



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

## United Arab Emirates Monetary, Banking & Financial Markets Developments

2<sup>nd</sup> Quarter 2016

August 2016

## Introduction

As part of its commitment to promote economic and financial stability and growth in the UAE, the Central Bank of the UAE actively fosters a stable and efficient financial system by providing effective central banking services. The *United Arab Emirates Monetary, Banking and Financial Markets Developments Report* is one of the many avenues through which the Central Bank seeks to keep its stakeholders informed.

This report discusses the monetary and banking activities as well as developments in the UAE financial markets during the second quarter of 2016, in comparison to the second quarter of the previous year. The report also reviews ratios of annual change over the period from June 2015 to June 2016.

## Monetary Developments

Money Supply  $M_1$ , which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, decreased by 1.9% during the second quarter of 2016, compared to a 1.6% increase during the same period last year. On an annual basis, the monetary aggregate  $M_1$  increased by 3.6% reaching AED 481 billion.

Money Supply  $M_2$  ( $M_1$  plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham plus Resident Deposits in Foreign Currencies), also decreased by 3.1% during the second quarter of 2016, compared to a 1% increase during the same period last year. On an annual basis,  $M_2$  increased by 0.5% reaching AED 1180.4 billion.

Consequently, Money Supply  $M_3$  ( $M_2$  plus government deposits at banks and at the Central Bank) also decreased by 0.7% during the second quarter of 2016 as compared to a 0.6% decrease during the second quarter of 2015. On an annual basis, Money Supply  $M_3$  increased by 2% reaching AED 1,364.8 billion.

Generally, the median money supply  $M_2$  is considered the best indicator for the availability of liquidity in the economy, as it comprises currency in circulation outside banks, in addition to various deposits of all the resident sectors except the government sector in the UAE. Statistical data show that at the end of the second quarter of 2016,  $M_2$  decreased in comparison to the position at the end of the first quarter of 2016. This reduction in  $M_2$  was mainly due to the fall of resident deposits, except government deposits, by 3.5% (reduction of AED 40.6 billion). Whereas on an annual basis, resident deposits, except government deposits, increased by 0.05% (increase of AED 0.6 billion) reaching AED 1,116 billion.

Table 1 - Monetary Developments in the UAE

(In Billions Dirhams - End of Period)

	2014		2015								2016				
	Fourth Quarter		First Quarter		Second Quarter		Third Quarter		Fourth Quarter		First Quarter		Second Quarter*		
	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Quarterly Change (%)	Amount	Change (%)	
														Quarterly	Annual
Money Supply (M <sub>1</sub> )	436.1	1.2%	456.9	4.8%	464.1	1.6%	453.6	-2.3%	456.9	0.7%	490.3	7.3%	481.0	-1.9%	3.6%
Money Supply (M <sub>2</sub> )	1,125.4	0.5%	1,162.5	3.3%	1,174.2	1.0%	1,158.3	-1.4%	1,186.8	2.5%	1218.4	2.7%	1,180.4	-3.1%	0.5%
Money Supply (M <sub>3</sub> )	1,314.5	-0.9%	1,346.0	2.4%	1,337.6	-0.6%	1,322.0	-1.2%	1,342.8	1.6%	1373.8	2.3%	1,364.8	-0.7%	2.0%

*Source- Data received from banks operating in the UAE*

M<sub>1</sub> = Currency in Circulation Outside Banks (Currency Issued - Cash at banks) + Monetary Deposits

M<sub>2</sub> = M<sub>1</sub> + Quasi-Monetary Deposits

M<sub>3</sub> = M<sub>2</sub> + Government Deposits

\*Estimates, subject to revision

## **Banking Sector Development**

### **1- Banks Operating in the UAE**

The number of locally incorporated banks remained at 23 banks by the end of the second quarter of 2016, while their branches decreased from 873 at the end of the second quarter of 2015 to 862 at the end of the same period of 2016. The number of electronic services units of these banks increased at the end of second quarter of 2016 to 33 from 32 at the end of June 2015. The number of Cash Offices decreased from 90 offices by the end of June 2015 to 86 offices by the end of June 2016.

The number of GCC banks continues to remain constant during the second quarter of 2016 at 6 banks, with 4 branches. The number of foreign banks also remains unchanged at 20 banks with 82 branches at the end of the second quarter of 2016. The number of electronic services units of these banks decreased from 48 units at the end of June 2015 to 42 units at the end of June 2016.

At the end of the second quarter of 2016, the number of financial institutions licensed by the Central Bank, i.e.; wholesale banks, financial companies, Financial Investment companies, money changers, representative offices and Offices for Intermediating in Currency Trading & Money Market Operations reached 9, 114, 27, 25, 139 and 11, respectively.

The total number of ATMs of banks operating in the UAE reached 5,126 by the end of June 2016, compared to 4,921 at the end of June 2015 (see table 2 for more details).

Table-2 Banks, Other Financial Institutions & ATMs														
	2013				2014				2015				2016	
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June*
<b>Locally Incorporated Banks</b>														
Main Branches	23	23	23	23	23	23	23	23	23	23	23	23	23	23
Additional Branches	810	824	832	841	843	858	866	869	871	873	875	874	874	862
Electronic Banking Service Units	28	28	29	29	29	33	33	34	31	32	34	37	39	33
Cash Offices	89	89	89	89	89	89	89	90	90	90	90	90	90	86
<b>GCC Banks</b>														
Main Branches	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Additional Branches	3	3	3	4	4	4	4	4	4	4	4	4	4	4
<b>Foreign Banks</b>														
Main Branches	22	22	22	22	22	22	22	20	20	20	20	20	20	20
Additional Branches	83	83	83	83	83	83	83	82	82	82	82	82	81	82
Electronic Banking Service Units	54	54	54	52	53	53	54	48	48	48	45	40	41	42
Cash Offices	1	1	1	1	1	1	1	1	1	1	1	1	1	1
<b>Wholesale Banks</b>	4	4	4	4	4	5	5	7	8	8	8	8	9	9
Representative Offices	120	120	117	120	120	122	121	121	122	122	121	115	114	114
Finance Companies	25	25	25	25	25	26	26	26	26	26	26	27	27	27
Financial Investment companies	23	23	23	25	25	25	25	25	25	25	25	25	25	25
Moneychangers	124	128	131	134	134	137	138	140	140	141	142	140	139	139
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	12	12	12	12	12	12	12	12	12	12	11
<b>ATMs</b>	4,555	4,582	4,642	4,664	4,642	4,674	4,740	4,847	4,879	4,921	5,003	5,119	5,144	5,126

Source: Banking Supervision Department and UAESWITCH

\*Estimates, subject to revision

## 2- Bank Assets and Loans

Between the end of the second quarter of 2015 and the end of the second quarter of 2016, total assets of banks operating in the UAE increased by 4.1%, reaching AED 2.52 trillion by the end of June 2016.

This hike was mainly brought about by 6.7% increase in credit, reaching AED 1.54 trillion by the end of June 2016.

## 3- Customer Deposits

By the end of the second quarter of 2016, total deposits of resident and non-resident customers with banks operating in the UAE also increased by 3.4%, reaching AED 1.5 trillion, compared to AED 1.44 trillion at the end of the second quarter of 2015. Resident deposits increased by 2.1%, reaching AED 1.32 trillion at the end of the second quarter of 2016, compared to AED 1.30 trillion at the end of the second quarter of 2015. Non-resident deposits also increased by 13.7%, reaching AED 177.1 billion by the end of June 2016, compared to AED 155.7 billion at the end of the same period of 2015.

## 4- Capital and Reserves

The aggregate capital and reserves of banks operating in the UAE increased by 6.6% rising from AED 310.1 billion at the end of the second quarter of 2015 to AED 330.5 billion at the end of the same period of 2016. The total capital adequacy ratios remain well above the 12% Capital Adequacy and 8% Tier1 ratios prescribed by the Central Bank regulations.

Capital adequacy ratios measure the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. A high capital adequacy ratio provides protection to depositors and promotes the stability and efficiency of the financial system of an economy.

**Table- 3: Banking Indicators**

(End of Month, Figures in billions of Dirhams unless otherwise indicated)

	2014		2015						2016				% Annual Change		
	Dec.	Quarterly Change (%)	March	Quarterly Change (%)	June	Quarterly Change (%)	Sep.	Quarterly Change (%)	Dec.	Quarterly Change (%)	March	Quarterly Change (%)		June *	Quarterly Change (%)
<b>Total Assets</b>	2,304.9	-0.3%	2,379.9	3.3%	2,419.5	1.7%	2,422.2	0.1%	2,478.2	2.3%	2491.1	0.5%	2518.5	1.1%	4.1%
Banks' Investments in Central Bank CDs	99.5	-15.8%	111.7	12.3%	101.3	-9.3%	97.4	-3.8%	139.8	43.5%	115.4	-17.5%	109.1	-5.5%	7.7%
Shariah Compliant Certificates of Deposits	19.8	-24.4%	22.1	11.6%	21.2	-4.1%	20.5	-3.5%	20.9	2.2%	27.1	29.7%	21.9	-19.2%	3.3%
Gross Credit <sup>(1)</sup>	1,378.1	-0.3%	1,410.2	2.3%	1,446.7	2.6%	1,478.5	2.2%	1,485.0	0.4%	1517.5	2.2%	1543.4	1.7%	6.7%
Personal Loans to Residents	299.8	-2.3%	309.8	3.3%	319.3	3.1%	329.7	3.3%	330.7	0.3%	336.1	1.6%	341.9	1.7%	7.1%
Total Deposits <sup>(2)</sup>	1,421.3	0.5%	1,449.3	2.0%	1,444.3	-0.3%	1,436.8	-0.5%	1,471.6	2.4%	1502.6	2.1%	1493.0	-0.6%	3.4%
Capital & Reserves <sup>(3)</sup>	299.1	3.0%	299.9	0.3%	310.1	3.40%	314.9	1.5%	324.8	3.1%	316.6	-2.5%	330.5	4.4%	6.6%
Capital Adequacy Ratio	18.2%	-0.5%	18.2%	0.0%	18.3%	0.5%	18.3%	0.0%	18.3%	0.0%	18%	-1.6%	18.4%	2.2%	0.5%
Tier-1 Ratio	16.2%	-0.6%	16.2%	0.0%	16.5%	1.9%	16.5%	0.0%	16.6%	0.6%	16.3%	-1.8%	16.8%	3.1%	1.8%

<sup>(1)</sup> Includes credit to residents and non-residents: loans to non-banking financial institutions, Trade Bills Discounted and Loans and Advances to the Government and Public Sector, Private sector (corporates and individuals) in local and foreign currencies.

<sup>(2)</sup> Net of inter-bank deposits and bank drafts, including commercial prepayments.

<sup>(3)</sup> Excluding subordinated borrowings/deposits & including current year profit.

\*Estimates, subject to revision

## 5- Foreign Assets of Central Bank

Central Bank's foreign assets increased by 14.4% from AED 274.6 billion at the end of the second quarter of 2015 to AED 314.1 billion at the end of the second quarter of 2016. This increase was mainly attributed to an increase in Held-to-Maturity Foreign Securities by 32.0% (increase of AED 46.52 billion) and an increase in Other Foreign Assets by 17.0% (increase of AED 0.74 billion), overshadowing a decrease in Current Account Balances by 6.2% (decrease of AED 7.77 billion).

## 6- Values in Abu Dhabi and Dubai Financial Markets

The Abu Dhabi financial markets general index fell by 4.8%, from the second quarter of 2015 to the second quarter of 2016. Market capitalization of companies listed on Abu Dhabi Securities Exchange (ADX) also decreased by 1% falling from AED 443.1 billion at the end of June 2015 to AED 438.8 billion at the end of June of 2016. Similarly, quarterly trading value fell from AED 16.3 billion during the second quarter of 2015 to AED 10.7 billion during the corresponding quarter of 2016.

The Dubai Financial Markets general index fell by 19.0% from the second quarter of 2015 to the second quarter of 2016. Market capitalization of companies listed on Dubai Financial Markets (DFM) also decreased by 11.2%, falling from AED 369.4 billion at the end of June 2015 to AED 327.9 billion at the end of June of 2016. Similarly, quarterly trading value fell from AED 65.2 billion during the second quarter of 2015 to AED 28.9 billion during the corresponding quarter of 2016.



	2015				2016	
	March	June	Sept.	Dec.	March	June
<b>Number of listed Companies</b>	69	69	69	70	69	69
<b>General Share Price Index</b>	4,467.9	4,723.2	4,502.8	4,307.3	4,390.4	4,497.6
<b>Quarterly Variation (%)</b>	-1.3%	5.7%	-4.7%	-4.3%	1.9%	2.4%
<b>Market Capitalization (Billion AED)</b>	424.3	443.1	427.2	413.5	431.6	438.8
<b>Quarterly Traded Values (Billion AED)</b>	13.4	16.3	13.3	13.7	14.8	10.7

*Source: Abu Dhabi Securities Exchange (ADX)*

	2015				2016	
	March	June	Sept.	Dec.	March	June
<b>Number of listed Companies</b>	59	59	59	60	60	60
<b>General Share Price Index</b>	3,514.4	4,086.8	3,593.3	3,151.0	3,355.5	3,311.1
<b>Quarterly Variation (%)</b>	-	16.3%	-12.1%	-12.3%	6.5%	-1.3%
<b>Market Capitalization (Billion AED)</b>	317.6	369.4	345.3	308.1	327.4	327.9
<b>Quarterly Traded Values (Billion AED)</b>	38.2	65.2	28.9	19.1	40.6	28.9

*Source: Dubai Financial Markets (DFM)*