



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

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

3<sup>rd</sup> Quarter 2015

November 2015

## 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 2015, in comparison to the third quarter of the previous year. The report also reviews ratios of annual change over the period from September 2014 to September 2015.

## Monetary Developments

Money Supply  $M_1$ , which comprises Currency in Circulation outside Banks (Currency Issued - Cash at banks) plus Monetary Deposits, decreased by 2.3% during the third quarter of 2015, compared to a 0.7% decrease during the same period last year. On an annual basis, the monetary aggregate  $M_1$  increased by 5.2%, reaching AED 453.6 billion.

Money Supply  $M_2$  ( $M_1$  plus Quasi Monetary Deposits (saving accounts, time deposits, and all deposits in foreign currencies), also decreased by 1.1% during the third quarter of 2015, compared to a 0.6% decrease during the same period last year. On an annual basis,  $M_2$  increased by 3.5% reaching AED 1,176.4 billion.

Money Supply  $M_3$  ( $M_2$  plus government deposits at banks and at the Central Bank) also decreased by 1% during the third quarter of 2015 as compared to a 1.2% increase during the third quarter of 2014. On an annual basis, Money Supply  $M_3$  decreased by 0.2 % to reach 1,341.9 billion.

On an annual basis, the growth of  $M_1$ , and  $M_2$  was by 5.2 % and 3.5%, respectively. Whereas,  $M_3$  contracted by 0.2%. 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 the resident private sector in the UAE. Statistical data show that, during the third quarter of 2015, this indicator contracted in contrast to a relatively more moderate contraction of  $M_2$  in the third quarter of 2014.

Table 1 - Monetary Developments in the UAE

(In Billions Dirhams - End of Period)

	2014								2015						
	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
<b>Money Supply (M<sub>1</sub>)*</b>	412	8.5%	434.3	5.4%	431.1	-0.7%	436.1	1.2%	456.9	4.8%	464.1	1.6%	453.6	-2.3%	5.2%
<b>Money Supply (M<sub>2</sub>)*</b>	1,124.3	6.4%	1,142.6	1.6%	1,136.1	-0.6%	1,141.1	0.4%	1,178.8	3.3%	1,190.0	1.0%	1,176.4	-1.1%	3.5%
<b>Money Supply (M<sub>3</sub>)*</b>	1,280.2	4.9%	1,328.4	3.8%	1,344.2	1.2%	1,332.0	-0.9%	1,364.1	2.4%	1,355.1	-0.7%	1,341.9	-1.0%	-0.2%

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

\*Revised to account for currency in circulation only in the Monetary Aggregate

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 consistent at 23 banks by the end of the third quarter of 2015, while their branches increased from 866 at the end of the third quarter of 2014 to 875 at the end of the same period of 2015. The number of electronic services units of these banks increased at the end of third quarter of 2015 to 34 from 33 at the end of September 2014. The number of Cash Offices also increased to 90 by the end of September 2015 from 89 at the end of third quarter of 2014.

The number of GCC banks continued to remain constant during the third quarter of 2015 at 6 banks, with 4 branches. However, the number of foreign banks fell to 20 banks with a total of 82 branches. The number of electronic services units of these banks decreased from 54 units at the end of September 2014 to 45 units at the end of September 2015.

At the end of the third quarter of 2015, the number of financial institutions licensed by the Central Bank, i.e., representative offices, finance companies, financial investment companies, and offices for intermediation in currency trading and money market operations remained constant at 121, 26, 25 and 12, respectively. Whereas, from the third quarter of 2014 to the third quarter of 2015, the number of wholesale banks increased from 5 to 8 and money changers jumped from 138 to 142.

The total number of ATMs of banks operating in the UAE reached 5,003 by the end of September 2015, compared to 4,740 at the end of September 2014 (see table 2 for more details).

<b>Table-2 Banks, Other Financial Institutions &amp; ATMs</b>											
<b>2013 - 2015</b>											
	<b>2013</b>				<b>2014</b>				<b>2015</b>		
	<b>March</b>	<b>June</b>	<b>Sept.</b>	<b>Dec.</b>	<b>March</b>	<b>June</b>	<b>Sept.</b>	<b>Dec.</b>	<b>March</b>	<b>June</b>	<b>Sept.*</b>
<b>Locally Incorporated Banks</b>											
Main Branches	23	23	23	23	23	23	23	23	23	23	23
Additional Branches	810	824	832	841	843	858	866	869	871	873	875
Electronic Banking Service Units	28	28	29	29	29	33	33	34	31	32	34
Cash Offices	89	89	89	89	89	89	89	90	90	90	90
<b>GCC Banks</b>											
Main Branches	6	6	6	6	6	6	6	6	6	6	6
Additional Branches	3	3	3	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
Additional Branches	83	83	83	83	83	83	83	82	82	82	82
Electronic Banking Service Units	54	54	54	52	53	53	54	48	48	48	45
Cash Offices	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
Representative Offices	120	120	117	120	120	122	121	121	122	122	121
Finance Companies	25	25	25	25	25	26	26	26	26	26	26
Financial Investment companies	23	23	23	25	25	25	25	25	25	25	25
Moneychangers	124	128	131	134	134	137	138	140	140	141	142
Offices for Intermediating in Currency Trading & Money Market Operations	12	12	12	12	12	12	12	12	12	12	12
<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

Source: Banking Supervision Department and UAESWITCH

\*Estimates, subject to revision

## 2- Bank Assets and Loans

Between the end of the third quarter of 2014 and the end of the third quarter of 2015, total assets of banks operating in the UAE increased by 4.8%, reaching AED 2.42 trillion by the end of September 2015.

This hike was mainly brought about by 7% increase in credit, reaching AED 1.48 trillion.

## 3- Customer Deposits

By the end of the third quarter of 2015, total deposits of resident and non-resident customers with banks operating in the UAE also increased by 1.6%, reaching AED 1.44 trillion, compared to the AED 1.41 trillion at the end of the third quarter of 2014. Resident deposits decreased by 0.3%, reaching AED 1.27 trillion, compared to the AED 1.28 trillion at the end of the third quarter of 2014. On the other hand, non-resident deposits increased by 19.6%, reaching AED 158.5 billion, compared to the AED 132.5 billion at the end of the third quarter of 2014.

## 4- Capital and Reserves

Aggregate capital and reserves of banks operating in the UAE increased from AED 283.8 billion at the end of the third quarter of 2014 to AED 307.5 billion at the end of the same period of 2015. Capital and reserves increased by 8.4% during 2015. The total capital adequacy ratios remained well above the 12% Capital Adequacy and 8% Tier1 ratios prescribed by the Central Bank regulations.

Capital adequacy ratios measures 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						% Annual Change
	March	Quarterly Change (%)	June	Quarterly Change (%)	September	Quarterly Change (%)	December	Quarterly Change (%)	March	Quarterly Change (%)	June	Quarterly Change (%)	September*	Quarterly Change (%)	
<b>Total Assets<sup>(1)</sup></b>	2,180.4	3.8%	2,236.9	2.6%	2,311.3	3.3%	2,304.9	-0.3%	2,379.9	3.3%	2,419.5	1.7%	2,422.2	0.1%	4.8%
Banks' Investments in Central Bank CDs	119.1	10.4%	125.8	5.6%	118.3	-6.0%	99.5	-15.9%	111.7	12.3%	101.3	-9.3%	97.4	-3.8%	-17.7%
Shariah Compliant Certificates of Deposits	33.5	-1.8%	32.9	-1.8%	26.2	-20.4%	19.8	-24.4%	22.1	11.6%	21.2	-4.1%	20.5	-3.5%	-21.9%
Gross Credit <sup>(1)</sup>	1,303.4	2.2%	1,329.7	2.0%	1,381.9	3.9%	1,378.1	-0.3%	1,410.2	2.3%	1,446.7	2.6%	1,478.5	2.2%	7.0%
Personal Loans to Residents	285.7	2.4%	295.5	3.1%	306.8	3.8%	299.8	-2.3%	309.8	3.3%	319.3	3.1%	329.7	3.3%	7.5%
Total Deposits <sup>(2)</sup>	1,331.7	4.1%	1,400.2	5.1%	1,414.5	1.0%	1,421.3	0.5%	1,449.3	2.0%	1,444.3	-0.3%	1,436.8	-0.5%	1.6%
Capital & Reserves <sup>(3)</sup>	288.4	7.5%	287.2	-0.4%	283.8	-1.2%	282.7	-0.4%	311.1	10.0%	311.0	0.0%	307.5	-1.1%	8.4%
Capital Adequacy Ratio	18.5%	-4.1%	18.2%	-1.6%	18.3%	0.5%	18.2%	-0.5%	18.2%	0.0%	18.3%	0.5%	18.3%	0.0%	0.0%
Tier-1 Ratio	16.2%	-4.1%	16.0%	-1.2%	16.3%	1.9%	16.2%	-0.6%	16.2%	0.0%	16.5%	1.9%	16.5%	0.0%	1.2%

<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 current year profit & including subordinated borrowings/deposits

\*Estimates, subject to revision

## 5- Foreign Assets of Central Bank

Central Bank's foreign assets decreased by 4.7%, from AED 280.4 billion at the end of the third quarter of 2014 to AED 267.1 billion at the end of the third quarter of 2015. This reduction was mainly attributed to a decrease in Held-to-Maturity Foreign Securities by 27% and in Other Foreign Assets by 60.8%. However, there was an increase in Cash and Bank Balances plus Deposits with Banks by 25.8%.

## 6- Values in UAE Financial Markets

The UAE financial markets general index fell by 14.3% from the third quarter of 2014 to the third quarter of 2015. Market capitalization of companies listed on financial markets also decreased from AED 808.3 billion at the end of September 2014 to AED 747.6 billion at the end of September of 2015. Similarly, quarterly trading value fell from AED 97 billion at the end of the third quarter of 2014 to AED 42.7 billion at the end of the corresponding quarter of 2015.



**Table 4: UAE Financial Markets Indicators**

	2012				2013				2014				2015		
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.
<b>Number of listed Companies</b>	127	127	125	123	123	121	120	120	120	120	121	125	126	126	127
<b>General Share Price Index</b>	2,541.9	2,370.3	2,529.3	2,561.2	2,925.6	3,402.8	3,817.0	4,313.6	5,083.6	4,657.8	5,378.0	4,580.1	4,479.9	4,927.3	4,611.4
<b>Quarterly Variation (%)</b>	--	-6.8%	6.7%	1.3%	14.2%	16.3%	12.2%	13.0%	17.9%	-8.4%	15.5%	-14.8%	-2.2%	10.0%	-6.4%
<b>Market Capitalization (Billion AED)</b>	375.8	350.8	374.3	379.1	434.8	509.9	571.9	646.3	763.1	699.2	808.3	728.4	726.2	798.7	747.6
<b>Quarterly Traded Values (Billion AED)</b>	12.5	3.1	12.7	13.4	33.4	59.9	70.7	80.4	162.1	180.0	97.0	86.7	51.8	81.8	42.7

*Source: UAE Securities & Commodities Authority*