



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

United Arab Emirates
Monetary, Banking & Financial Markets Developments

2017 – 3rd Quarter Report

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

Monetary Developments

Money Supply **M₁**, which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, decreased by 3.6% during the third quarter of 2017, compared to a 1.8% reduction during the same period last year. On an annual basis, there was a 3.5% increase in the monetary aggregate **M₁**, reaching AED 488.9 billion.

Money Supply **M₂** (**M₁** plus Quasi Monetary Deposits (Resident Time and Savings Deposits in Dirham plus Resident Deposits in Foreign Currencies)), decreased by 0.8% during the third quarter of 2017, compared to a 1.7% increase during the same period last year. On an annual basis, there was a 4.7% increase in Money Supply **M₂**, reaching AED 1257.2 billion.

Consequently, Money Supply **M₃** (**M₂** plus government deposits at banks and at the Central Bank) also decreased by 0.3% during the third quarter of 2017 as compared to a 0.3% increase during the third quarter of 2016. On an annual basis, there was a 6.5% increase in Money Supply **M₃**, reaching AED 1458 billion.

Generally, the median money supply, **M₂**, 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 third quarter of 2017, **M₂** increased considerably in comparison to its position at the end of the third quarter of 2016. The decrease in **M₂** during the third quarter of 2017 was mainly due to a fall in non-government resident deposits by 0.6% reaching 1192.8 billion, compared to an increase of 2% (AED 1138.4 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		Third 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 ₁)	490.3	7.3%	481.0	-1.9%	472.5	-1.8%	474.1	0.3%	504.4	6.4%	507.1	0.5%	488.9	-3.6%	3.5%
Money Supply (M ₂)	1218.4	2.7%	1180.4	-3.1%	1200.2	1.7%	1225.5	2.1%	1272.2	3.8%	1267.1	-0.4%	1257.2	-0.8%	4.7%
Money Supply (M ₃)	1373.8	2.3%	1364.8	-0.7%	1368.6	0.3%	1411.4	3.1%	1465.8	3.9%	1463.1	-0.2%	1458.0	-0.3%	6.5%

Source- Data received from banks operating in the UAE

$M_1 = \text{Currency in Circulation Outside Banks (Currency Issued - Cash at banks)} + \text{Monetary Deposits}$

$M_2 = M_1 +$

Quasi-Monetary

Deposits

$M_3 = M_2 + \text{Government Deposits}$

*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 third quarter of 2017, while their branches decreased from 857 at the end of the third quarter of 2016 to 810 at the end of the same period of 2017. The number of electronic services units of these banks increased at the end of third quarter of 2017 to 36 from 32 at the end of September 2016. The number of Cash Offices decreased from 85 offices at the end of September 2016 to 58 offices at the end of September 2017.

The number of GCC banks remains constant during the third quarter of 2017 at 6 banks, with 4 branches. The number of other foreign banks and their branches also remains unchanged at the end of the third quarter of 2017, at 20 banks and 81 branches, respectively. The number of electronic services units of these banks decreased from 41 units at the end of September 2016 to 28 units at the end of September 2017.

At the end of the third 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 12, 107, 28, 25, 141 and 11, respectively.

The total number of ATM of banks operating in the UAE reached 5,243 by the end of September 2017, compared to 5,170 at the end of September 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*	Sep**
Locally Incorporated Banks										
Main Branches	23	23	23	23	23	23	23	23	23	23
Additional Branches	841	869	874	874	862	857	846	834	816	810
Electronic Banking Service Units	29	34	37	39	33	32	33	35	36	36
Cash Offices	89	90	90	90	86	85	76	72	61	58
GCC Banks										
Main Branches	6	6	6	6	6	6	6	6	6	6
Additional Branches	4	4	4	4	4	4	4	4	4	4
Foreign Banks										
Main Branches	22	20	20	20	20	20	20	20	20	20
Additional Branches	83	82	82	81	82	81	81	81	81	81
Electronic Banking Service Units	52	48	40	41	42	41	31	29	29	28
Cash Offices	1	1	1	1	1	1	1	1	1	1
Wholesale Banks	4	7	8	9	9	10	11	11	11	12
Representative Offices	120	121	115	114	114	114	114	107	108	107
Finance Companies	25	26	27	27	27	27	27	28	28	28
Financial Investment companies	25	25	25	25	25	25	25	22	21	25
Moneychangers	134	140	140	139	139	139	140	141	141	141
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	12	11	11	11	11	11	11
ATMs	4,664	4,847	5,119	5,144	5,118	5,170	5,243	5,211	5,219	5,243

Source: Banking Supervision Department and UAESWITCH

*Revised

**Estimates, subject to revision

2- Bank Assets and Loans

At the end of the third quarter of 2017 total assets of banks operating in the UAE decreased by 0.4%, reaching AED 2643.2 billion, compared to an increase of 1.3% at the end of the third quarter of 2016. During the period between September 2016 and September 2017, the total assets of banks operating in the UAE increased by 3.7%.

These variations occurred mainly due to 0.7% quarterly reduction and 0.9% annual increase in credit, reaching AED 1580 billion by the end of September 2017.

3- Customer Deposits

By the end of the third quarter of 2017, total deposits of resident and non-resident customers with banks operating in the UAE increased by 0.4%, reaching AED 1595.8 billion, compared to an increase of 1.1% at the end of the third quarter of 2016 reaching AED 1508.7 billion. Resident deposits decreased by 0.1%, reaching AED 1407.5 billion at the end of the third quarter of 2017, compared to an increase of 0.4% at the end of the third quarter of 2016 reaching AED 1321.8 billion. Non-resident deposits increased by 4.7%, reaching AED 188.3 billion by the end of September 2017, compared to a 5.5% increase at the end of the same period of 2016. On an annual basis, Resident deposits and Non-resident deposits increased by 6.5% and 0.7%, respectively.

4- Capital and Reserves

Aggregate Capital and Reserves of banks operating in the UAE increased by 8.1%, reaching to AED 327.1 billion at the end of the third quarter of 2017 compared to a 3% increase at the end of the same period of 2016. Compared to the third quarter of 2016, the total Capital Adequacy Ratios increased during the third quarter of 2017, 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 (%)	Sep*	Quarterly Change (%)	
Total Assets	2491.1	0.5%	2518.5	1.1%	2550.1	1.3%	2613.6	2.5%	2648.3	1.3%	2654.3	0.2%	2643.2	-0.4%	3.7%
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%	126.6	23.2%	22.0%
Shariah 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%	30.4	49%	82.0%
Gross Credit ⁽¹⁾	1517.5	2.2%	1543.4	1.7%	1566.0	1.5%	1574.8	0.6%	1597.2	1.4%	1591.3	-0.4%	1580.0	-0.7%	0.9%
Personal Loans to Residents	336.1	1.6%	341.9	1.7%	345.8	1.1%	347.2	0.4%	349.3	0.6%	351.9	0.7%	335.1	-4.8%	-3.1%
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%	1595.8	0.4%	5.8%
Capital & Reserves ⁽³⁾	278.1	-2.9%	290.2	4.4%	299.0	3.0%	307.8	2.9%	298.3	-3.1%	302.7	1.5%	327.1	8.1%	9.4%
Capital Adequacy Ratio	18.0%	-1.6%	18.4%	2.2%	18.6%	1.1%	18.9%	1.6%	18.6%	-1.6%	18.5%	-0.3%	18.7%	1.1%	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%	17.1%	1.2%	1.2%

⁽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. The series of data has been revised backward to exclude Instruments such as Perpetual Notes in-order to comply with IMF Guidelines on MFS.

*Estimates, subject to revision

5- Foreign Assets of the Central Bank

At the end of the third quarter of 2017, the Central Bank's foreign assets increased by 1.7%, reaching AED 344.2 billion, compared to a 4% decrease at the end of the third quarter of 2016. This rise was mainly attributed to an increase in Current Account Balances & Deposits with banks abroad by 6.1% (an increase of AED 13.9 billion) and Other Foreign Assets by 30.3% (an increase of AED 1.9 billion), overshadowing reductions in Held-to-Maturity Foreign Securities by 9.6% (a reduction of AED 10 billion).

6- Abu Dhabi and Dubai Financial Markets Values

Abu Dhabi's quarterly average Financial Market Index increased by 0.4% during the third quarter of 2017 compared to a 1.7% increase in the third quarter of 2016. The quarterly average Market Capitalization of companies listed at the Abu Dhabi Securities Exchange (ADX) decreased by AED 1.5 billion reaching AED 459.2 billion at the end of the third quarter of 2017 compared to AED 26.1 billion increase at the end of the third quarter of 2016. Quarterly Trading Value increased, rising from AED 8.5 billion (20.5% quarterly reduction) during the third quarter of 2016 to AED 9.9 billion (8.7% quarterly reduction) during the third quarter of 2017.

Dubai's quarterly average Financial Market Index also increased by 6.8% during the third quarter of 2017, compared to a 3.4% increase during the same period in 2016. The quarterly average Market Capitalization of companies listed at the Dubai Financial Market (DFM) increased by AED 20.4 billion reaching AED 377.3 billion at the end of the third quarter of 2017 compared to AED 4.6 billion increase at the end of the third quarter of 2016. Quarterly Trading Value decreased, falling from AED 21.7 billion (24.9% quarterly reduction) during the third quarter of 2016 to AED 16.7 billion (22.7% quarterly reduction) during the third quarter of 2017.

Table 4: Abu Dhabi Securities Exchange (ADX) Indicators

	2015				2016				2017		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Number of listed Companies	69	69	69	70	69	69	69	69	67	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	4477.3
Quarterly Variation (%)	-3.2%	2.1%	-0.5%	-7.0%	-0.5%	3.9%	1.7%	-2.7%	3.0%	-1.2%	0.4%
Market Capitalization (Billion AED)**	423.7	433.2	443.0	436.9	441.1	449.4	475.5	461.1	467.4	460.7	459.2
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	9.9

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	Sep
Number of listed Companies*	59	59	59	60	60	60	60	61	62	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	3611.6
Quarterly Variation (%)	-	10.7%	-6.9%	-13.5%	-2.7%	5.5%	3.4%	-2.3%	5.2%	-5.6%	6.8%
Market Capitalization (Billion AED)**	331.7	366.2	360.4	323.3	312.4	332.4	337.0	325.8	387.0	356.9	377.3
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	16.7

**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.