE

III.2. Banking Developments

The banking system credit increased by 6.0%, primarily driven by increased lending to retail and corporate sectors

Loan demand from both households and corporate sectors was on the rise, as indicated in the credit sentiment survey

Favorable funding and liquidity conditions supported by robust deposit growth, strengthening bank credit capacity

Banking System Assets and Structure

The UAE banking sector's total assets expanded by 11.1% Y-o-Y reaching AED 4,075 billion by the end of Q4 2023. The number of licensed banks in the UAE remained at 61, of which 22 were national banks and 39 were foreign banks. The UAE banking sector's shift towards digitalization led to a continuing decline in the number of physical bank branches.

Banking System Credit and Deposits

The loan portfolio of the banking system in the UAE increased by 6% Y-o-Y. The expansion was primarily fueled by domestic lending, which grew by 5.3% Y-o-Y to AED 1,738 billion as of the end of Q4 2023. The growth in domestic credit reflected the expansion of credit in the retail and private corporate sectors, which grew by 11.5% and 3.1% Y-o-Y respectively. Domestic retail credit expanded in key sub-categories, notably mortgage loans, personal loans, and credit cards. Foreign credit increased by 11%, mainly to corporate borrowers, albeit at a slower rate than the corresponding period last year.

Robust deposit growth of 13.5% Y-o-Y contributed to favorable liquidity and funding buffers. Resident retail and resident private corporate deposits supported the strong deposit growth, increasing 16.7% and 23.6% Y-o-Y respectively. Meanwhile, non-resident deposits growth continued to contract. The loan-to-deposit ratio decreased to 79% as deposit growth outpaced credit growth, contributing to the ample credit capacity of the UAE banking sector.

The CBUAE Credit Sentiment Survey

The CBUAE Credit Sentiment Survey Q4 2023 highlighted strong credit conditions as reflected by the growth in loan demand of households and businesses, and the increasing appetite of financial institutions to provide credit. The survey results showed that the impact of high interest rates on loan demand has softened relative to previous quarters and continued to be offset by a positive domestic economic outlook. Growth in business loan demand was notable in the construction, manufacturing, and retail and wholesale trade sectors. Credit cards, personal, and housing loans were the main contributors to household loan demand.

Table 3.1 Assets and Credit at UAE Banks (AED billions)

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Total Assets	**3,668**	**3,765**	**3,873**	**3,952**	**4,075**
(Y-o-Y change)	10.4%	12.8%	12.3%	10.3%	11.1%
Gross Credit	**1,879**	**1,896**	**1,945**	**1,982**	**1,992**
(Y-o-Y change)	4.8%	3.5%	4.2%	5.8%	6.0%
Domestic Credit	**1,651**	**1,674**	**1,717**	**1,740**	**1,738**
(Y-o-Y change)	2.0%	2.1%	3.5%	5.1%	5.3%
Government	212	216	219	213	184
(Y-o-Y change)	-10.3%	-4.8%	-1.6%	0.0%	-13.0%
GREs	253	245	264	280	293
(Y-o-Y change)	3.2%	-7.1%	1.7%	9.7%	15.5%
Private Sector	1,173	1,200	1,222	1,236	1,241
(Y-o-Y change)	4.7%	5.9%	5.1%	5.3%	5.8%
Retail	375	384	396	408	418
(Y-o-Y change)	7.8%	7.7%	9.6%	10.7%	11.5%
Wholesale	798	816	826	828	823
(Y-o-Y change)	3.2%	5.1%	3.0%	2.9%	3.1%
NBFIs	13	13	12	11	21
(Y-o-Y change)	-23.2%	-18.1%	-10.2%	-18.5%	59.7%
Foreign Credit	**229**	**222**	**228**	**241**	**254**
(Y-o-Y change)	30.5%	15.2%	9.8%	10.7%	11.0%

Source: CBUAE.
Note: Data as of end of period.

Table 3.2 Total Deposits at UAE Banks (AED billions)

	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2024
Bank Deposits	**2,222**	**2,306**	**2,382**	**2,421**	**2,522**
(Y-o-Y change)	11.3%	14.9%	13.9%	10.7%	13.5%
Resident Deposits	**2,010**	**2,093**	**2,171**	**2,231**	**2,320**
(Y-o-Y change)	13.8%	16.8%	17.8%	13.9%	15.5%
Government Sector	397	406	426	423	402
(Y-o-Y change)	37.7%	39.5%	34.2%	5.4%	1.2%
GREs	217	214	214	231	225
(Y-o-Y change)	-12.5%	-10.4%	0.7%	-0.5%	3.7%
Private Sector	1,350	1,423	1,482	1,525	1,630
(Y-o-Y change)	13.3%	16.6%	17.1%	19.6%	20.8%
Retail	559	601	618	628	653
(Y-o-Y change)	7.6%	15.1%	16.7%	17.1%	16.7%
Wholesale	790	822	864	896	977
(Y-o-Y change)	17.7%	17.7%	17.3%	21.4%	23.6%
NBFIs	47	49	50	51	64
(Y-o-Y change)	22.0%	20.8%	3.1%	3.8%	37.4%
Non-Resident Deposits	**213**	**213**	**211**	**190**	**202**
(Y-o-Y change)	-8.0%	-0.7%	-15.0%	-16.8%	-5.2%

Source: CBUAE.
Note: Data as of end of period.

III.3. Financial Developments

The UAE banking system remained well capitalized with adequate liquidity and funding levels	In Q4 2023, share prices in Dubai rose by 19.4% Y-o-Y and fell in Abu Dhabi by 8.6% Y-o-Y	CDS premiums for Abu Dhabi and Dubai continue to remain low

Financial Soundness Indicators

The UAE banking system's capital ratios remained well above the capital requirements at 17.9% for the Capital Adequacy Ratio and 14.9% for the CET-1 Ratio in Q4 2023. The capital ratios edged slightly higher compared to the previous year, supported by improved profitability and higher retained earnings.

The UAE banking system's funding and liquidity conditions remained adequate, supported by double-digit resident deposit growth. The liquidity and funding ratios remained well above the minimum regulatory requirements, with the Liquidity Coverage Ratio at 160.2% and the Net Stable Funding Ratio at 112.1%.

The asset quality ratios of the loan portfolio improved, with the Net NPL Ratio at 2.4% and NPL Ratio at 5.9%. The stock of non-performing loans continued to *decline in 2023,* contributing to the improvement. The specific provision coverage ratio edged higher to 60.6% while the total provision coverage ratio reached 93.7%.

Equity Markets

The Abu Dhabi Securities Market General Index fell by 8.6% Y-o-Y at the end of 2023, as a decline in price for a few companies with a large weight in the index more than offset the positive effect of some initial public offerings. The market capitalization increased to AED 2.9 trillion. The Dubai Financial Market General Index rose by 19.4% Y-o-Y in the fourth quarter of 2023, pushed by continued improvements in market infrastructure and successful initial public offerings throughout the year. The market capitalization increased to AED 671.9 billion.

Credit Default Swaps (CDS)

The CDS for the government of Abu Dhabi rose slightly from 36 bps in Q3 2023 to 44 bps in December 2023. The Abu Dhabi CDS level remains low, a testament to its dynamic economy, strong fiscal position and large sovereign wealth funds. Abu Dhabi continues to have one of the lowest CDS premiums in the Middle East and Africa region. Dubai's CDS remained broadly unchanged in December 2023 compared to Q2 2023, at 71 bps.

Table 3.3 UAE Financial Soundness Indicators

Indicators	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Capital Adequacy					
Capital Adequacy Ratio	17.4%	17.8%	18.2%	18.5%	17.9%
Tier 1 Capital Ratio	16.2%	16.6%	17.0%	17.4%	16.6%
Common Equity Tier 1 Ratio	14.4%	14.8%	15.3%	15.6%	14.9%
Liquidity and Funding					
Advances to Stable Resources Ratio	75.6%	74.8%	73.8%	76.5%	74.0%
Net Stable Funding Ratio[3]	111.2%	112.7%	114.4%	111.7%	112.1%
Loan-to-deposit Ratio	84.6%	82.2%	81.6%	81.9%	79.0%
Eligible Liquid Assets Ratio	19.1%	19.7%	20.8%	20.7%	22.0%
Liquidity Coverage Ratio [3]	156.0%	154.8%	162.5%	151.0%	160.2%
Asset Quality					
Net Non-Performing Loans Ratio[4]	3.0%	2.9%	2.8%	2.7%	2.4%
Non-Performing Loans Ratio	7.3%	7.1%	6.9%	6.6%	5.9%
Specific Provision Coverage Ratio	60.4%	60.8%	61.6%	60.9%	60.6%
Total Provision Coverage Ratio	88.6%	90.9%	92.7%	91.9%	93.7%

Source: CBUAE.
Notes: Data as of end of period.
[3] Liquidity Coverage Ratio and Net Stable Funding Ratio apply to five approved banks.
[4] The Net Non-Performing Loans Ratio excludes specific provisions and provides a better indicator of asset quality, taking into account the provisioning levels in the UAE banking system.

Table 3.6 UAE Equity Markets

			Q4-2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023
Abu Dhabi	Share Price Index*	Y-o-Y	25.2%	4.0%	-3.9%	0.3%	-8.6%
	Market Capitalization*	AED bn	2574.1	2591.6	2754.4	2841.7	2883.1
		Y-o-Y	63.7%	47.8%	40.3%	35.1%	12.0%
	Traded Value**	AED bn	92.6	85.4	64.0	70.9	65.8
		Y-o-Y	-21.6%	-15.4%	-35.2%	-19.5%	-29.0%
Dubai	Share Price Index*	Y-o-Y	9.4%	0.6%	6.1%	21.6%	19.4%
	Market Capitalization*	AED bn	577.6	589	630.9	689.6	671.9
		Y-o-Y	44.7%	39.7%	13.8%	21.6%	16.3%
	Traded Value**	AED bn	20.4	19.0	26.5	30.9	22.0
		Y-o-Y	-36.7%	-16.3%	-0.3%	56.1%	7.9%

Source: Securities and Commodities Authority.
Notes: *Denotes average in the month or quarter, ** Denotes end-of-month or quarter values.

Table 3.5 UAE – Sovereign Credit Default Swaps (average, bps)

	2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Abu Dhabi	50	60	57	53	43	40	36	44
Dubai	999	113	126	107	78	81	70	71

Source: Bloomberg.
Note: All values are average for the period.

III.4. Insurance Sector Developments

Gross written premiums and gross paid claims increased by 12.7% and 12.8% Y-o-Y, respectively	Technical provisions increased by 8.4% Y-o-Y in Q4 2023	The insurance sector remained well capitalized in Q4 2023, with healthy capital adequacy ratios and earnings ratios

Insurance Sector Structure and Activity

The UAE insurance sector continued to grow in Q4 2023, as reflected by increase in the gross written premiums. As of year-end, the number of licensed insurance companies in the UAE remained at 60. The insurance sector comprised 23 traditional national companies, 10 Takaful national and 27 foreign companies, while the number of insurance related professions remained at 491.

Gross Written Premium

The gross written premium increased by 12.7% Y-o-Y in Q4 2023 to AED 53.2 billion, mostly due to an increase in health insurance premiums by 16.5% Y-o-Y and an increase in property and liability insurance premiums by 18.9% Y-o-Y, while the insurance of persons and fund accumulation premiums decreased by 12.4% Y-o-Y, resulting primarily from decrease in individual life premiums.

Paid Claims

Gross paid claims of all types of insurance plans increased by 12.8% Y-o-Y to AED 31.1 billion at the end of 2023. This was mainly driven by the increase in claims paid in health insurance by 16.9% Y-o-Y and increase in paid claims in property and liability insurance by 10.9% Y-o-Y, partially offset by the decline in claims paid in insurance of persons and fund accumulation by 2.8% Y-o-Y.

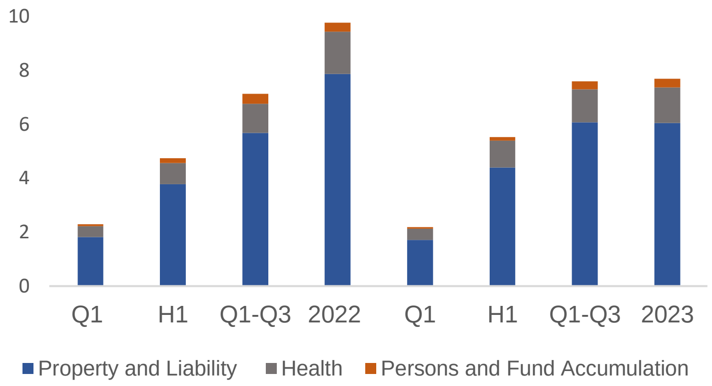
Technical Provisions

The total technical provisions of all types of insurance increased by 8.4% Y-o-Y to AED 74.4 billion in Q4 2023 compared to AED 68.6 billion in Q4 2022.[9]

Investments

The volume of invested assets in the insurance sector amounted to AED 76 billion (60.4% of total assets) in Q4 2023 compared to AED 71.4 billion (59.4% of total assets) in Q4 2022.

Figure 3.4 Number of Written Insurance Policies (millions)



Source: CBUAE.
Notes: * Preliminary data, accumulative at end of period.

Table 3.6 Key Indicators of the Insurance Sector (AED billions)

Description	2022				2023*			
	Q1	H1	Q1-Q3	2022	Q1	H1	Q1-Q3	2023
1- Gross Written Premiums	**15.6**	**26.7**	**36.7**	**47.2**	**17.8**	**27.2**	**42.0**	**53.2**
• Property & Liability	5.6	9.8	14.6	17.8	6.5	9.9	16.6	21.2
• Health Insurance	8.1	11.4	16.4	21.7	9.3	14.0	20.1	25.3
• Persons and Fund Accumulation	1.9	5.5	5.7	7.7	2.0	3.3	5.3	6.7
2- Gross Claims Paid	**6.5**	**13.1**	**18.7**	**27.6**	**7.1**	**14.1**	**23.1**	**31.1**
• Property & Liability	1.9	3.5	5.2	6.9	1.7	3.9	5.7	7.7
• Health Insurance	4.0	7.1	11.8	17.1	4.9	9.2	14.4	19.9
• Persons and Fund Accumulation	0.6	2.5	2.7	3.6	0.5	1.0	3.0	3.5
3- Technical Provisions	**68.4**	**70.3**	**68.8**	**68.6**	**73.7**	**76.7**	**75.0**	**74.4**
4- Total Invested Assets	**70.4**	**71.8**	**72.2**	**71.4**	**70.5**	**72.9**	**74.4**	**76.0**
5- Total Assets	**120.2**	**121.2**	**118.2**	**120.1**	**128.3**	**127.7**	**131.6**	**125.7**
6- Total Equity	**27.0**	**26.7**	**27.1**	**26.7**	**26.3**	**27.0**	**27.9**	**28.0**

Source: CBUAE.
Notes: * Preliminary data, accumulative at end of period

[9] Technical provisions are amounts that insurers set aside and deduct to meet the insured's accrued financial liabilities as per Law's stipulations and financial regulations for insurance and Takaful companies.

Reinsurance

The retention ratio of written insurance premiums for all types of insurance was 52.9 % (AED 28.1 billion) in Q4 2023, compared to 54.9% (AED 25.9 billion) at the end of 2022.[10]

Insurance Soundness Indicators

The UAE insurance sector remained well capitalized in terms of early warning ratios and risk assessment. Own funds to minimum capital requirement ratio increased to 335.7% in Q4 2023, compared to 309.3% at the end of 2022, due to an increase in own funds eligible to meet the minimum capital requirements.[11] Also, own funds to solvency capital requirement ratio rose to 221% in Q4 2023 compared to 208.5% in Q4 2022, due to an increase in own funds eligible to meet solvency capital requirements. Finally, own funds to minimum guarantee fund ratio reached to 316.3% at the end of 2023 down from 314.6% a year earlier, due to higher eligible funds to meet minimum guarantee funds.

In terms of profitability, the net total profit to net written premiums increased to 6.5% in Q4 2023, compared to 2.9% at the end of 2022. The return on average assets increased to 0.3% in Q4 2023 compared to the 0.1% at the of the previous year.

Table 3.7 Insurance Soundness Indicators (%)

Description	2022				2023*			
	Q1	H1	Q1-Q3	2022	Q1	H1	Q1-Q3	2023
1- Reinsurance ratio								
Retention ratio	52.1	57.8	51.2	54.9	53.2	53.8	52.5	52.9
2- Capital Adequacy Ratios								
Own funds to Minimum Capital Requirement (MCR)	275.4	274.0	325.0	309.3	340.6	352.4	349.8	335.7
Own Funds to Solvency Capital Requirement (SCR)	175.9	170.8	203.6	208.5	198.0	203.4	207.3	221.0
Own Funds to Minimum Guarantee Fund (MGF)	287.3	280.8	323.1	314.6	309.3	308.9	310.6	316.3
3- Earnings Ratios								
Net total profit to net written premiums	9.4	8.8	8.4	2.9	7.8	10.4	12.1	6.5
Return on average assets	0.6	0.5	0.4	0.1	0.5	0.5	0.6	0.3

Source: CBUAE.
Notes: *Estimated data.

[10] The retention ratio is calculated as the ratio of net written premium to gross written premium.

[11] Own funds consist of the capital that an insurance company has available to meet solvency requirements, which includes admissible assets less liabilities.

Head Office
Central Bank of the UAE
King Abdullah Bin Abdul-Aziz Al Saud Street
P. O. Box 854
Abu Dhabi
United Arab Emirates

Dubai Branch
26th
Street
Bur Dubai
P. O. Box 448
Dubai
United Arab
Emirates

Sharjah Branch King
Abdul Aziz
Street Sharjah
Industrial Area
P. O. Box 645
Sharjah
United Arab
Emirates

Ras Al Khaimah Branch
Al Muntasir Road
P. O. Box 5000
Ras Al
Khaimah
United Arab
Emirates

Fujairah Branch
Hamid Bin
Abdullah Road
P. O. Box 768
Fujairah
United Arab
Emirates

Al Ain Branch
Ali Bin Abi Talib Street
P. O. Box 1414
Al Ain
United Arab Emirates

For further information, contact
Toll Free: 800 CBUAE (800 22823)
Telephone: +9712-6652220
Fax: +9712-6652504