



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

Quarterly Economic Review

2021 Q4



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List of Abbreviations

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

Chapter I. International Economic Developments and UAE External Sector

I.1. Growth Outlook for Major UAE Economic Partners

6.9% Y-o-Y growth in Q4 in the U.S., and 4.6 % Y-o-Y growth in the Eurozone, despite the slowdown in Germany

Decelerating growth in China and India due to supply disruptions and real estate sector woes

GCC growth kept its momentum in Q4, with the Saudi economy growing by 6.8% in Q4

Advanced Economies

Growth accelerated in Q4 2021 in the US due to an upturn in exports, higher investment and unprecedented fiscal stimulus. In the euro area, growth was driven by country-specific factors, such as rising exports in France, and higher domestic demand in Italy. However, Germany's growth suffered from the disruption in global value chains, including in key activities like the automobile industry. The slowdown in the UK was due to weaker consumer spending and business investment. In Japan, the growth rate turned positive in Q4 2021, triggered by strong private consumption after the lifting of the COVID-19 related state of emergency.

Emerging and GCC Economies

Growth decelerated in China by about one percentage point to 4.0% in Q4 2021 (Y-o-Y), mainly due to real estate woes, constraints on energy consumption, shipping disruptions and reduced domestic spending. Growth decelerated in India as well, but remained sustained by public administration and defense expenditures. Some other emerging and developing countries generally faced difficulties resulting from less efficient public health systems and social safety nets, while reduced fiscal and monetary policy space and debt overhang limited the policy response to the impact of COVID-19.

In the GCC countries, the monthly PMI numbers show that the economic expansion momentum was sustained in Q4 2021, on the back of monetary and fiscal stimulus, and high hydrocarbon export receipts. For example, Saudi Arabia's gross domestic product (GDP) grew by 6.8% in the fourth quarter driven by a 10.8% rise in oil activities and a 5.0% increase in non-oil activities.

The positive outlook for the UAE is anchored in the fact that most of UAE's exports go to countries that have managed to get the pandemic under control. Nonetheless, the growth of UAE's economic partners can be derailed by the ongoing war in Ukraine, high inflationary pressures and uncertainties around the COVID-19 pandemic.

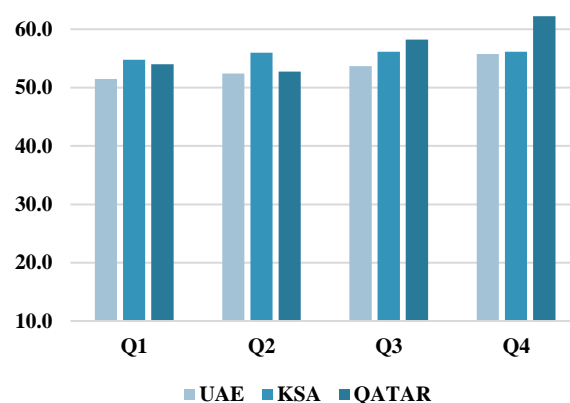
Table.1. 1. Y-o-Y Real GDP Growth Rates in Major Economies (%)

	2019	2020	2021			
			Q1	Q2	Q3	Q4
USA	2.3	-3.4	6.3	6.7	2.3	7.0
Eurozone	1.6	-6.4	-1.1	14.4	3.9	4.6
France	0.9	-4.2	1.7	19	3.5	5.4
Germany	0.2	-2.3	-2.7	10.4	2.9	1.8
Italy	0.3	-8.9	-0.7	17.3	3.8	6.2
UK	1.2	-7.3	-5	24.6	7.0	6.5
China	5.8	6.5	18.3	7.9	4.9	4.0
Japan**	-1.4	-1.1	-1.3	7.6	-3.6	5.4
India	3.3	0.4	1.6	20.3	8.5	5.4

Source: National statistics authorities for the individual countries.

** Japan Q3, Q4 annualized Quarterly growth (Source: Cabinet office, Japan)

Figure. 1.1. Purchasing Managers Index (PMI) in selected GCC countries



Source: Bloomberg

I.2. Inflation and Monetary Policy Response

6.7% Y-o-Y CPI inflation in Q4 in the US, due to supply bottlenecks, higher demand, and high energy and food prices

In Q4 2021, policy rates were kept on hold in most advanced economies, despite higher than targeted inflation

Bank of England increased the policy rate to 0.75% and the Fed to 0.5% in early 2022

Advanced Economies

Headline inflation rose rapidly in advanced economies, well above central banks' targets in most G20 economies. CPI inflation averaged 6.7% Y-o-Y in the U.S. and 4.7% in the euro area during 2021; and market expectations for 2022 are even higher. The unexpected rise in inflation was triggered mainly by global value chain disruptions, regain in demand post confinement, a sharp increase in housing prices, and soaring energy prices. In this context, the continuation of quantitative easing could be contributing to the ongoing global inflation.

Monetary authorities kept policy rates unchanged in Q4 2021. FOMC kept on hold its target policy rate in the 0.0-0.25% range, and increased it by 25 basis points only on March 17th, 2022. Expectations of the rate hike led to the appreciation of the effective exchange rate of the USD dollar from 114.1 in September 2021 to 117.0 in December 2021.

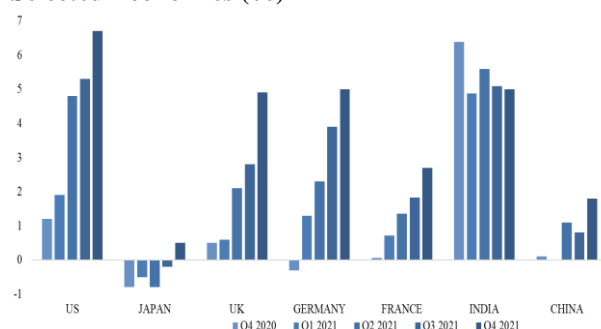
The Bank of England was an exception in this regard. With inflation reaching 4.9% in Q4 2021, it decided to increase its policy rate by 15 bps to 0.25% at its meeting on 15 December 2021, in an effort to counter soaring inflationary pressures. The rate was further increased by 25 bps to 0.5% on 2 February 2022, and by 0.25 bps more on 19 March 2022.

Emerging and GCC Economies

Inflation in emerging markets remained at around 1.8% and 5.0% in China and India respectively. The increase in global inflation impacted the GCC economies through the imports of intermediary and final goods. Inflation increased in all GCC countries, especially in Qatar where inflation peaked in Q4 2021 to reach 6.5% Y-o-Y, the highest among its peers.

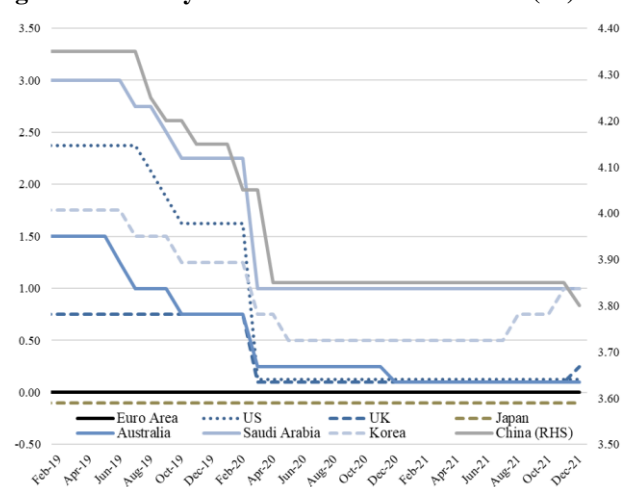
Soaring global inflation is a concern for open economies such as the UAE, where imported inflation would ultimately pass-through to domestic prices and feed into headline inflation.

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



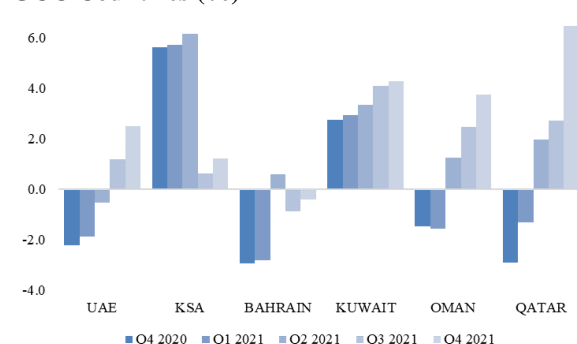
Source: Bloomberg

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



Source: BIS Statistics

Figure. 1.4. Y-o-Y Average Consumer Price Inflation in GCC Countries (%)



Source: Bloomberg

I.3. Global Markets Developments and the UAE External Sector

8.3% Q-o-Q increase in Crude Brent prices, due to the global recovery and high level of geopolitical uncertainty

6.4% and 11.8% Q-o-Q increase in UAE's non-hydrocarbon exports and imports, respectively

1.4% Q-o-Q appreciation of the REER of the Dirham in Q4 2021, due to lower inflation in the UAE

Commodities

Due to pick up in transportation and economic activity in general, the price of Brent Crude rose to a peak of USD 81.5 in October before falling to USD 74.2 per barrel in December 2021; on average Brent prices recorded an increase of 8.3% Q-o-Q in Q4 2021. Natural gas prices increased to a peak of USD 5.5 per MMBtu in October 2021, before declining to USD 3.8 per MMBtu at the end of the quarter.

The price of gold increased from USD 1,772 per oz to USD 1,808 per oz. during Q4 2021 (2.0% increase, as gold has been a safe haven during times of inflation and uncertainties). The price of construction related commodities such as aluminum and steel also remained high during this period.

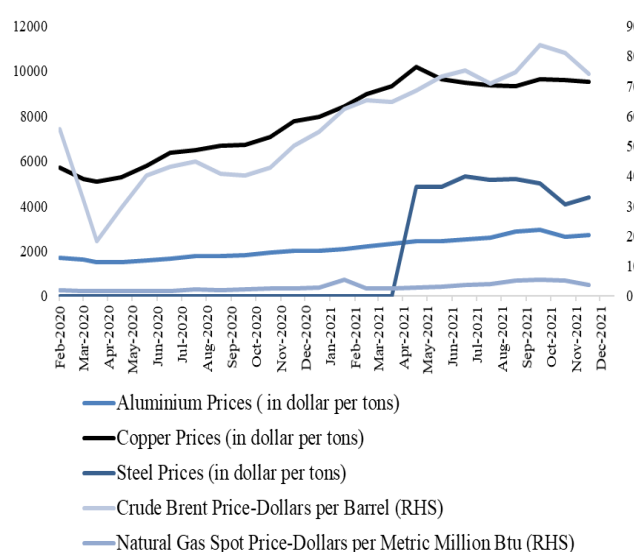
UAE Trade

High oil and gas prices were beneficial for the UAE external position and budget revenue, albeit raising the cost of transportation, and putting pressure on domestic inflation. The total non-oil exports of the UAE increased Y-o-Y by 29.0% in Q4 2021. Non-oil exports to the UAE's main GCC partners (Saudi Arabia, Oman and Kuwait), increased by 10.9% Y-o-Y. For India, however, there was a decline Q-o-Q by 13.5%, following a high increase in the previous quarter. Y-o-Y exports to India rose by 67.9%.

The UAE's imports increased in Q4 2021, by 11.8% Q-o-Q and by 26.6% Y-o-Y to respond to the needs of the economic recovery. Imports from China, the UAE's major import partner, increased by 23.1% Q-o-Q and 32.5% Y-o-Y.

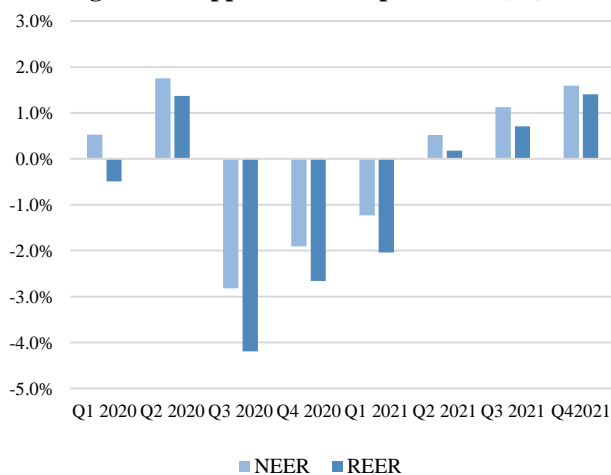
The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the bilateral exchange rates of the UAE's trading partners, appreciated by 1.6% Q-o-Q in Q4, after an appreciation of 1.1% in Q3, in line with the trends of the USD. In real terms, the Dirham Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, appreciated by 1.4% Q-o-Q in Q4.

Figure.1.5. Crude Brent and Natural Gas Prices



Source: EIA

Figure. 1.6. Q-o-Q Nominal and Real Effective Exchange Rates Appreciation/Depreciation (%)



Source: BIS

Chapter II. Domestic Economic Developments

CBUAE Classification: Public

II.1. Growth and Employment in the UAE

7.8% estimated Y-o-Y growth in real non-oil GDP in Q4, due to easing of lockdowns and travel restrictions

9.3% Y-o-Y increase in oil production in the UAE in Q4, following the agreement with OPEC+

82% hotel occupancy in Dubai in Q4, up from 63% and 80.6% over the same period in 2020 and 2019, respectively

Drivers of GDP

The UAE continues to be a leader in containing the spread of the coronavirus, which in turn supports the country's economic recovery. At the end of Q4 2021, 92% of the eligible population was fully vaccinated and 100% received at least one dose.¹

Oil production increased by 9.3% Y-o-Y in Q4 2021, in line with the agreement with OPEC+. Real oil GDP growth was revised upward, but remained negative at -1.4% for the year 2021.

The non-oil sector continued its upward trend in Q4 2021, as the ease of lockdowns and travel restrictions boosted local and global demand. CBUAE estimates that real non-oil GDP growth in Q4 2021 has reached 7.8% Y-o-Y (3.8% for the year 2021).

The average seasonally-adjusted UAE PMI increased by 11.3% Y-o-Y in Q4 2021, moving further up in the expansion zone to 55.6 in December 2021. This is the highest PMI reading since mid-2019, and is supported by the benefits of Expo 2020, the relaxing of the COVID-19 restrictions that boosted travel and tourism, higher export orders, and a regain in domestic demand.

Employment and growth forecasts

The strengthening of private and public investment supported domestic employment, which increased by 3.1% Y-o-Y in December 2021. Average salary also increased by 7.8% based on CBUAE's Wage Protection System (WPS) data.²

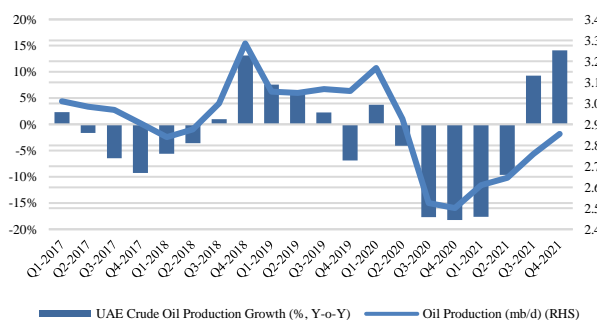
CBUAE estimates that real GDP grew by 2.3% during 2021³. For 2022, CBUAE kept its projections at 4.2% for real GDP growth, with the non-oil real GDP and real oil GDP rising by 3.9% and 5.0%, respectively⁴.

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

	2019	2020	2021 ^E	2022 ^F	2023 ^F
Overall GDP	3.4	-6.1	2.3	4.2	3.3
Non-oil GDP	3.8	-6.2	3.8	3.9	3.3
Oil GDP	2.6	-6.0	-1.4	5.0	3.4

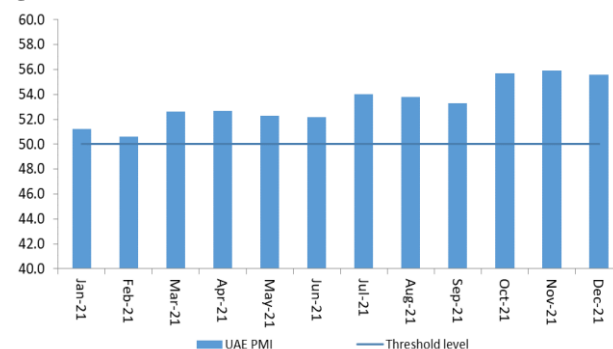
Source: FCSC for 2019 and 2020, and CBUAE estimates and forecasts for 2021-2023.

Figure 2.1. Average UAE Crude Oil Production (in mb/d)



Source: OPEC

Figure 2.2. UAE PMI



Source: IHS Markit

¹ As per FCSC

² Including employees registered under the Ministry of Human Resources and Emiratization, Jebel Ali Free Zone Authority and some employed by licensed financial institutions, where the labour-related authority is not participating in the WPS.

³ Forecasts subject to revision, due to the high uncertainty around COVID-19. CBUAE forecasts the real non-oil GDP using univariate model where the quarterly real non-oil GDP Y-o-Y growth is explained by the lagged Y-o-Y growth of the fiscal spending, and the Y-o-Y growth of the quarterly credit, UAE real estate sales prices, PMI and employment. The real oil GDP growth is estimated/projected based on hydrocarbon output and considering other value adding activities in the sector. The contribution of the real non-oil GDP is approximately 70% of the total GDP.

⁴ All forecasts remain subject to revisions due to the high level of uncertainties.

II.2. Inflation in the UAE

2.3% Y-o-Y inflation in the UAE in Q4 2021, as subdued housing component partly offset rising transportation costs

3.1% Y-o-Y increase in food prices in Q4 2021, in line with increasing food prices worldwide

-2.3%, Y-o-Y change in housing inflation in Q4 2021

Inflation drivers

Headline CPI inflation accelerated in Q4 2021, reaching 2.3% Y-o-Y on average, compared to 0.6% increase in Q3 2021. This was the result of an increase in the price of both tradables and non-tradables.

Tradables⁵ prices, accounting for 34% of the CPI consumption basket, rose by 5.0% in Q4 2021. The increase in import prices was heavily impacted by the pass-through of global inflation, yet mitigated by the appreciation of the US dollar and consequently the Dirham. Due to oil price increase, the price of the transportation category recorded 17.0% Y-o-Y increase in Q4 2021; the highest increase in the tradable basket.

The prices of non-tradables, i.e. goods and services that are not traded across borders⁶, which represent 66% of the CPI basket, increased by 0.9% Y-o-Y in Q4 2021. Inflation of non-tradables was held back by the decline in the housing sub-index by 2.9% YoY in Q4 2021; a component that represents 34% of the CPI basket. The remaining drivers of inflation increased moderately, showing that pass-through of global inflation is slow in the UAE.

Inflation projections

CBUAE projects the average headline CPI inflation for 2022 to be around 2.7% while being at 3.3% in Q12022. The main drivers would be the pickup in energy prices, imported inflation that is expected to be record high globally, rising wages, and the continuation of the declining trend of rents.

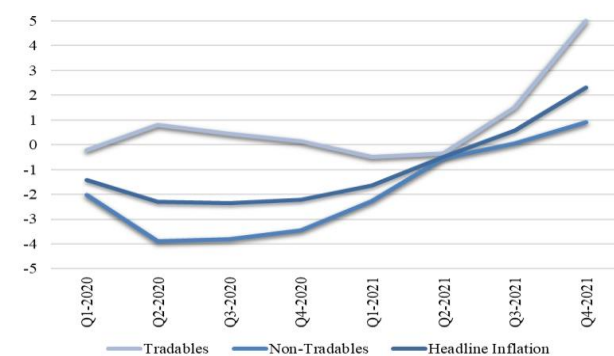
Yet, upward risks remain significant due to the war in Ukraine, with potential disruption in the oil markets and supply chains, in addition to higher food prices.

Table 2.2. Average CPI Inflation (Y-o-Y, %)

	Weight	Q3 2021	Q4 2021
Headline Inflation	100.0%	0.6%	2.3%
Food and beverages	14.3%	-0.8%	3.1%
Tobacco	0.3%	0.2%	0.8%
Textiles, clothing and footwear	3.2%	-5.7%	0.4%
Housing ,water, electricity, gas	34.1%	-4.1%	-2.9%
Furniture and household goods	5.6%	1.5%	1.8%
Medical care	1.4%	0.4%	0.5%
Transportation	14.6%	11.9%	17.0%
Communications	5.4%	-0.1%	0.1%
Recreation and culture	3.2%	18.1%	8.5%
Education	7.7%	1.2%	0.1%
Restaurants and hotels	4.0%	0.0%	1.9%
Miscellaneous goods and services	6.3%	-2.0%	-1.0%

Source: FCSC

Figure 2.3. Headline, Tradable and Non-Tradable Inflation (Y-o-Y, %) in the UAE



Source: FCSC and CBUAE calculations

⁵ 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.

⁶ 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.

II.3. Sectorial Analysis

9.1% Y-o-Y gains in residential real estate prices in Q4 in Dubai

1.4% Y-o-Y gains in residential real estate prices in Q4 in Abu Dhabi

6.2% rental yield in Q4 in Dubai and 6.6% in Abu Dhabi

Tourism and Hospitality

In the context of the COVID-19 pandemic, countries with a better control of potential contamination will be the favored destinations for travelers. With the effective handling of vaccinations and tests, the UAE succeeded in becoming an attractive destination post-COVID-19, as seen in the rebound in tourism and hospitality in Q4 2021. Data in Dubai show a recovery in hotel occupancy from an average of 63% and 80.6% in the last quarters of 2020 and 2019, respectively, to 82% in Q4 2021, which is also sustained by EXPO 2020.

Real Estate

In Q4 2021, residential real estate prices marked Y-o-Y and Q-o-Q gains both in Abu Dhabi and Dubai. As per the Dubai Land Department (DLD), residential property prices in the Emirate of Dubai increased on average by 9.1% Y-o-Y in Q4 2021, while rents declined by 1.9% over the same period. The implied rental yield declined to 6.2% in Q4 2021. In Abu Dhabi, the average price per square meter rose for a fourth consecutive quarter, recording a 1.4% Y-o-Y increase in Q4 2021, according to REIDIN house price index. In contrast, rents in the Emirate fell by 1.1% over the same period, leading to a stable rental yield at 6.6% in Q4 2021.

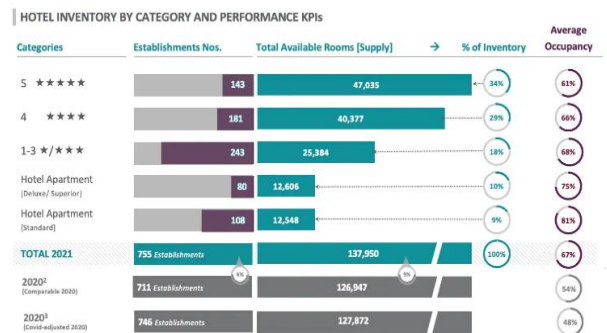
Telecommunications

There was a strong increase in the mobile subscription for both operators, Du and Etisalat, in Q4 2021, up by 8.9% and 4.1% Y-o-Y respectively. This is an evidence of recovering tourism and increasing number of residents, which is a leading indicator of stronger domestic consumption and economic growth.

Development projects

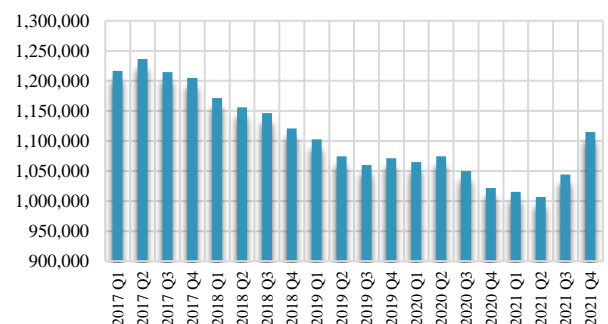
Development projects played a central role in mitigating the negative fallout from the pandemic and boosted growth in the non-hydrocarbon sector. In particular, they included the Museum of the Future, Borouge 4 to produce a 3.3 million tons per annum olefins and aromatics plant, the Etihad Rail, and the development of Al Dhafra Solar field.

Figure 2.4. Accommodation Supply and Demand



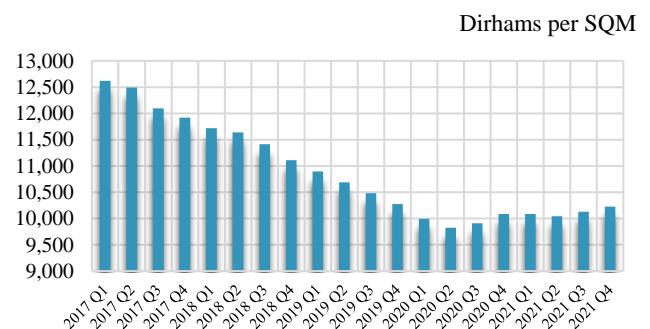
Source: Dubai Tourism

Figure 2.5. Average Dubai Residential Unit Sale Prices
Dirhams



Source: DLD

Figure 2.6. Abu Dhabi Residential Prices
Dirhams per SQM



Source: REIDIN

Chapter III. Monetary and Financial Markets Developments

III.1. Money Supply and Interest Rates

3.9% Q-o-Q increase in M3 in Q4 2021, despite the decline in government deposits

The spread of 3-month EIBOR vs. 3-month USD LIBOR was 15 bps at end of 2021

10-year swap rate on the Dirham vs the USD fell from 65 bps at the end of Q3 to 59 bps at the end of Q4 2021

Monetary Aggregates

The monetary aggregate M1⁷ rose by 5.0% Q-o-Q, standing at AED 701.9 billion at the end of Q4 2021, driven by an increase in monetary deposits by 5.6%, while currency in circulation increased by 1.0%. In addition, monetary aggregate M2⁸ increased by 5.2% Q-o-Q to reach AED 1,563.1 billion, owing to the rise in quasi-monetary deposits (55.0% of M2) by 5.4%. Subsequently, M3⁹ grew by 3.9% Q-o-Q to AED 1,856.7 billion, at the end of Q4 2021, despite the decline in government deposits at commercial banks and CBUAE (16.8% of M3).

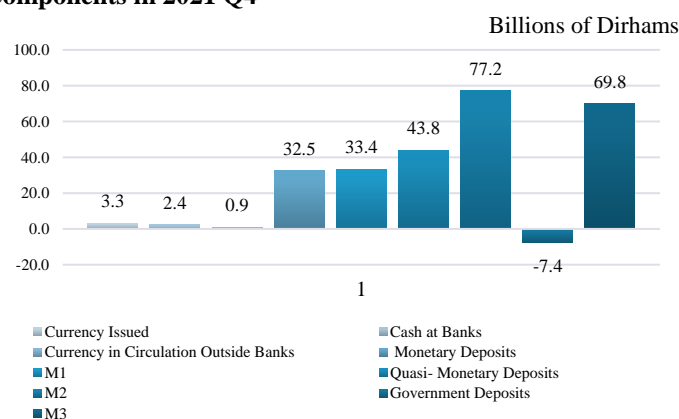
Short-term interest rate

The 3-month USD LIBOR increased steadily from 0.13% at the end of Q3 2021 to a peak of 0.22% in the third week of December 2021, with the expectation of impending Fed tightening. Meanwhile, the 3-month EIBOR increased at a slower pace compared to 3-month USD LIBOR, reaching a peak of 0.46% by the end of the year. These developments resulted in the spread of 3-month EIBOR vis-à-vis 3-month USD LIBOR declining from 19.4 bps in September 2021 to 15.5 bps in December 2021.

Long-term swap rates¹⁰

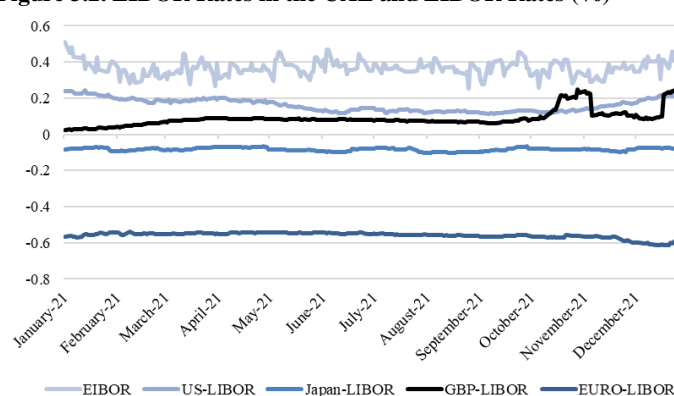
The 10-year swap rate on the Dirham increased from 2.16% at the end of September 2021 to a peak of 2.29% in November, while the spread of the 10-year swap rate on the Dirham vs. that on the USD decreased from 65.3 bps at the end of Q3 2021 to 59.4 bps at the end of Q4 2021.

Figure 3.1. Q-o-Q Change in Monetary Aggregates Components in 2021 Q4



Source: CBUAE

Figure 3.2. EIBOR Rates in the UAE and LIBOR Rates (%)



Source: Bloomberg

⁷ Currency in Circulation outside banks + Monetary Deposits

⁸ M1 + Quasi-Monetary Deposits

⁹ M2 + Government Deposits at banks and CBUAE

¹⁰ By definition, interest rate swaps correspond to an exchange of a fixed rate for a floating payment that is linked to an interest rate, most often the London Interbank Offer Rate (LIBOR).

III.2. Banking Developments

CBUAE Classification: Public

1.0% Q-o-Q increase in domestic credit in Q4, mainly due to increased lending to GREs

10.1% Q-o-Q increase in lending to GREs in Q4

7.3% Q-o-Q increase in credit to Manufacturing, due to improved supply chains and recovering demand

Banking Structure

The banking sector witnessed the creation of a new community bank, the first of its kind in the region, using only the Dirham in its transaction, raising the number of licensed commercial banks to 59 in the fourth quarter of 2021, comprising 22 national banks, and 37 foreign banks (including 10 wholesale banks). Moreover, national banks' branches fell by eight compared to the previous quarter to 513 at the end of Q4 2021. The number of banks' staff rose by 738 employees compared to Q3 2021 (2.3% Q-o-Q) at the end of December 2021.

Banks Deposits

Total bank deposits increased by 2.8% Q-o-Q in Q4 2021, while resident deposits (88.4% of total deposits) increased by 3.9% Q-o-Q, owing mainly to the private sector. Meanwhile, government deposits declined by 3.3% Q-o-Q, and non-resident deposits (11.6% of total deposits) declined by 5.0% Q-o-Q.

Banks' Assets and Credit

Total assets increased in Q4 2021 by 2.3% Q-o-Q mainly supported by growth in banks' reserves at CBUAE, interbank positions and gross credit by 9.3%, 18.0% and 1.0%, respectively. Domestic credit increased by 1.0% Q-o-Q, mainly driven by an increase in lending to GREs by 10.1% Q-o-Q. In lending to domestic economy, the highest increase by sector was in Mining and Quarrying, up by 7.9% Q-o-Q, followed by Manufacturing (+7.3%) and by Transport, Storage, and Communication (+7.3%).

The Credit Sentiment Survey

As highlighted in CBUAE's Credit Sentiment Survey of Q4 2021, despite a moderate tightening of credit standards, credit appetite and demand for loans increased, especially demand for business loans of large firms. Moreover, demand for personal loans was at its highest in seven years and credit availability was enhanced due to a moderate easing of credit standards from lenders.

Table 3.1. Assets and Credit at UAE Banks

Billions of Dirhams

Item	Jun-21	Sep-21	Dec-21
Total Assets	3,209	3,247	3,322
(Q-o-Q change)	1.0%	1.2%	2.3%
Gross Credit	1,769	1,777	1,794
(Q-o-Q change)	0.9%	0.4%	1.0%
Domestic Credit	1,596	1,602	1,619
(Q-o-Q change)	0.4%	0.4%	1.0%
Government	246	245	236
(Q-o-Q change)	-2.7%	-0.2%	-3.8%
GREs	224	223	245
(Q-o-Q change)	3.9%	-0.4%	10.1
Private Sector	1,113	1,119	1,121
(Q-o-Q change)	0.6%	0.6%	0.1%
NBFI	14	15	17
(Q-o-Q change)	-16.7%	8.9%	14.3%
Foreign Credit	174	174	175
(Q-o-Q change)	5.5%	0.3%	0.4%

Source: CBUAE

Note: Data as of end of period. December data are preliminary.

Table 3.2. Domestic Credit by Economic Activity

Billions of Dirhams

Economic Activity	Sep-21	Dec-21
Total	1,602	1,619
(Q-o-Q change)	0.4%	1.1%
Of which:		
Mining and Quarrying	15.2	16.4
(Q-o-Q change)	-0.4%	7.9%
Manufacturing	76.7	82
(Q-o-Q change)	2.7%	7.3%
Electricity, Gas and Water	28.7	28.1
(Q-o-Q change)	-0.7%	-2.0%
Construction and Real Estate	327.8	327
(Q-o-Q change)	1.2%	-3.7%
Trade	136.5	131.5
(Q-o-Q change)	-0.7%	-3.7%
Transport, Storage and Communication	80.6	86.4
(Q-o-Q change)	-3.1%	7.3%
All Others	143.0	157.8
(Q-o-Q change)	-4.0%	10.4%

Source: CBUAE

Note: Data as of end of period. December data are preliminary.

III.3. Financial Developments

The average Capital Adequacy Ratio stood at 17.2%
CBUAE Classification: Public

10.3% and 12.3% Q-o-Q gains in Q4 2021 in Share Price Indexes in ADX, and DFM respectively

42.9 bps and 92.1 bps premium for Abu Dhabi and for Dubai sovereign CDS respectively

Financial indicators

The financial soundness indicators show adequate liquidity buffers for banks operating in the UAE. The Eligible Liquid Assets¹¹, as a percent of total liabilities,¹² rose to 19.6%, well above the 10% minimum regulatory requirement, constituting an adequate liquidity buffer of the banking system.

Total Liquid Assets of banks at the end of the fourth quarter of 2021 stood at AED 529.3 billion, increasing by 9.1% Q-o-Q. Overall, the UAE banking system remained well capitalized, with an average Capital Adequacy Ratio (CAR) at 17.2%, Tier 1 Capital Ratio at 16.1%, and Common Equity Tier 1 Ratio (CET 1) at 14.2%.¹³

Share Prices

The Abu Dhabi Securities Exchange (ADX) share price index increased by 10.3% Q-o-Q in Q4 2021, while the Dubai Financial Market (DFM) index rose by 12.3% Q-o-Q over the same period. The increase in both ADX and DFM was due to strong demand and positive market sentiment in line with global stock markets, which also gained during the fourth quarter.

Credit Default Swaps¹⁴ (CDS)

CDS slightly increased in Q4 2021. For the government of Abu Dhabi, the CDS premium rose by 1.0 basis points (bps) to 42.9 bps. The Emirate's strong fiscal position and its large sovereign wealth funds explain the fact that it has the lowest CDS premium in the Middle East and Africa region. Meanwhile, Dubai's CDS increased slightly by 1.7 bps to 92.1 bps, while staying at relatively low levels compared to Middle East and emerging markets.

Table 3.3. UAE Financial Soundness Indicators

	Jun-21	Sep-21	Dec-21
Total Banking System			
Advances to Stable Resources Ratio (ASRR)	77.7%	77.9%	77.3%
Eligible Liquid Assets Ratio (ELAR)	18.3%	18.4%	19.6%
Capital Adequacy Ratio (CAR)	17.5%	17.7%	17.2%
Tier 1 Capital Ratio	16.3%	16.5%	16.1%
Common Equity Tier 1 (CET 1) Ratio	14.5%	14.7%	14.2%

Source: CBUAE

Note: Data as of end of period. December data are preliminary.

Table 3.4. UAE – Securities Markets

			Q3-2021	Q4-2021
Abu Dhabi	*Share Price Index	Q-o-Q	12.6%	10.3%
	*Market Capitalization	AED bn	1,381	1,626
		Q-o-Q	18.2%	17.8%
	**Traded Value	AED bn	86	118
		Q-o-Q	-2.0%	37.5%
Dubai	*Share Price Index	Q-o-Q	1.2%	12.3%
	*Market Capitalization	AED bn	391	410
		Q-o-Q	1.0%	4.7%
	**Traded Value	AED bn	9.8	32.2
		Q-o-Q	-24.3%	227.5%

Source: SCA

Note: *indicates end of period,

**indicates value during the whole quarter

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

	2021			
	Q1	Q2	Q3	Q4
Abu Dhabi	44.7	42.9	41.9	42.9
Dubai	107.8	93.5	90.4	92.1

Source: Bloomberg

Note: Average of the quarter

¹¹ In the ELAR, the eligible liquid assets include required reserves, mandated by the Central Bank, certificates of deposits, m-bills held by banks at the Central Bank, in addition to zero-risk weighted government bonds and public sector debt and cash at banks

¹² Balance sheet total assets less (capital and reserves + all provisions except staff benefit provisions + refinancing + subordinated borrowing/deposits).

¹³ The minimum regulatory requirement for CAR is 13% (10.5% minimum adequacy and 2.5% capital conservation buffer), 8.5% for Tier 1, and 7% for CET 1.

¹⁴ A credit default swap is effectively an insurance policy against non-payment. The buyer can shift some or all that risk onto an insurance company or other CDS seller in exchange for a fee. By doing this, the buyer receives credit protection while the seller guarantees the creditworthiness of the debt security.

III.4. Insurance Developments

3.6% Y-o-Y increase in total assets and 2.5% increase in total equity in Q3 in the insurance sector

22.1% increase in the total number of insurance policies

7.4% increase in number of related insurance professions

Insurance Sector Activity

The insurance sector in the UAE maintained its growth momentum in the first three quarters of 2021 as reflected by the increase in Gross Written Premiums. The number of insurance-related professions¹⁵ also increased to 465 in Q4 2021 up from 433 in Q4 2020, while the number of insurance companies Y-o-Y remained at 62 in Q4 2021.

Gross Written Premiums (GWP)

GWP increased by 4.2% Y-o-Y in Q3 2021. The growth is mostly due to more awareness about the importance of life insurance coverage in response to the risks caused by COVID-19.

Number of Insurance Policies

The total number of all types of insurance policies increased by 22.1% Y-o-Y in Q3 2021. Specifically, the property and liability insurance policies increased by 26.3%, the health insurance increased by 13.3%, and the insurance of persons and fund accumulation increased by 16.4%.

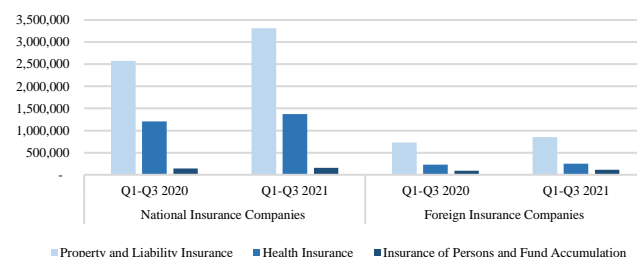
Paid Claims

The gross paid claims in Q3 2021 decreased by 8% Y-o-Y to AED 19.8 billion. The decline is mainly driven by the decrease in claims for property and liability insurance, as well as insurance of persons & fund accumulation.

Investments

The total invested assets in the sector amounted to AED 77.6 billion (63.2% of total assets) at the end of Q3 2021. This is due to diversification into investment classes, imposed by the financial regulations for conventional and Takaful insurance companies.

Figure 3.3. Number of Insurance Policies



Source: CBUAE

Table 3.4.a - Key Indicators of the Insurance Sector

Billions of dirhams

	2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Gross Written Premiums	15.3	24.7	33.6	42.4	15.1	25.6	35.0
• Property and Liability Insurance	5.0	8.5	12.0	15.4	4.9	8.7	12.2
• Health Insurance	8.1	12.2	15.6	19.1	7.9	12.3	16.1
• Persons and Fund Accumulation	2.2	4.0	6.0	7.9	2.3	4.6	6.7
Gross Claims Paid	7.5	14.8	21.5	30.4	6.4	13.2	19.8
• Property and Liability Insurance	2.1	4.8	6.3	10.2	1.5	3.1	4.8
• Health Insurance	4.3	7.5	11.1	14.9	3.8	7.8	11.7
• Persons and Fund Accumulation	1.1	2.5	4.1	5.3	1.1	2.3	3.3
Total Investments	63.3	67.5	70.3	72.8	74.2	77.2	77.6
Total Assets	114.3	115.8	118.5	115.9	124.7	126.0	122.8
Total Equity	25.1	26.5	27.6	27.6	28.2	28.1	28.3

Source: CBUAE, Preliminary data for 2021

Note: Data as of end of period

Table 3.4.b Early Warning Ratios for Insurance Companies

	2020-Q3	2021-Q3
Capital Adequacy Ratios		
- Own Funds to Minimum Capital Requirement (MCR)	287.6%	298.7%
- Own Funds to Solvency Capital Requirement (SCR)	187.8%	191.2%
- Own Funds to Minimum Guarantee Fund (MGF)	274.2%	312.6%
Asset Quality Ratio		
- Net total profit to net written premiums	16.2%	11.2%
- Net Underwriting profit to net written premiums	-8.2%	13.0%
- Return on avg. assets	0.7%	0.5%

Source: CBUAE - Preliminary data for 2021

¹⁵ Persons / companies licensed by the CBUAE to practice one of the activities of an insurance agent, Actuarial, broker, loss adjuster, consultant, or any other profession related to insurance.

CBUAE Classification: Public

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