



# **Quarterly Economic Review**

**Fourth quarter 2020**

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## **List of Abbreviations**

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

## Executive Summary

Global economic growth for the year 2020 was revised upward to  $-3.5\%$  as lockdowns were reversed, and business travel and tourism activities partially resumed, along with vaccine approvals and their gradual roll out in most of the developed countries (IMF's World Economic Outlook, January 2021). Real GDP growth Y-o-Y in Q4 2020 was estimated at  $-2.5\%$  in the US,  $-5.1\%$  in the Euro area,  $-10.0\%$  in the UK and  $-2.4\%$  in Emerging and Developing Economies.

Domestically, economic activity in the UAE continued its recovery in the fourth quarter. CBUAE estimates real total GDP growth for the year 2020 to be  $-5.8\%$ , with the real non-hydrocarbon GDP projected to decline by  $5.7\%$ . For 2021 and 2022, CBUAE foresees real total GDP to resume growth by  $2.5\%$  and  $3.5\%$ , respectively, and non-hydrocarbon real GDP to grow by  $3.6\%$  and  $3.9\%$ , respectively. However, economic projections include exceptional uncertainty amidst COVID-19 repercussions and are thus subject to revisions.

CPI inflation remained negative for the fourth quarter at  $-2.2\%$  Y-o-Y, driven by negative inflation in non-tradables ( $-3.5\%$ ) as a result of a decline in rents and in the price of fuel, in tandem with overall subdued domestic demand. Real estate prices continued to decline Y-o-Y, albeit at a lower rate, while the Dirham depreciated in both nominal and real terms, in line with the weakening of the USD.

With regard to the consolidated fiscal stance in Q3 2020, the most recent period for which data is available, the net operating fiscal balance recorded a deficit of AED 4.6 billion, due to the fall in revenues by  $38.0\%$  Y-o-Y to AED 67.8 billion, while expenditures declined by  $21.7\%$  to AED 72.4 billion.

Both, deposits and gross credit rose on a yearly basis despite the economic contraction, while decreasing on a quarterly basis. Meanwhile, the financial soundness indicators remained healthy, supported by the enhanced Targeted Economic Support Scheme (TESS), which was extended in November to extend loan re-payment deferrals and other regulatory relief measures until June 2021.

Finally, the 3-month USD LIBOR fell on average during the fourth quarter of the year, while the spread between EIBOR and the USD LIBOR declined, reaching 19 bps at the end of December. Meanwhile, monetary aggregates  $M_1$  and  $M_2$  increased Q-o-Q by  $5.6\%$  and  $0.7\%$  due to increase in "resident" private sector deposits, while  $M_3$  decreased by  $2.0\%$  due to a decline in government deposits at CBUAE and commercial banks.

## Chapter 1. International Economic Developments

*During the fourth quarter, economic growth estimates were revised upward thanks to easing of lockdowns and travel bans, in tandem with worldwide vaccine approvals. Meanwhile, inflation remained well below the 2% target in developed countries, but remained relatively high in some emerging and developing economies due to supply disruptions. Oil prices increased due to output cuts, and gold prices stayed firm during the quarter after seeing a correction from its record high in the third quarter.*

### Economic growth

Global growth remained negative in the fourth quarter, albeit the estimates improved as lockdowns were reversed, and business travel and tourism partially resumed, along with vaccine approvals and its gradual roll out in most of developed economies as well as some of the more affected countries in Asia and South America. (Table 1.1).

In the United States, Y-o-Y real GDP growth increased from -2.9% in Q3 to -2.5% in Q4 2020. The improvement was mainly due to the resumption of economic activity after the lockdowns, the ease of travel restrictions, and a pick-up in personal income as unemployment decreased and support-programs for the job seekers were maintained. In addition to the Congress’s stimulus deal of USD 900 billion, that would send immediate aid to Americans and businesses to help them cope with the economic devastation of the pandemic and fund the distribution of vaccines.

In the Euro area, Y-o-Y real GDP growth improved also from -8.0% in Q3 to -5.1% in Q4. This was underpinned by better COVID-19 management, an initial vaccine rollout, and rising external demand, particularly from China. While in the UK, economic activity contracted by 7.8% Y-o-Y in Q4 2020, compared to -8.6% in the third quarter.

In Emerging and Developing Economies (EMDEs), output shrunk by an estimated 2.4% in 2020 with diverging paths among member countries. China was the only large economy to grow by 6.5% Y-o-Y during the last quarter of 2020 due to effective containment measures and forceful public support programs. Most other EMDEs suffered negative growth, especially economies that rely heavily on

intensive human-contact services, exports and tourism.

**Table.1.1.a: Y-o-Y Real GDP Growth Rates in Selected Countries (%)**

	2019	2020			
	Q4	Q1	Q2	Q3	Q4
USA	2.3	0.3	-9.5	-2.9	-2.5
Eurozone	1.1	-3.3	-15.0	-8.0	-5.1
UK	1.2	-2.4	-20.8	-8.6	-7.8
France	1.2	-5.4	-19.0	-4.3	-5.0
Germany	0.4	-2.3	-11.3	-4.3	-2.9
China	6.0	-6.8	3.2	4.9	6.5
Japan	-1.1	-2.0	-10.3	-5.7	-1.2
India	6.2	5.3	-4.6	-8.0	-8.5

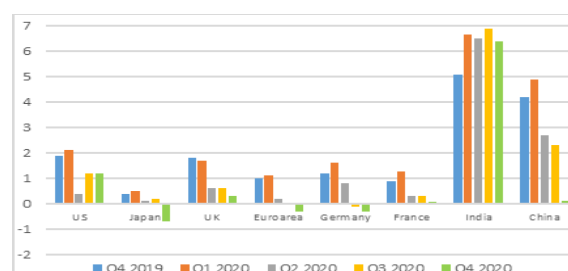
Source: Bloomberg

### 1.1 Inflation

Headline inflation remained in the fourth quarter well below the 2% Y-o-Y target in developed countries (1.2% in the US, 0.3% in the UK, -0.3% in the Eurozone, and -0.7% in Japan), owing to the heavy drag on demand from the pandemic and low gasoline prices.

In EMDEs, inflation remained high in some countries such as India (6.4%) due to supply disruptions and food shortages in some cases.

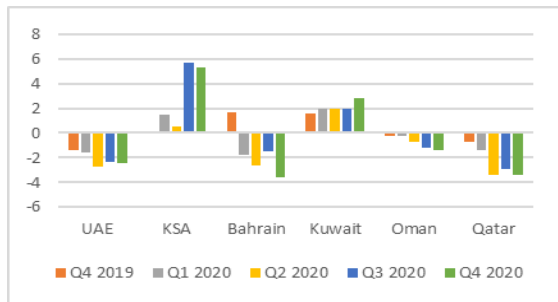
**Figure 1.2.a: Y-o-Y Average Headline Inflation in Selected Economies (%)**



Source: Bloomberg

In the GCC, Saudi Arabia’s annual inflation rate decreased from 6.0% in Q3 to 5.6% in Q4, as the impact of the increase in the value-added tax rate enacted in July, from 5% to 15%, waned. All other GCC countries, except Kuwait, experienced negative inflation due to subdued economic activity, and falling housing prices on aftermath to COVID-19, as is the case in the UAE.

**Figure 1.2.b: Y-o-Y Consumer Price Inflation in GCC Countries (%)**



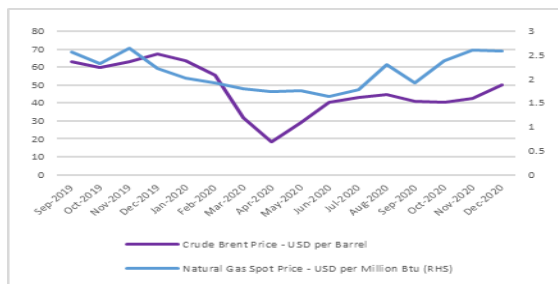
Source: Bloomberg

### 1.2 Commodities Prices

The price of Brent Crude increased from USD 40.9 per barrel at the end of September 2020 to USD 49.9 per barrel at the end of December, and from an average of USD 42.9 in Q3 to USD 44.3 per barrel in Q4. The increase was mainly due to reduced crude oil production from OPEC+ and other oil producers, while global demand remained subdued due to the pandemic.

Meanwhile, gold continued to benefit from the low interest rates environment and its safe haven status. As a result, gold price stayed firm at USD 1,897 per ounce at the end of December 2020 after having seen a high of USD 2,075 per oz. in the previous quarter.

**Figure 1.3.a: Brent Crude and Natural Gas Prices**



Source: US Energy Information Administration (EIA)

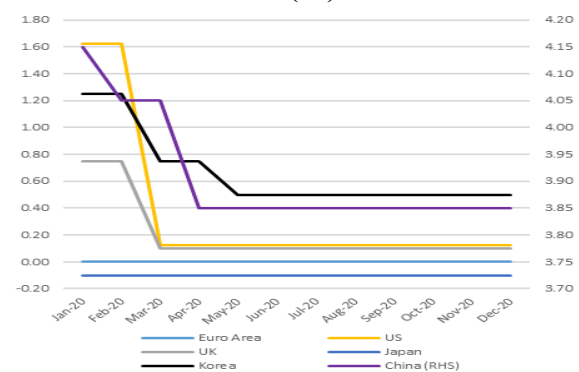
### 1.3 Monetary policy

With policy rates in the US, UK and the Eurozone already at or near zero, the monetary authorities kept their rates unchanged in Q4. The target Federal Funds Rate remained at 0 – 0.25% in the US, while the ECB maintained its main target rates (0.0% on refinancing operations, 0.25% on the marginal lending facility, and -0.50% on the deposit facility).

Monetary authorities continued with their quantitative easing stance. The Fed maintained its asset purchasing program at USD 120 billion or more a month, thereby expanding the Fed’s balance sheet from USD 5.8 trillion at the end of March to USD 7.4 trillion at the end of the year. Meanwhile, the ECB extended its pandemic emergency purchase program (PEPP) through at least the end of March 2022. Moreover, it increased it by EUR 500 billion to a total of EUR 1,850 billion, and announced that its net purchases under the asset purchase program (APP) will continue at a monthly pace of EUR 20 billion, as long as needed.

The Bank of England (BOE) expanded in November its target stock of asset purchases by GBP 150 billion to GBP 895 billion, almost double the level before the pandemic, warning that the economic outlook remains unusually uncertain amid renewed lockdowns.

**Figure 1.4 Policy Rates in Selected Advanced Economies (%)**



Source: BIS

## Chapter 2: Domestic Economic Developments

*Economic activity in the UAE rebounded in the fourth quarter, although it remained weaker compared to the pre-pandemic level. Real GDP growth in 2020 is estimated to remain negative. Headline CPI inflation rate remained also negative during the quarter, albeit reduced, due to a more moderate fall in rents and energy prices, in parallel with a partial recovery in aggregate demand. Meanwhile, the consolidated fiscal balance remained in deficit and the Dirham depreciated further in nominal and real terms.*

### 2.1 Economic Activity and Growth

CBUAE projects real GDP to recover to positive growth of 2.5% in 2021, with non-oil GDP growing by 3.6% and oil GDP remaining flat based on the OPEC+ production schedule and announcements. Real non-oil GDP growth is expected to be driven by increasing fiscal spending, pick up in credit and employment, relative stabilization of the real estate market, boosted by recovery in confidence and the Dubai EXPO in 2021.

In 2022, a full recovery is expected, with overall real GDP increasing by 3.5%, while the non-oil real GDP rising by 3.9%. This will be the result of the continued fiscal spending growth, healthy banks' credit growth, strong improvement in employment and recovered business sentiment, with part of Dubai EXPO 2021 taking place in 2022 as well. Furthermore, with Qatar's FIFA 2022 World Cup competition taking place during the year and the UAE being the major tourism, transit and trade hub in the region, the UAE is expected to benefit from the event.

Non-oil sectors improved further in Q4 2020, as lockdowns were eased and travel resumed, while the country started the initial phases of vaccine distribution. Residential real estate price decline slowed significantly, with prices in Abu Dhabi registering monthly gains in all months of the second half of 2020 and employment picked-up, marking four consecutive months of M-o-M increase as of December 2020. On average, the drop in PMI

in the last quarter of the year, compared to the same period in 2019 was reduced to only -0.9%, reaching the expansion zone of 51.2 in December. This reflects also the better sentiment boosted by the preparation for the Dubai EXPO. Tourism and hospitality data in Abu Dhabi in November and December show a recovery in occupancy and revenue, the best performance achieved since February 2020, owing to the resumption of international travel.

The Oxford Strigency Index<sup>1</sup> moved from 51 at the end of Q3 to 49 at the end of December 2020, indicating further opening of the economy. This benefited the UAE, given its role as a regional trade, transportation and travel hub. Manufacturing was also boosted as the supply chain recovered from the disruptions seen earlier.

As a result, real GDP growth estimate for the year 2020 has been revised up to -5.8%<sup>2,3</sup>. The real non-hydrocarbon GDP is estimated to have declined by 5.7% in 2020. CBUAE estimates that the fourth quarter real non-oil GDP growth has recorded a mild contraction.

<sup>1</sup> A measure, produced by the University of Oxford, between 0 and 100, indicating how much the country is closed, due to restrictions, aiming to reduce the spread of COVID-19.

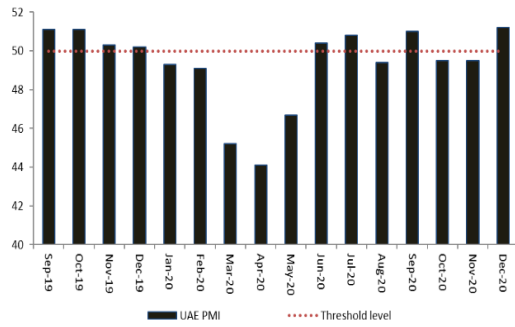
<sup>2</sup> Forecasts subject to revision, due to the high uncertainty around COVID-19.

<sup>3</sup> CBUAE forecasts the real non-oil GDP using an 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.



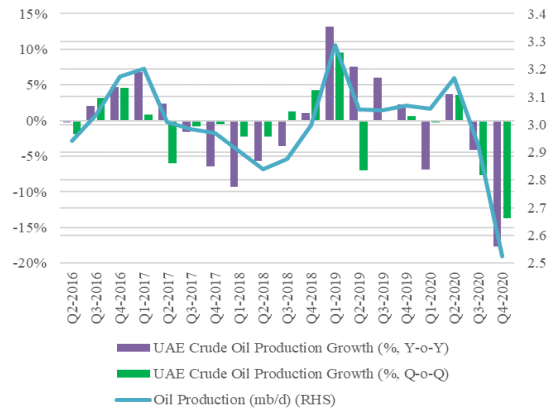
**Figure 2.1.a: UAE PMI**



Source: IHS Markit

As an oil exporter, the UAE is likely to feel the fallout from reduced global demand for oil due to the contraction in economic activities worldwide, including transportation and international travel. UAE oil production fell by 17.7% Y-o-Y in Q3 and by 18.2% in Q4, in line with the agreement by OPEC+. Real oil GDP is estimated to have contracted in 2020, corresponding to an average oil production of 2.78 mb/d for the year as a whole.

**Figure 2.1.b: UAE Crude Oil Production and Growth**



Source: OPEC

**Table 2.1.a: Annual Real GDP Growth Rates in the UAE**

	2019	2020	2021	2022
Overall GDP	1.7%	-5.8%	2.5%	3.5%
Non-oil GDP	1.0%	-5.7%	3.6%	3.9%

Source: FCSC for 2019 and CBUAE estimates and projections for 2020 – 2022.

## 2.2 Developments in the Residential Real Estate Market

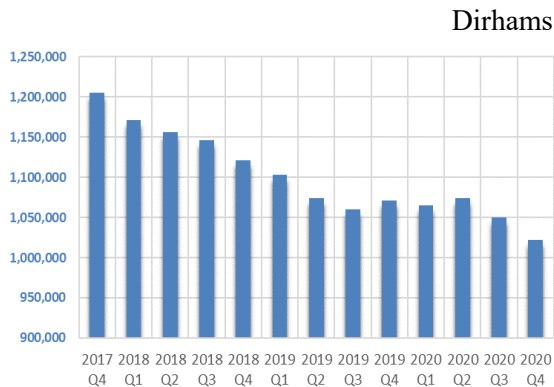
In Q4 2020, residential real estate prices continued to decline Y-o-Y as a result of fall in demand, mainly due to the economic contraction, despite a second consecutive positive Q-o-Q growth in Abu Dhabi.

### Dubai Residential Market

According to recent data from Dubai Land Department (DLD)<sup>4</sup>, residential property prices in Dubai declined on average by 4.6% Y-o-Y in Q4 2020.

Rents in Dubai decreased by 2.2% Y-o-Y in the fourth quarter, much slower than the 6.2% drop in Q3 2020. The implied rental yield<sup>5,6</sup> in Dubai moved to 6.9% in Q4 2020, up from 6.8% in the previous quarter.

**Figure 2.2.a: Average Dubai Residential Unit Sale Prices**



Source: DLD

<sup>4</sup> Data from DLD remain subject to revisions.

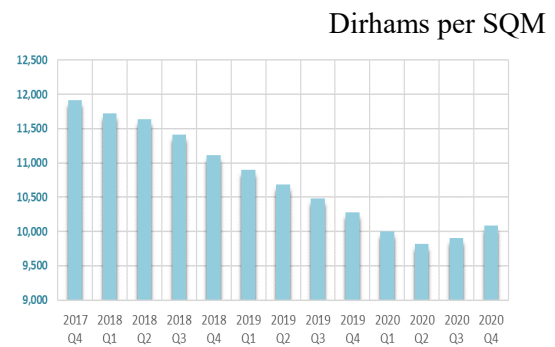
<sup>5</sup> The rental yield measures the rate of income return over the cost associated with an investment (the property price).

<sup>6</sup> CBUAE calculates the implied rental yield in Dubai, by dividing the annual rent by the average Dubai residential unit

### Abu Dhabi Residential Market

According to the REIDIN<sup>7</sup> house price index, average price in the Abu Dhabi housing market increased for a second consecutive quarter by 1.8% Q-o-Q in Q4 2020. Although prices showed quarterly improvement, this was not enough to offset the negative momentum in the first half of the year, leading to an annual decline by 1.9%.

**Figure 2.2.b Abu Dhabi Residential Prices**



Source: REIDIN

Rents in Abu Dhabi declined by 3.9% Y-o-Y in Q4 2020, roughly the same decline recorded in the previous quarter. The decline in rents by 2.0% Q-o-Q in parallel with the increase in sales prices resulted in declining rental yield to 6.7% in Q4 compared to 7.0% in the third quarter.

sale prices. Annual rent and average Dubai residential unit sale prices are provided by DLD.

<sup>7</sup> REIDIN Residential Price Index in Abu Dhabi covers 7 areas and 5 districts.

### 2.3 The Consumer Price Index and Inflation

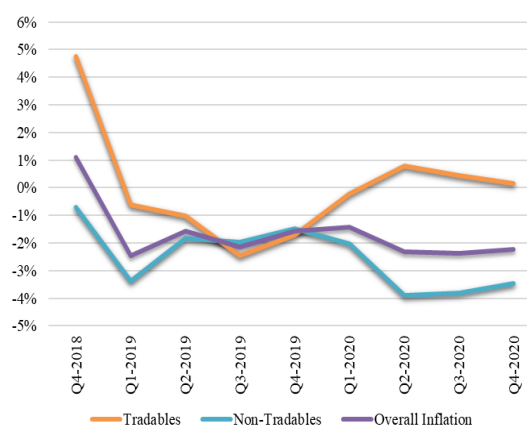
Inflation remained negative in the fourth quarter as the headline consumer price index declined by 2.2% Y-o-Y, compared to a drop by 2.4% in the third quarter. This was the result of a significant drop of 3.5% in the price of non-tradables, i.e. goods and services that are not traded across borders, therefore their prices are mainly determined by domestic supply and demand conditions<sup>8</sup>. Meanwhile tradables<sup>9</sup> prices rose by 0.1%.

Tradables prices, accounting for 34% of the CPI consumption basket, increased in Q4 mainly due to the increase in the price of food and soft drinks; beverages and tobacco; and textile, clothing and footwear. Prices of food, beverages and tobacco increased to a lesser extent than in the third quarter, due to the recovery in the supply chains, while textiles and clothing prices rose by 3.4% Y-o-Y, driven by the increase of prices of raw materials, needed for their production.

The continued decline in the housing component (34% weight in the consumer basket) by 3.4% Y-o-Y, transportation by 6.2%; and recreation and culture by 25.3% were the drivers of the significant drop in non-tradeables during Q4.

Based on its analytical model and analysis, the CBUAE projects the average CPI inflation for 2021 to remain negative at about -0.6%, especially in the first half of the year in view of the still recovering real estate market and private consumption, and the uncertain economic environment. A move into positive territory is expected to start in the second half of 2021.

**Figure 2.3: Headline, Tradable and Non-Tradable Inflation (Y-o-Y)**



Source: FCSC

<sup>8</sup> 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.

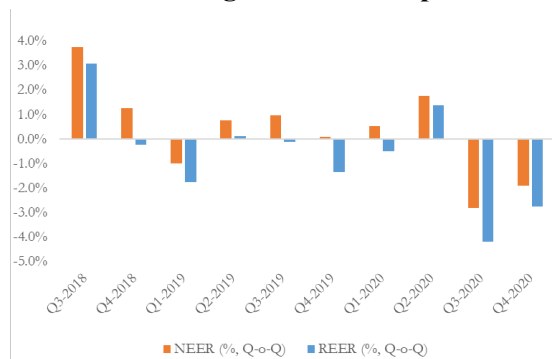
<sup>9</sup> As per CBUAE calculations, tradables include the following categories of goods and services: food and soft drinks; beverages and tobacco; textiles, clothing and footwear; furniture and household goods; transportation; and miscellaneous goods and services.

## 2.4 Exchange Rates and Outward Personal Remittances

### 2.4.1 Exchange Rate

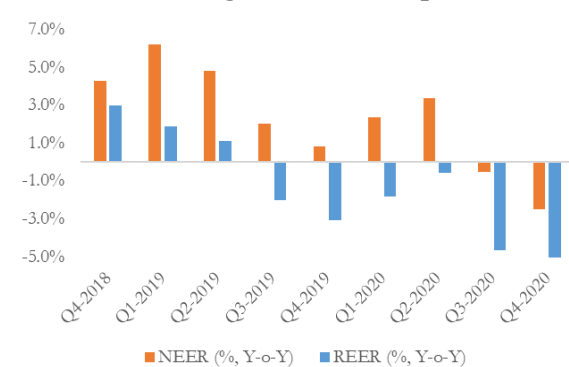
The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the bilateral exchange rates of the UAE’s trading partners depreciated in Q4 2020 by 1.9% and 2.5%, Q-o-Q and Y-o-Y, respectively, after a depreciation of 2.8% and 0.5%, respectively, in the previous quarter, due to the strong depreciation of the US Dollar.

**Figure 2.4.1.a: Q-o-Q Nominal and Real Effective Exchange Rates Developments**



Source: BIS

**Figure 2.4.1.b: Y-o-Y Nominal and Real Effective Exchange Rates Developments**



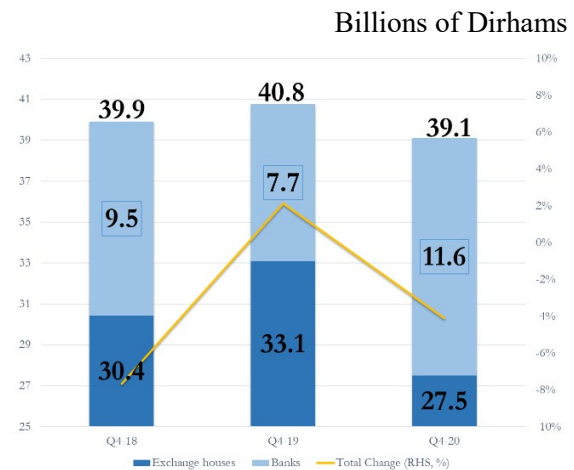
Source: BIS

In real terms, the Dirham Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, also depreciated by 2.8% and 6.0% Q-o-Q and Y-o-Y, respectively, in the fourth quarter. The higher depreciation in the REER compared to the NEER was due to the lower and negative inflation in the UAE compared to the inflation rates prevailing in the trading partners.

### 2.4.2 Outward Personal Remittances

Outward personal remittances declined by 4.1% or AED 1.7 billion Y-o-Y. This was the result of a reduction in transfers through exchange houses by AED 5.6 billion, while outward remittances through banks increased by AED 4.0 billion.

**Figure 2.4.2: Outward Personal Remittances Settled Through Banks and Exchange Houses, Q4 2018-2020**



Source: CBUAE

The top three countries for outward personal remittances during the fourth quarter were India, Pakistan and the Philippines accounting for 31.1%, 12.2% and 7.1%, respectively, of the total, while declining by 15.9%, 1.2% and 11.5%, respectively, compared to a Q4 2019.

## 2.5 The Consolidated Fiscal Stance

Government revenues decreased in Q3 2020, the latest period for which data is available due to the decline in oil prices and economic contraction, while on the expenditure side, total expenses and capital spending decreased by 17.9% Y-o-Y, standing at AED 84.7 billion.

As a result, the Net Operating Balance recorded a deficit of AED 4.6 billion in Q3 2020 compared to AED 4.2 billion surplus in the previous quarter.

### 2.5.1 Revenues

Government revenues registered a decline in Q3 by 38.0% Y-o-Y to AED 67.8 billion as a result of a decline in tax and other revenues. Taxes fell by 70.1% Y-o-Y to AED 15.6 billion. Other revenues also dropped by AED 7.3 billion or 13.0% Y-o-Y to reach AED 49.1 billion.

### 2.5.2 Expenditures

On the expenditure side, total expenses (current spending) declined Y-o-Y by 21.7% in Q3, compared to a decline by 14.4% in the previous quarter. The fall in expenses is attributed to the decline of use of goods and services, grants, social benefits and other expenses, which was much higher than the increase in the other categories.

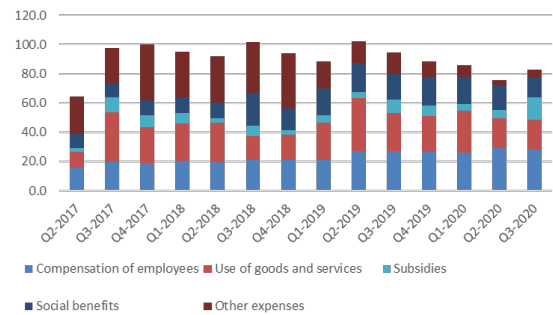
Meanwhile, capital spending, measured by the net acquisition of non-financial assets, increased Y-o-Y by 14.3% in Q3 2020, reaching AED 12.3 billion.

**Figure 2.5.a. General Government Revenues**  
Billions of Dirhams



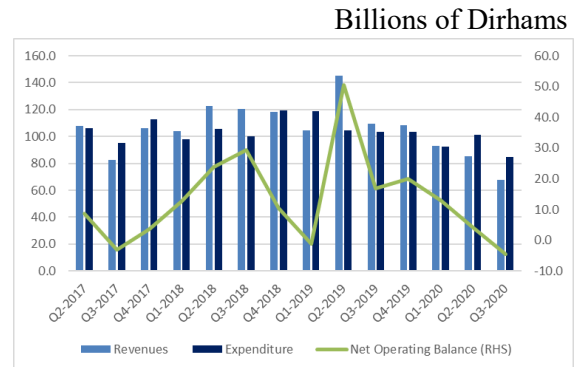
Source: UAE Ministry of Finance

**Figure 2.5.b General Government Expenses**  
Billions of Dirhams



Source: UAE Ministry of Finance

**Figure 2.5.c Fiscal Stance**  
Billions of Dirhams



Source: UAE Ministry of Finance

**Table 2.5 Consolidated Government Finances**

Billions of Dirhams

	2019				2020			2019 (% Y-o-Y)				2020 (% Y-o-Y)		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Net Operating Balance</b>	-1.2	50.6	16.9	19.9	12.9	4.2	-4.6	-----	112.0%	-42.6%	91.6%	-----	-91.7%	-----
<b>Revenues (a)</b>	<b>104.8</b>	<b>145.1</b>	<b>109.3</b>	<b>108.1</b>	<b>93.0</b>	<b>85.1</b>	<b>67.8</b>	<b>0.9%</b>	<b>18.2%</b>	<b>-9.4%</b>	<b>-8.8%</b>	<b>-11.2%</b>	<b>-41.3%</b>	<b>-38.0%</b>
- Taxes	42.4	72.3	52.1	57.8	29.2	29.5	15.6	-9.3%	46.1%	-14.0%	0.6%	-31.0%	-59.1%	-70.1%
- Social contributions	1.3	1.3	1.1	1.2	3.3	3.4	3.1	-0.3%	-2.4%	-14.3%	0.6%	161.7%	158.6%	181.8%
- Other revenues	61.2	71.5	56.4	49.1	60.5	52.2	49.1	9.5%	-0.5%	-4.0%	-18.0%	-1.1%	-27.0%	-13.0%
<b>Expenditure</b>	<b>119.0</b>	<b>104.4</b>	<b>103.2</b>	<b>103.6</b>	<b>92.2</b>	<b>90.4</b>	<b>84.7</b>	<b>21.6%</b>	<b>-1.4%</b>	<b>3.3%</b>	<b>-13.2%</b>	<b>-22.5%</b>	<b>-13.4%</b>	<b>-17.9%</b>
<b>-Expense (b)</b>	<b>105.9</b>	<b>94.5</b>	<b>92.4</b>	<b>88.3</b>	<b>80.1</b>	<b>80.9</b>	<b>72.4</b>	<b>16.3%</b>	<b>-4.4%</b>	<b>1.3%</b>	<b>-18.4%</b>	<b>-24.4%</b>	<b>-14.4%</b>	<b>-21.7%</b>
Compensation of employees	27.3	27.1	26.6	26.2	29.0	28.0	28.0	39.8%	28.1%	26.0%	23.7%	6.2%	3.4%	5.2%
Use of goods and services	36.4	25.9	24.3	28.3	20.6	20.4	17.8	34.7%	61.8%	42.1%	12.3%	-43.4%	-21.4%	-26.9%
Consumption of fixed capital	1.1	1.5	1.1	1.5	1.1	1.2	1.2	-3.8%	43.3%	5.4%	53.6%	8.0%	-22.1%	11.9%
Interest	0.8	1.6	0.7	1.7	1.1	1.4	1.2	68.8%	39.5%	13.8%	20.8%	35.1%	-10.1%	67.5%
Subsidies	3.8	9.5	7.4	4.7	5.9	15.7	8.5	16.7%	26.0%	138.7%	-12.1%	56.2%	65.2%	14.8%
Grants	8.6	1.9	4.3	1.6	0.3	0.2	0.1	111.1%	-28.1%	-38.4%	-73.8%	-96.6%	-92.0%	-97.6%
Social benefits	20.2	17.5	19.4	18.4	16.4	13.0	12.6	92.1%	-21.1%	31.3%	0.7%	-19.0%	-25.6%	-35.0%
Other expenses	7.8	9.4	8.7	5.9	5.7	1.1	3.1	-69.1%	-65.4%	-67.2%	-80.2%	-26.9%	-88.5%	-64.8%
<b>Net acquisition of non-financial assets</b>	<b>13.1</b>	<b>9.9</b>	<b>10.8</b>	<b>15.4</b>	<b>-1.8</b>	<b>9.6</b>	<b>12.3</b>	<b>94.1%</b>	<b>41.2%</b>	<b>23.8%</b>	<b>36.2%</b>	<b>-----</b>	<b>-2.7%</b>	<b>14.3%</b>
<b>Net Operating Balance (a-b)</b>	<b>-1.2</b>	<b>50.6</b>	<b>16.9</b>	<b>19.9</b>	<b>12.9</b>	<b>4.2</b>	<b>-4.6</b>	<b>-----</b>	<b>112.0%</b>	<b>-42.6%</b>	<b>91.3%</b>	<b>-----</b>	<b>-91.7%</b>	<b>-----</b>

Source: UAE Ministry of Finance

**Note:**

- UAE Ministry of Finance, revenues do not include ADNOC transfers and government investment income.
- Other Revenues covers: Property income (interest, dividends, rent), Sales of goods and services (including administrative fees), Fines and penalties and other revenues not elsewhere classified.
- Effective 2016Q1, the Emirate of Abu Dhabi has added some transfers of important investment authorities from financing accounts to revenues, included in the distributed profit computation.
- Other expenses include the payments of Abu Dhabi made on behalf of the Federal Government.
- Subsidies include social and price subsidies as well as transfers to GREs.
- Grants include current or capital transfers from the Government to other Government units, international organizations or foreign Governments, excluding transfers between Federal and Local Governments

## Chapter 3. Banking and Financial Developments<sup>10</sup>

*Deposits at banks and gross credit increased on a yearly basis despite the economic contraction, although the pace declined in the fourth quarter. Overall, the financial soundness indicators remained healthy during this period, which indicates the positive impact of the CBUAE's enhanced Targeted Economic Support Scheme (TESS) and the gradual recovery of the economy in the second half of the year.*

### 3.1 Banking Structure<sup>11</sup>

The number of licensed commercial banks decreased by one in the fourth quarter of 2020 due to the closure of MUFG Bank – Abu Dhabi Branch. As a result, the total of 58 banks comprises of 21 national banks and 37 foreign banks (including 10 wholesale banks). Moreover, the need for operating efficiency, cost effectiveness to support banks' bottom-line is driving digitization and the closure of branches, whose number decreased from 559 at the end of Q3 to 541 at the end of Q4, while the number of banks' staff fell by 447 (-1.3%) to reach 33,444 employees at the end of December 2020.

#### 3.1.1. Bank Deposits

Resident deposits (89.3% of total deposits) decreased by 2.2% Q-o-Q in the fourth quarter of 2020 owing mainly to a decrease in government deposits by AED 46.3 billion. Meanwhile, private sector deposits increased by AED 5.4 billion (0.5% Q-o-Q) and non-resident deposits (10.7% of total deposits) increased by AED 11.1 billion during the quarter (5.8% Q-o-Q).

With regard to the share of deposits at the end of Q4, the share of conventional banks was 78.2% and 21.8% for Islamic banks. Similarly, the share of national and foreign banks for customer deposits represented 87.7% and 12.3%, respectively.

**Table 3.1.1.a: Total Deposits at UAE Banks**

Item	Jun-20	Sep-20	Dec-20
<b>Bank Deposits</b>	1,866	1,907	1,885
(Y-o-Y change %)	5.2%	5.8%	0.8%
(Q-o-Q change %)	0.8%	2.2%	-1.2%
<b>Resident Deposits</b>	1,666	1,717	1,682
(Y-o-Y change %)	5.6%	6.4%	2.0%
(Q-o-Q change %)	1.9%	3.0%	-2.0%
<b>Government Sector</b>	289	337	287
(Y-o-Y change %)	-0.8%	5.4%	-4.6%
(Q-o-Q change %)	13.3%	15.4%	-13.9%
<b>GREs</b>	241	246	256
(Y-o-Y change %)	10.6%	12.6%	3.9%
(Q-o-Q change %)	-7.5%	2.1%	3.8%
<b>Private Sector</b>	1,092	1,095	1,100
(Y-o-Y change %)	6.0%	5.8%	4.0%
(Q-o-Q change %)	1.4%	0.3%	0.5%
<b>NBFI</b>	45	42	40
(Y-o-Y change %)	13.8%	-3.0%	-9.9%
(Q-o-Q change %)	1.8%	-5.4%	-5.2%
<b>Non-Resident Deposits</b>	200	191	202
(Y-o-Y change %)	1.9%	0.8%	-8.6%
(Q-o-Q change %)	-7.6%	-4.5%	5.8%

#### 3.1.2. Banks' Assets and Credit

Total assets decreased in the fourth quarter by 2.0% Q-o-Q and gross credit decreased by 1.4%. In addition, domestic credit decreased by 0.9%, owing mainly to the fall in private sector credit (AED 13.5 billion or 1.2% Q-o-Q). However, this decline was mainly due to some banks' and their customers' portfolio rebalancing.

<sup>10</sup> In this chapter unless specified otherwise: (1) all data indicate the end-of-period values, (2) Values are expressed in billions of AED, unless specified otherwise and (3) The source of the data is the Central Bank of the UAE.

<sup>11</sup> In this section, all December 2020 data are preliminary and subject to revision

**Table 3.1.2.a: Assets and Credit at UAE Banks**

Item	Jun-20	Sep-20	Dec-20
<b>Total Assets</b>	3,190	3,253	3,188
(Y-o-Y change %)	7.8%	7.6%	3.4%
(Q-o-Q change %)	2.0%	2.0%	-2.0%
<b>Gross Credit</b>	1,791	1,805	1,779
(Y-o-Y change %)	5.8%	4.9%	1.2%
(Q-o-Q change %)	1.3%	0.8%	-1.4%
<b>Domestic Credit</b>	1,627	1,612	1,597
(Y-o-Y change %)	5.5%	2.9%	0.3%
(Q-o-Q change %)	2.0%	-0.9%	-0.9%
<b>Government</b>	252	256	252
(Y-o-Y change %)	25.2%	16.4%	-2.1%
(Q-o-Q change %)	10.2%	1.2%	-1.4%
<b>GREs</b>	218	218	220
(Y-o-Y change %)	23.7%	21.7%	18.7%
(Q-o-Q change %)	8.5%	-0.2%	1.0%
<b>Private Sector</b>	1,139	1,122	1,108
(Y-o-Y change %)	-0.7%	-2.5%	-2.3%
(Q-o-Q change %)	-0.8%	-1.5%	-1.2%
<b>NBFI</b>	17.0	16.7	16.6
(Y-o-Y change %)	0.6%	-2.3%	8.5%
(Q-o-Q change %)	6.9%	-1.8%	-0.6%
<b>Foreign Credit</b>	164	193	182
(Y-o-Y change %)	9.3%	24.3%	9.8%
(Q-o-Q change %)	-5.3%	17.6%	-5.5%

Lending by economic activity showed that the highest quarterly reduction was in trade by 6.5% Q-o-Q (AED 9.6 billion), followed by manufacturing 4.0% Q-o-Q (AED 3.0 billion). Meanwhile, lending to construction and real estate increased slightly by 0.2% Q-o-Q (AED 0.8 billion).

Total assets of national banks declined by 2.0%, while total assets of foreign banks declined by 1.7% Q-o-Q.

Analysis by type of banks shows that the share at the end of Q4 of Islamic banks was 18.9% in total assets and 22.0% in total gross financing of the banking system.

Foreign banks had a 12.6% share in total assets and 10.2% share in gross credit.

<sup>12</sup> 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.

**Table 3.1.2.b: Bank Lending by Economic Activity**

Economic Activity	September 2020	December 2020
<b>Total</b>	<b>1,612</b>	<b>1,597</b>
(Q-o-Q change %)	-0.9%	-0.9%
(Y-o-Y change %)	2.9%	0.3%
<b>Of which:</b>		
<b>Construction and Real Estate</b>	<b>327</b>	<b>328</b>
(Q-o-Q change %)	0.1%	0.2%
(Y-o-Y change %)	-1.9%	5.3%
<b>Trade</b>	<b>148</b>	<b>139</b>
(Q-o-Q change %)	-5.6%	-6.5%
(Y-o-Y change %)	-5.5%	-9.2%
<b>Transport, Storage and Communication</b>	<b>82</b>	<b>85</b>
(Q-o-Q change %)	-2.2%	3.3%
(Y-o-Y change %)	52.1%	48.6%
<b>Manufacturing</b>	<b>77</b>	<b>74</b>
(Q-o-Q change %)	-3.9%	-4.0%
(Y-o-Y change %)	1.8%	-8.6%

With regard to bank lending to Micro, Small and Medium Enterprises (MSMEs), it remained roughly flat at AED 92.8 billion at the end of the fourth quarter, albeit 3.8% higher than the level at the end of 2019.

### 3.1.3. Financial Soundness Indicators

The Advances to Stable Resources Ratio (ASRR) of the banking system decreased from 78.6% at the end of the third quarter to 77.6% at the end of the fourth quarter, which means that the structural liquidity of the banking sector has improved. Eligible Liquid Assets<sup>12</sup>, as a per cent of total liabilities<sup>13</sup> increased to reach 18.4%, i.e., well above the 10% regulatory minimum requirement, constituting an adequate buffer for the banking system, which allows them to weather potential worsening of liquidity conditions.

Total liquid assets at banks at the end of the fourth quarter of 2020 stood at AED 474.2 billion, i.e., AED 25.9 billion higher compared to the end of the third quarter of 2020 (5.8% increase).

Overall, the UAE banking system remained well capitalized, on average, with an average

<sup>13</sup> Balance sheet total assets less (capital and reserves + all provisions except staff benefit provisions + refinancing + subordinated borrowing/deposits).  
<https://www.centralbank.ae/sites/default/files/2021-02/Credit%20Sentiment%20Survey%20-%20Q4%202020.pdf>



Capital Adequacy Ratio (CAR) at 18.2%, Tier 1 Capital Ratio at 17.1%, and Common Equity Tier 1 Ratio (CET 1) at 14.9%.<sup>14</sup>

**Table 3.1.3.a: UAE Financial Soundness Indicators**

	Jun-20	Sep-20	Dec-20
<b>Total Banking System</b>			
Advances to Stable Resources Ratio (ASRR)	81.9%	78.6%	77.6%
Eligible Liquid Assets Ratio (ELAR)	16.6%	16.9%	18.4%
Capital Adequacy Ratio (CAR)	17.6%	18.0%	18.2%
Tier 1 Capital Ratio	16.4%	16.9%	17.1%

Loan to Deposit (LTD) ratio for the whole banking system decreased to 94.4% at the end of the fourth quarter, slightly down from the 94.6% at the end of the previous quarter.

### 3.2 Financial developments

#### 3.2.1. Share Prices

Stock markets continued their upward trend worldwide in the fourth quarter, mainly due to improved investor sentiment, monetary policy stimulus and economic recovery hopes. The MSCI World Index gained 13.6% during this period.

In the UAE, the Abu Dhabi Securities Exchange (ADX) share price index increased by 11.7% Q-o-Q, while the Dubai Financial Market (DFM) index increased by 9.6% Q-o-Q.

**Table 3.2.1: UAE – Securities Markets**

			2020	
			Q3	Q4
Abu Dhabi	Share Price Index	Q-o-Q	5.4%	11.7%
		Y-o-Y	-10.7%	-0.6%
	Market Capitalization	Q-o-Q	38.3%	8.6%
		Y-o-Y	29.6%	39.8%
Turnover (Traded Value)	Q-o-Q	112.6%	4.6%	
	Y-o-Y	112.8%	129.3%	
Dubai	Share Price Index	Q-o-Q	16.3%	9.6%
		Y-o-Y	-18.3%	-9.9%
	Market Capitalization	Q-o-Q	8.2%	7.3%
		Y-o-Y	-13.3%	-9.1%
	Turnover (Traded Value)	Q-o-Q	21.9%	-25.9%
		Y-o-Y	44.1%	35.0%

Source: SCA

Note: Changes computation are based on quarterly average values for the share price index and market capitalization

#### 3.2.2. Credit Default Swaps (CDS)

CDS, i.e. the insurance premium the lender pays to be reimbursed in case the borrower defaults, decreased generally worldwide during the fourth quarter of 2020 as a result of the easing of COVID-19 restrictions and the start of economic recovery. The Government of Abu Dhabi's CDS premium decreased by 11.7 basis points (bps) to 40.5 bps, being the lowest sovereign rating in the Middle East and Africa region, while for the Emirate of Dubai, the premium decreased by 40.5 bps to 127.5 bps. Both emirates' CDS levels returned to the pre-COVID-19 levels, testament to investors' confidence in the UAE sovereigns.

**Table 3.2.2: UAE – Sovereign Credit Default Swaps (CDS) (in bps)**

	2020			
	Q1	Q2	Q3	Q4
Emirate of Abu Dhabi	61.1	104.5	52.2	40.5
Emirate of Dubai	144.0	244.7	168.0	127.5

Source: Bloomberg

Note: All data are quarterly average

<sup>14</sup> 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.

## Chapter 4. Interest Rates and Money Supply

*The 3-month USD LIBOR fell in average during the fourth quarter of the year while the spread between EIBOR and the USD LIBOR narrowed thanks to sufficient liquidity in the UAE. Meanwhile, monetary aggregates M1 and M2 increased due to increase in “resident” private sector deposits, while M3 decreased.*

### 4.1 Interest rates

#### 4.1.a Short-term interest rate

The 3-month USD LIBOR fell in average from 0.25% in Q3 to 0.22% in Q4 2020 on the back of the Federal reserve repeated announcements that its near zero target policy rate, the Overnight Federal Funds Rate, will last through 2023.

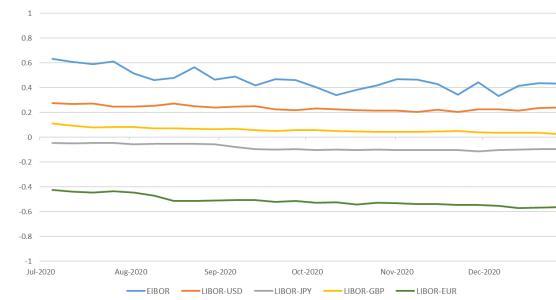
In the UAE, the 3-month EIBOR declined also in average from 0.52% in the third quarter to 0.41% in the fourth quarter. The sufficient liquidity of the UAE banking system remained supported by CBUAE’s targeted economic support scheme

As a result, the 3-month EIBOR Spread vis-à-vis 3-month USD LIBOR declined from a peak of 26.0 bps in mid-November to a trough of 16.9 bps in the third week of December. On average, the spread decreased from 25.5 bps in Q3 to 18.8 bps in the last quarter of the year (Figure 4.1.b).

The GBP 3-month LIBOR was mostly declining during this period, from 0.05% at the end of Q3 to 0.02% at the end of Q4, while the average decreased from 0.07% to 0.04%. This is due to the deteriorating economic situation in the UK, as restrictions were reinstated in an attempt to counter the rising COVID-19 infections and the uncertainties about a non-deal Brexit lasted until the Christmas Eve.

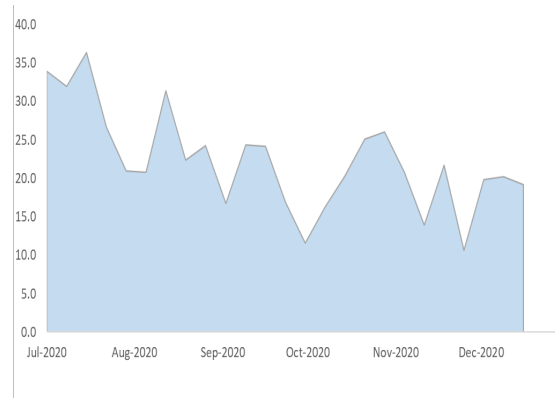
Meanwhile, both the 3-month EURIBOR and the JPY LIBOR rates remained in negative territory, consistent with the policy orientation of the ECB and the Bank of Japan.

**Figure 4.1.a: EIBOR and USD-LIBOR**



Source: Bloomberg, weekly data

**Figure 4.1.b. Spread of 3-month EIBOR vs. 3-month USD LIBOR (bps)**

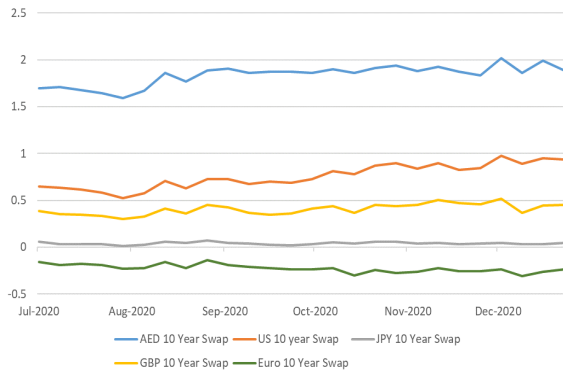


Source: Bloomberg, weekly data

#### 4.1.b Long-term swap rates

The 10-year swap rate on the Dirham was broadly unchanged as it went from 1.87% at the end of Q3 to 1.88% at the end of Q4, while the average increased from 1.76% to 1.90%.

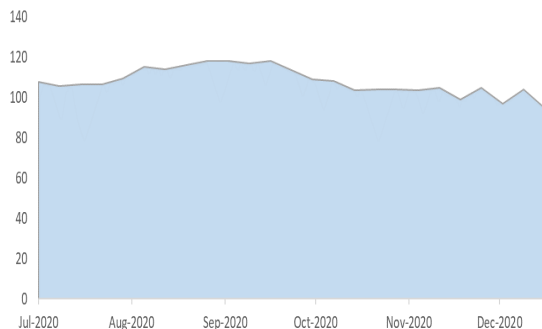
**Figure 4.1.c Selected 10-year interest rate Swaps (%)**



Source: Bloomberg, weekly data

The spread of the 10-year swap rate on the Dirham vs. that on the US dollar witnessed a declining trend during Q4, with the average spread decreasing from 112.7 bps in Q3 to 103.0 bps in Q4.

**Figure 4.1.d Spread 10-year AED Swap vs. USD Swap (bps)**



Source: Bloomberg, weekly data

## 4.2 Money supply

The monetary aggregate  $M_1$ <sup>15</sup> increased by 5.6% Q-o-Q (AED 32.0 billion) to reach AED 600.0 billion, driven by a rise in monetary deposits (84.2% of  $M_1$ ) by 7.2% (AED 34.0 billion), reaching AED 505.0 billion, while currency in circulation (15.8% of  $M_1$ ) fell by 2.1% (AED 2.0 billion). On a Y-o-Y basis,  $M_1$  rose by 16.6% due to an increase in Currency in

<sup>15</sup> Currency in Circulation outside banks + Monetary Deposits

Circulation by 21.1% and an increase in Monetary Deposits by 15.7%.

**Table 4.2.1. Money supply in the UAE**

Billions of Dirhams

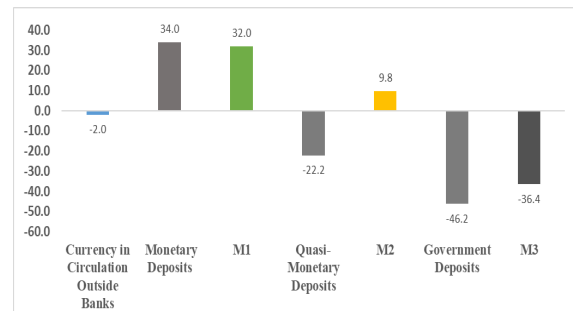
	$M_1$	$M_2$	$M_3$
Dec-19	568.00	1,468.70	1,805.70
Oct-20	574.50	1,486.50	1,807.20
Nov-20	584.50	1,450.20	1,768.00
Dec-20	600.00	1,478.50	1,769.30

Source: CBUAE

Monetary aggregate  $M_2$ <sup>16</sup> increased Q-o-Q by 0.7% (AED 10.0 billion) to reach AED 1,479 billion, owing to the increase in  $M_1$ , while Quasi-Monetary Deposits (59.4% of  $M_2$ ) decreased by 2.5% (AED 22.0 billion) Q-o-Q reaching AED 879.0 billion, as record low interest rates remain unattractive for term deposits. On a Y-o-Y basis,  $M_2$  increased by 4.7 % due to the increase in  $M_1$  while Quasi-Monetary Deposits decreased by 2.0%.

**Figure 4.2: Q-o-Q Change in Monetary aggregates in 2020 Q4**

Billions of Dirhams



Source: CBUAE

$M_3$ <sup>17</sup> decreased on a quarterly basis by 2.0% (AED 36.0 billion) to reach AED 1,769.0 billion, driven by a decrease in Government deposits (16.4% of  $M_3$ ) by 14.0% (AED 46.0 billion), reaching AED 291.0 billion. Y-o-Y,  $M_3$  increased by 3.0% due to the increases in  $M_2$  by 4.7 % while government deposits decreased by 4.9%.

<sup>16</sup>  $M_1$  + Quasi Monetary Deposits

<sup>17</sup>  $M_2$  + Government Deposits at banks and CBUAE

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