



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

United Arab Emirates
Monetary, Banking & Financial Markets Developments

2017 – 2nd Quarter Report

August 2017

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 2017, in comparison to the second quarter of the previous year. The report also reviews ratios of annual change over the period from June 2016 to June 2017.

Monetary Developments

Money Supply M_1 , which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, increased by 0.5% during the second quarter of 2017, compared to a 1.9% reduction during the same period last year. On an annual basis, there was a 5.4% increase in the monetary aggregate M_1 , reaching AED 507.1 billion.

Money Supply M_2 (M_1 plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham plus Resident Deposits in Foreign Currencies)), decreased by 0.4% during the second quarter of 2017, compared to a 3.1% reduction during the same period last year. On an annual basis, there was a 7.3% increase in Money Supply M_2 , reaching AED 1267.1 billion.

Consequently, Money Supply M_3 (M_2 plus government deposits at banks and at the Central Bank) also decreased by 0.2% during the second quarter of 2017 as compared to a 0.7% decrease during the second quarter of 2016. On an annual basis, there was a 7.2% increase in Money Supply M_3 , reaching AED 1463.1 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 2017, M_2 decreased relatively slower in comparison to its position at the end of the second quarter of 2016. The decrease in M_2 during the second quarter of 2017 was mainly due to a fall in non-government resident deposits by 0.6% reaching 1199.7 billion, compared to a larger reduction of 3.5% (AED 1116 billion) during the same period of the previous year.

Table 1 - Monetary Developments in the UAE

(In Billions Dirhams - End of Period)

	2016								2017					
	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	Change (%)		
												Quarterly	Annual	
Money Supply (M₁)	490.3	7.3%	481.0	-1.9%	472.5	-1.8%	474.1	0.3%	504.4	6.4%	507.1	0.5%	5.4%	
Money Supply (M₂)	1218.4	2.7%	1180.4	-3.1%	1200.2	1.7%	1225.5	2.1%	1272.2	3.8%	1267.1	-0.4%	7.3%	
Money Supply (M₃)	1373.8	2.3%	1364.8	-0.7%	1368.6	0.3%	1411.4	3.1%	1465.8	3.9%	1463.1	-0.2%	7.2%	

*Source- Data received from banks operating in the UAE***M₁** = Currency in Circulation Outside Banks (Currency Issued - Cash at banks) + Monetary Deposits**M₂** = M₁ + Quasi Monetary Deposits**M₃** = M₂ + Government Deposits

*Estimates, subject to revision

Banking Sector Development

1- Banks Operating in the UAE

The number of locally incorporated banks remains at 23 banks by the end of the second quarter of 2017, while their branches decreased from 862 at the end of the second quarter of 2016 to 838 at the end of the same period of 2017. The number of electronic services units of these banks increased at the end of second quarter of 2017 to 36 from 33 at the end of June 2016. The number of Cash Offices decreased from 86 offices at the end of June 2016 to 61 offices at the end of June 2017.

The number of GCC banks remains constant during the second quarter of 2017 at 6 banks, with 4 branches. The number of other foreign banks also remains unchanged at 20 banks at the end of the second quarter of 2017, while their branches decreased from 82 branches at the end of June 2016 to 81 branches at the end of June 2017. The number of electronic services units of these banks decreased from 42 units at the end of June 2016 to 29 units at the end of June 2017.

At the end of the second quarter of 2017, the number of financial institutions licensed by the Central Bank i.e., Wholesale Banks, Representative Offices, Finance Companies, Financial Investment Companies, Moneychangers and Offices for Intermediating in Currency Trading & Money Market Operations reached 11, 108, 28, 21, 141 and 11, respectively.

The total number of ATM of banks operating in the UAE reached 5,219 by the end of June 2017, compared to 5,118 at the end of June 2016 (see table 2 for more details).

Table-2 Banks, Other Financial Institutions & ATMs									
2013 - 2017									
	2013	2014	2015	2016				2017	
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun*
Locally Incorporated Banks									
Main Branches	23	23	23	23	23	23	23	23	23
Additional Branches	841	869	874	874	862	857	846	834	838
Electronic Banking Service Units	29	34	37	39	33	32	33	35	36
Cash Offices	89	90	90	90	86	85	76	72	61
GCC Banks									
Main Branches	6	6	6	6	6	6	6	6	6
Additional Branches	4	4	4	4	4	4	4	4	4
Foreign Banks									
Main Branches	22	20	20	20	20	20	20	20	20
Additional Branches	83	82	82	81	82	81	81	81	81
Electronic Banking Service Units	52	48	40	41	42	41	31	29	29
Cash Offices	1	1	1	1	1	1	1	1	1
Wholesale Banks	4	7	8	9	9	10	11	11	11
Representative Offices	120	121	115	114	114	114	114	107	108
Finance Companies	25	26	27	27	27	27	27	28	28
Financial Investment companies	25	25	25	25	25	25	25	22	21
Moneychangers	134	140	140	139	139	139	140	141	141
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	12	11	11	11	11	11
ATMs	4,664	4,847	5,119	5,144	5,118	5,170	5,243	5,211	5,219

Source: Banking Supervision Department and UAESWITCH

*Estimates, subject to revision

2- Bank Assets and Loans

At the end of the second quarter of 2017 total assets of banks operating in the UAE increased by 0.2%, reaching AED 2654.3 billion, compared to an increase of 1.1% at the end of the second quarter of 2016. During the period between June 2016 and June 2017, the total assets of banks operating in the UAE increased by 5.4%.

This hike was mainly brought about by 3.1% annual increase in credit, reaching AED 1591.3 billion by the end of June 2017.

3- Customer Deposits

By the end of the second quarter of 2017, total deposits of resident and non-resident customers with banks operating in the UAE decreased by 0.8%, reaching AED 1589.1 billion, compared to a decrease of 0.6% at the end of the second quarter of 2016 reaching AED 1493.0 billion. Resident deposits decreased by 0.3%, reaching AED 1409.3 billion at the end of the second quarter of 2017, compared to a higher reduction of 0.7% at the end of the second quarter of 2016 reaching AED 1315.9 billion. Non-resident deposits also decreased by 4.9%, reaching AED 179.8 billion by the end of June 2017, compared to a 0.2% decrease at the end of the same period of 2016. On an annual basis, Resident deposits and Non-resident deposits increased by 7.1% and 1.5%, respectively.

4- Capital and Reserves

Aggregate Capital and Reserves of banks operating in the UAE increased by 2.5%, rising to AED 347.1 billion at the end of the second quarter of 2017 compared to a 4.4% increase at the end of the same period of 2016. Compared to the second quarter of 2016, the total Capital Adequacy Ratios decreased slightly during the second quarter of 2017, however, remaining 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)

	2016								2017				% Annual Change
	Mar	Quarterly Change (%)	Jun	Quarterly Change (%)	Sep	Quarterly Change (%)	Dec	Quarterly Change (%)	Mar	Quarterly Change (%)	Jun*	Quarterly Change (%)	
Total Assets	2491.1	0.5%	2518.5	1.1%	2550.1	1.3%	2610.8	2.4%	2648.3	1.4%	2654.3	0.2%	5.4%
Banks' Investments in Central Bank CDs	115.4	-17.5%	109.1	-5.5%	103.8	-4.9%	108.2	4.2%	115.3	6.6%	102.8	-10.8%	-5.8%
Sharia Compliant Certificates of Deposits	27.1	29.7%	21.9	-19.2%	16.7	-23.7%	20.1	20.4%	26.3	30.8%	20.4	-22.4%	-6.8%
Gross Credit ⁽¹⁾	1517.5	2.2%	1543.4	1.7%	1566.0	1.5%	1574.0	0.5%	1597.2	1.5%	1591.3	-0.4%	3.1%
Personal Loans to Residents	336.1	1.6%	341.9	1.7%	345.8	1.1%	348.2	0.7%	349.3	0.3%	351.9	0.7%	2.9%
Total Deposits ⁽²⁾	1502.6	2.1%	1493.0	-0.6%	1508.7	1.1%	1562.9	3.6%	1602.0	2.5%	1589.1	-0.8%	6.4%
Capital & Reserves ⁽³⁾	316.6	-2.5%	330.5	4.4%	339.4	2.7%	346.9	2.2%	338.7	-2.4%	347.1	2.5%	5.0%
Capital Adequacy Ratio	18.0%	-1.6%	18.4%	2.2%	18.6%	1.1%	19.0%	2.2%	18.6%	-2.3%	18.5%	-0.3%	0.5%
Tier-1 Ratio	16.3%	-1.8%	16.8%	3.1%	16.9%	0.6%	17.3%	2.4%	16.9%	-2.3%	16.9%	-0.3%	0.4%

⁽¹⁾ 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.

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

⁽³⁾ Excluding subordinated borrowings/deposits, but including current year profit.

*Estimates, subject to revision

5- Foreign Assets of the Central Bank

At the end of the second quarter of 2017, the Central Bank's foreign assets increased by 4.1%, reaching AED 338 billion, compared to a 2.6% increase at the end of the second quarter of 2016. This rise was mainly attributed to an increase in Current Account Balances & Deposits with banks abroad by 27.3% (an increase of AED 48.8 billion) and Other Foreign Assets by 12.4% (an increase of AED 0.7 billion), overshadowing reductions in Held-to-Maturity Foreign Securities by 25.7% (a reduction of AED 36.2 billion).

6- Abu Dhabi and Dubai Financial Markets Values

Abu Dhabi's quarterly average Financial Market Index decreased by 1.2% during the second quarter of 2017 compared to a 3.9% increase in the second quarter of 2016. The quarterly average Market Capitalization of companies listed at the Abu Dhabi Securities Exchange (ADX) decreased by AED 6.7 billion reaching AED 460.7 billion at the end of the second quarter of 2017 compared to AED 8.3 billion increase at the end of the second quarter of 2016. Quarterly Trading Value increased slightly, rising from AED 10.7 billion (27.7% quarterly reduction) during the second quarter of 2016 to AED 10.9 billion (37.4% quarterly reduction) during the second quarter of 2017.

Dubai's quarterly average Financial Market Index also decreased by 5.6% during the second quarter of 2017, compared to a 5.5% increase during the same period in 2016. The quarterly average Market Capitalization of companies listed at the Dubai Financial Market (DFM) decreased by AED 30.1 billion reaching AED 356.9 billion at the end of the second quarter of 2017 compared to AED 20 billion increase at the end of the second quarter of 2016. Quarterly Trading Value also decreased, falling from AED 28.9 billion (28.8% quarterly reduction) during the second quarter of 2016 to AED 21.6 billion (55.1% quarterly reduction) during the second quarter of 2017.

Table 4: Abu Dhabi Securities Exchange (ADX) Indicators

	2015				2016				2017	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Number of listed Companies	69	69	69	70	69	69	69	69	67	67
General Share Price Index**	4537.0	4632.7	4610.3	4288.6	4265.4	4430.5	4507.6	4385.1	4514.8	4458.4
Quarterly Variation (%)	-3.2%	2.1%	-0.5%	-7.0%	-0.5%	3.9%	1.7%	-2.7%	3.0%	-1.2%
Market Capitalization (Billion AED)**	423.7	433.2	443.0	436.9	441.1	449.4	475.5	461.1	467.4	460.7
Quarterly Traded Values (Billion AED)	13.4	16.3	13.3	13.7	14.8	10.7	8.5	11.3	17.4	10.9

Source: Abu Dhabi Securities Exchange (ADX)

Table 5: Dubai Financial Markets (DFM) Indicators

	2015				2016				2017	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Number of listed Companies*	59	59	59	60	60	60	60	61	62	62
General Share Price Index**	3684.5	4079.7	3799.7	3286.3	3197.7	3372.2	3487.7	3408.1	3584.5	3382.1
Quarterly Variation (%)	-	10.7%	-6.9%	-13.5%	-2.7%	5.5%	3.4%	-2.3%	5.2%	-5.6%
Market Capitalization (Billion AED)**	331.7	366.2	360.4	323.3	312.4	332.4	337.0	325.8	387.0	356.9
Quarterly Traded Values (Billion AED)	38.2	65.2	28.9	19.1	40.6	28.9	21.7	42.0	48.2	21.6

**includes foreign companies*

Source: Dubai Financial Markets (DFM)

**The Quarterly share Price Index and the Quarterly Market Capitalization are measured as the quarterly average of monthly observations.