مصرف الإمارات العربية المتحدة المركزي

CENTRAL BANK OF THE U.A.E.

2023 | Q2

Quarterly Economic Review

www.centralbank.ae

Table of Contents

Chapter 1: International Economic Developments and UAE External Sector

Chapter 2: Domestic Economic Developments

Chapter 3: Monetary and Financial Markets Developments

List of Abbreviations

AED	*United Arab Emirates Dirham*
AEs	*Advanced Economies*
ALOS	*Average Length of Stay*
ARR	*Average Room Rate*
BoE	*Bank of England*
CBUAE	*Central Bank of the UAE*
CDs	*Certificates of Deposit*
CPI	*Consumer Price Index*
DONIA	*Dirham Overnight Index Average*
DSC	*Dubai Statistics Center*
ECB	*European Central Bank*
EIBOR	*Emirates Inter-Bank Offer Rate*
EMDEs	*Emerging Markets and Developing Economies*
FCSC	*Federal Competitiveness and Statistics Center*
Fed	*Federal Reserve*
GCC	*Gulf Cooperation Council*
GDP	*Gross Domestic Product*
GREs	*Government Related Entities*
IMF	*International Monetary Fund*
M1	*Monetary Aggregate 1*
M2	*Monetary Aggregate 2*
M3	*Monetary Aggregate 3*
M-o-M	*Month-on-Month*
MENA	*Middle East and North Africa*
NEER	*Nominal Effective Exchange Rate*
NBFI	*Non-Banking Financial Institutions*
OPEC	*Organization of Petroleum Exporting Countries*
PMI	*Purchasing Managers' Index*
REER	*Real Effective Exchange Rate*
REVPAR	*Revenue per Available Room*
SCA	*Securities and Commodities Authority*
UAE	*United Arab Emirates*
UK	*United Kingdom*
USA/US	*United States of America*
USD	*United States Dollar*
WEO	*World Economic Outlook*
Y-o-Y	*Year-on-Year*

Chapter 1

International Economic Developments and UAE External Sector

I.1. Growth Outlook of Major UAE Economic Partners

Global growth is expected to decline from 3.5% in 2022 to 3% in 2023 and 2024

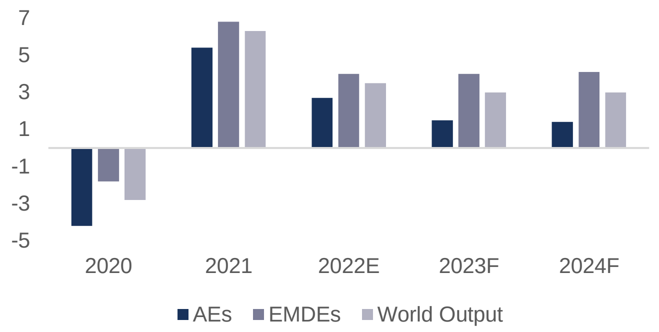
High inflation and tight monetary policy around the world weighs on global growth

Growth in the GCC region is expected to slow down on the back of lower oil prices, higher interest rates, and weaker external demand

Global

In the July 2023 WEO update, the IMF moderately raised its estimate for global growth to 3.5% in 2022 from 3.4%, and expects that it will decline to 3% in 2023 and 2024. While supply chain disruptions are largely resolved and decisive policy actions in the US have reassured bank depositors and contained cross-country spillovers, inflation continues to erode the purchasing power of consumers. At the same time, high interest rates weigh on economic activity by curbing credit supply. In light of that, the global outlook remains weak by historical standards and is characterized by divergences among industries and regions.

Figure.1.1. Global Real GDP Growth (%)



Sources: International Monetary Fund, World Economic Outlook.
Notes: E=estimate, F=forecast; AEs= Advanced Economies, EMDEs= Emerging Market and Developing Economies.

Advanced Economies

Growth in advanced economies is expected to drop from 2.7% in 2022 to 1.5% in 2023, with 93% of the economies in the group projected to slow down. Lower growth reflects a weaker manufacturing sector that will more than offset a stronger service sector.

Growth in the US economy accelerated to 2.4% Y-o-Y in Q2 2023, after expanding by 2% Y-o-Y in Q1 2023. The faster growth was mainly driven by improvements in consumer expenditure and business investment, as the tight labor market and the depletion of excess saving continued to support consumption. This was partially offset by a decline in exports.

Growth in the eurozone moderated to 0.6% Y-o-Y in Q2 2023 from 1.1% Y-o-Y in Q1 2023. While the easing of price pressures supported real income, higher interest rates took a toll on the overall growth of the area. Weakness in the manufacturing sector led to stagnant economic activity in Germany, while stronger services and tourism benefited Italy and Spain.

In the UK, Q2 2023 growth was 0.4% Y-o-Y, up from the 0.2% Y-o-Y expansion of the previous quarter, driven by increases in household consumption and manufacturing output.

Growth in Japan remained steady at 2% Y-o-Y in Q2 2023, unchanged from the previous quarter. Japan experienced a relatively less severe impact from the pandemic compared to other countries. Nonetheless, supply chain disruptions took a toll on economic activity, with currency weakness contributing to a slowdown in domestic spending.

Table.1.1. Real GDP Growth in Advanced Economies (%)

	2022E	2023F	2024F	Q1 2023 (Y-o-Y)	Q2 2023 (Y-o-Y)
Global	3.5	3.0	3.0	-	-
AEs	2.7	1.5	1.4	-	-
USA	2.1	1.8	1.0	2.0	2.4
Eurozone	3.5	0.9	1.5	1.1	0.6
UK	4.1	0.4	1.0	0.2	0.4
Japan	1.0	1.4	1.0	2.0	2.0

Sources: International Monetary Fund, World Economic Outlook; national statistics authorities.
Notes: E=estimate, F=forecast. AEs=Advanced Economies.

Emerging and GCC Economies

The IMF growth outlook for emerging market and developing economies is unchanged for 2022 and 2023, with growth holding steady at 4%. However, as China's growth momentum weakened in light of the real estate sector's issues and since spillovers from the ongoing monetary policy tightening in advanced economies started to materialize, regional shifts in the growth composition appeared.

For instance, in emerging and developing Asia growth is projected to accelerate to 5.3% in 2023 from 4.4% in 2022. Growth is also expected to increase in emerging and developing Europe, from 0.8% in 2022 to 1.8% in 2023. However, as commodity prices soften and the post-pandemic momentum fades, growth in Latin America is projected to fall from 4% in 2022 to 1.9% in 2023.

In Q2 2023, the Chinese economy expanded by 6.3% Y-o-Y, up from 4.5% Y-o-Y growth in Q1. Despite consumption and net exports proved resilient, economic activity in the second quarter was affected by a downturn in real estate sector investment in absence of action to restructure leveraged property developers.

Data for India, Brazil, and South Africa is only available up to March 2023 at the time of writing. The Indian economy performed strongly in Q1 2023, with growth increasing to 6.1% Y-o-Y from 4.5% in the preceding quarter. The expansion was primarily fueled by strong private consumption, increased service exports, and a robust manufacturing sector, aided by moderating input price pressures. The service industry also benefited from strong demand. The Brazilian economy expanded by 4% Y-o-Y in Q1 2023, owing to the robust performance of the service sector. In South Africa, growth in Q1 2023 fell to 0.2% Y-o-Y owing to unprecedented power shortages.

The GCC region's economic activity is expected to fall sharply, from 7.7% in 2022 to 2.9% in 2023. The downturn reflects lower oil prices, tighter financial constraints, and a weaker global economy. Even in the face of rising borrowing costs, the non-oil private sector within the GCC showed resilience, with growth being supported by a domestic demand, which triggered new orders and led to an increase in employment.

Table.1.2. Real GDP Growth in Emerging Markets (%)

	2022E	2023 F	2024F	Q1 2023 (Y-o-Y)	Q2 2023 (Y-o-Y)
EMDEs	4.0	4.0	4.1	-	-
Brazil	2.9	2.1	1.2	4.0	-
India	7.2	6.1	6.3	6.1	-
China	3.0	5.2	4.5	4.5	6.3
South Africa	1.9	0.3	1.7	0.2	-

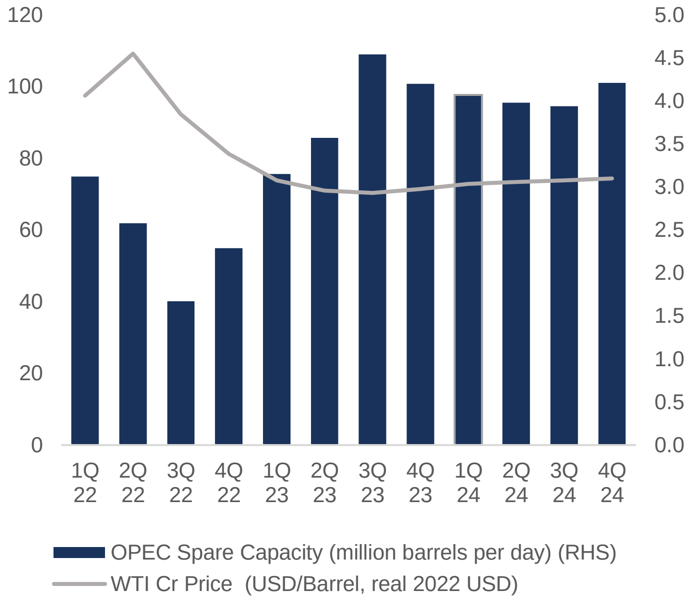
Source: International Monetary Fund, World Economic Outlook.
Notes: E=estimate, F=forecast. EMDEs=Emerging Market and Developing Economies.

Table.1.3. Real GDP Growth in GCC Economies (%)

	2022E	2023F	2024F
GCC	7.7	2.9	3.3
UAE*	7.9	3.3	4.3
Saudi Arabia	8.7	1.9	2.8
Qatar	4.2	2.4	1.8
Kuwait	8.2	0.9	2.7
Oman	4.3	1.7	5.2
Bahrain	4.2	3.0	3.8

Sources: International Monetary Fund, World Economic Outlook and Regional Economic Outlook.
Notes: E=estimate, F=forecast. *Federal Competitiveness and Statistics Centre for 2022 and CBUAE for 2023-24.

Figure.1.2. OPEC Oil Spare Capacity and Oil Prices



Source: U.S. International Energy Agency.

I.2. Inflation and Monetary Policy Responses

Global inflation is projected to decline to 6.8% in 2023 from 8.7% in 2022	Weaker commodity prices and tight monetary policy stances contribute to disinflation pressures	Monetary policy was tightened further in advanced economies amid inflation persistence

Global

Inflation remains elevated but is declining, with energy and food prices dropping significantly from their 2022 highs as a result of China's weak demand and Europe's gas supply buildup. The rate of global inflation is projected to fall to 6.8% in 2023 and 5.2% in 2024 from 8.7% in 2022, according to the IMF's July 2023 WEO. While the monetary policy tightening in many countries is expected to help with the disinflation process, the largest contribution so far came from the decline in commodity prices.

Advanced Economies

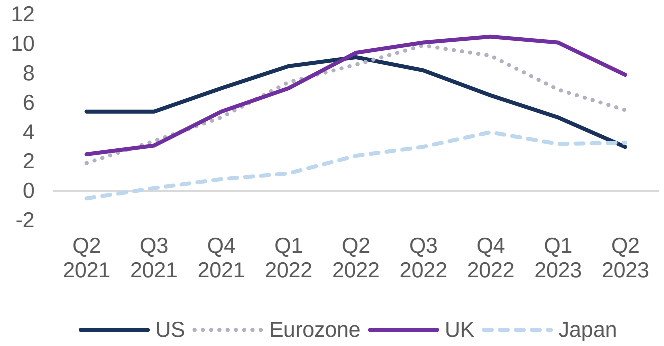
In the US, headline inflation fell to 3% Y-o-Y in June 2023 from 5% Y-o-Y March, largely owing to a 16.7% Y-o-Y drop in energy prices. July's data reported inflation at 3.2% Y-o-Y, again reflecting softness in energy prices. While the Federal Funds Rate remained unchanged at 5%-5.25% in June 2023, the Federal Reserve raised it to 5.25-5.5% in July 2023 amid concerns of sticky underlying inflation.

The annual inflation rate in the eurozone fell to 5.3% Y-o-Y in July 2023 from 6.9% Y-o-Y in March, owning to a decline in prices of both food and energy. As inflation remains still far from its 2% target, the European Central Bank (ECB) increased its key interest rate for the main refinancing operations by 25 bps to 4% in June 2023 and to 4.25% in July.

In June 2023, the annual inflation rate in the UK fell to 7.9% Y-o-Y from 10.1% Y-o-Y in March, largely as a result of the decline in fuel prices. In July 2023, the annual inflation rate continued to decline to 6.8% Y-o-Y. As core inflation proved persistent, the BoE raised its Bank Rate further by 50 bps to 5% in June 2023 and by 25 bps to 5.25% in August.

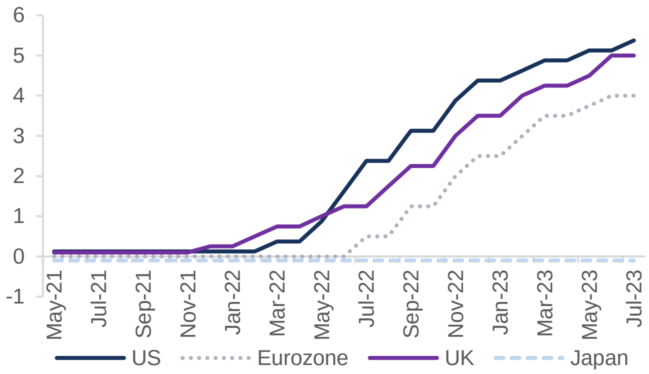
The annual inflation rate in Japan marginally increased to 3.3% Y-o-Y in June 2023 from 3.2% Y-o-Y in March, reflecting increased utility bills and daily necessity prices. In July 2023, the annual inflation rate remained unchanged at 3.3% Y-o-Y. The Bank of Japan (BoJ) maintained its policy rate at -0.1% during its monetary policy meetings in June and July 2023.

Figure.1.3. Average Headline Inflation in Selected Advanced Economies (Y-o-Y, %)



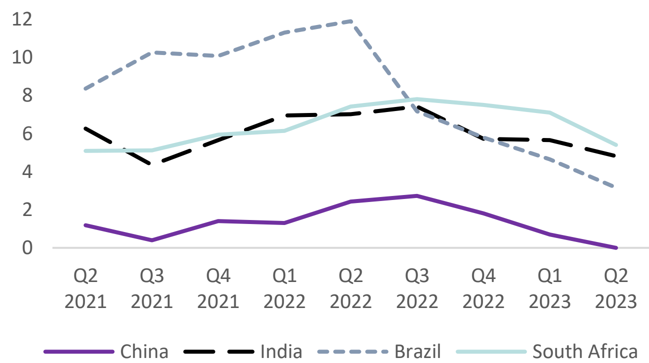
Source: Bloomberg.

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



Source: Bank for International Settlements.

Figure.1.5. Average Headline Inflation in Selected Emerging Economies (Y-o-Y, %)



Source: Bloomberg.

Emerging and GCC Economies

China's annual inflation entered negative territory in July 2023, recording a -0.3% Y-o-Y, down from 0.7% in March, mainly due to the energy price deflation. The fall in prices in China also reflects the difficulties of the world's second-largest economy in stimulating growth. The People's Bank of China (PBoC) lowered its benchmark lending rate by 10 bps to 3.55% in June 2023 and by a further 10 bps to 3.45% in August. Moreover, the PBoC decreased its one year medium-term lending facility rate by 10 bps to 2.65% in June 2023 and by 15 bps to 2.50% in August.

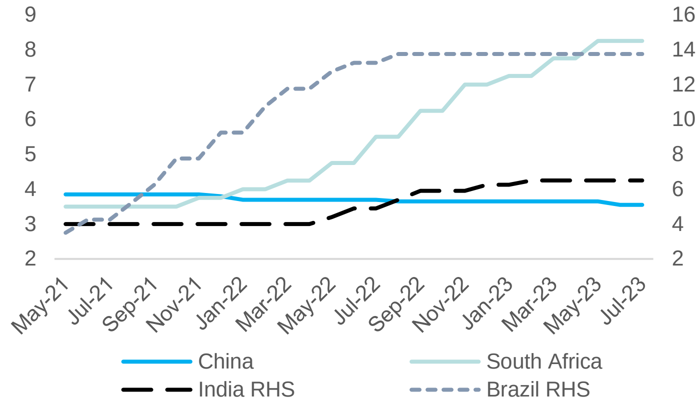
In June 2023, inflation in India reached 4.8% Y-o-Y compared to 5.7% Y-o-Y in March 2023, closer to the central point of the 2%–6% range set by the Reserve Bank of India (RBI), largely reflecting a moderation in food inflation to 4.5% Y-o-Y. In July 2023, inflation rebounded sharply to 7.4% Y-o-Y, due to a surge in food inflation to 11.5% Y-o-Y caused by irregular monsoon patterns across the country. In the monetary policy meetings of June and August 2023, the RBI maintained its benchmark policy repo rate at 6.5% aiming at holding inflation in check without jeopardizing growth.

The drop in fuel prices also contributed to reduce inflation pressures in Brazil and South Africa. In Brazil, inflation fell to 4% Y-o-Y in July 2023, marginally up from 3.2% Y-o-Y recorded in June, but below the 4.7% Y-o-Y of March of the same year. In July 2023, the Central Bank of Brazil maintained its Selic rate at 12.75%. Inflation in South Africa declined to 5.4% Y-o-Y in June 2023 from the 7.1% Y-o-Y in March. The South African Reserve Bank maintained its repo rate at 8.25% in July 2023, after raising it in ten successive sessions.

Saudi Arabia's inflation rate remained constant at 2.7% Y-o-Y in June 2023, with most items reporting stable or gradually declining inflation, and eased to 2.3% Y-o-Y in July. The inflation in Qatar fell from 4% Y-o-Y at the end of March 2023 to 2.5% Y-o-Y in June due to some easing in prices of food, culture & recreation, and housing & utilities, but reverted to 3.1% Y-o-Y in July. On the other hand, Kuwait's inflation marginally increased to 3.8% Y-o-Y in June 2023 from 3.7% Y-o-Y in March, and remained unchanged in July. Oman's inflation eased to 0.7% Y-o-Y in June 2023 from 1.6% Y-o-Y in March, and further to 0.4% Y-o-Y in July. Bahrain's inflation increased to 0.4% Y-o-Y in June, following a 0.1% Y-o-Y decline in March.

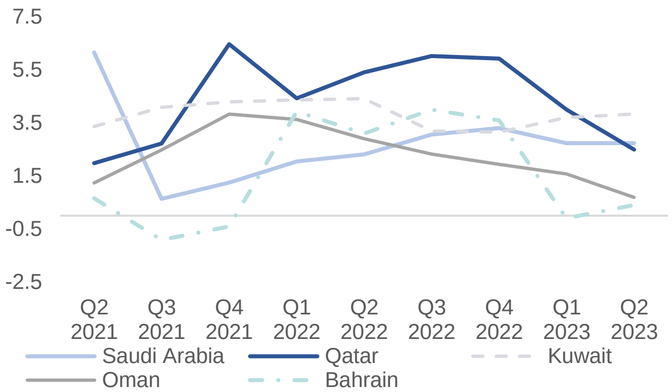
In June 2023, the central banks in the GCC whose currencies are pegged to the USD maintained their policy rates at stable levels in line with the US federal funds rate. As the Federal Reserve increased rates by 25 bps in July 2023, they also increased their policy rates by the same amount. Notably, Kuwait, whose currency is pegged to an undisclosed basket of currencies, also mirrored the US decision in July 2023, marking the first increase in several months.

Figure.1.6. Policy Rates in Selected Emerging Economies (%)



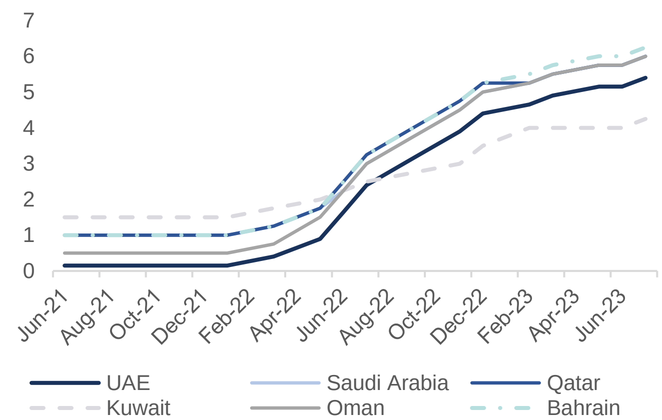
Source: Bloomberg.

Figure.1.7. Average Consumer Price Inflation in GCC Countries (Y-o-Y, %)



Sources: Bloomberg, CBUAE.

Figure.1.8. Policy Rates in GCC Countries (%)



Sources: GCC Central Banks.

I.3. Global Markets' Developments

Optimism about the path of policy rates led to some easing in global financial conditions	Commodity prices are on a declining trend	Trade data for the UAE point to large increases in non-oil exports and imports in 2022

Global Financial Conditions

The aggressive tightening of monetary policy worldwide in response to persistent inflation contributed to tighter financial conditions. However, inflation started to ease as commodity and food prices declined, amid continued strength in labor markets. This fueled optimism regarding the future path of monetary policy, leading to a decline in longer-term interest rates, which in turn led to some easing in financial conditions.

In the US, the Adjusted National Financial Conditions Index (ANFCI) remained in negative territory and kept falling, pointing to looser financial condition. On a global scale, the Goldman Sachs' financial conditions index show signs of progressive loosening, albeit remain relatively more neutral.

Commodities

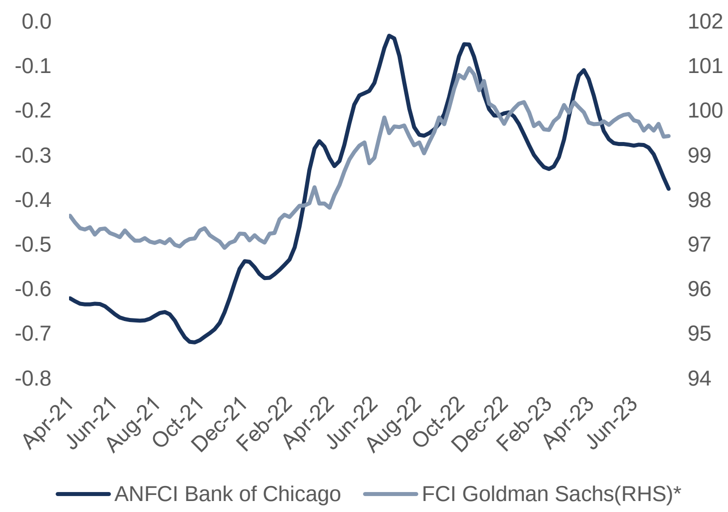
Concerns around the global slowdown resulting from tight monetary stances lowered the demand for oil, resulting in a decline in the Brent crude oil prices to an average of USD 74.8 per barrel in June 2023 from an average of USD 78.4 in March. However, following the announcement from OPEC+ about a reduction in production, as well as a voluntary cut extension announced by Saudi Arabia and Russia in July, oil prices recovered and reached an average of USD 80.1 per barrel in July 2023.

The price of natural gas marginally decreased to an average of USD 2.2 per MMBtu in June 2023 from USD 2.3 MMBtu at the end of March 2023, but rose to USD 2.6 per MMBtu in July.

Among other commodities, copper prices experienced an increase of 11.5% Y-o-Y in July, while aluminum continued a negative trend with an 8.4% Y-o-Y drop. The price of gold remained broadly unchanged since March levels, recording USD 1,965 per ounce in July 2023.

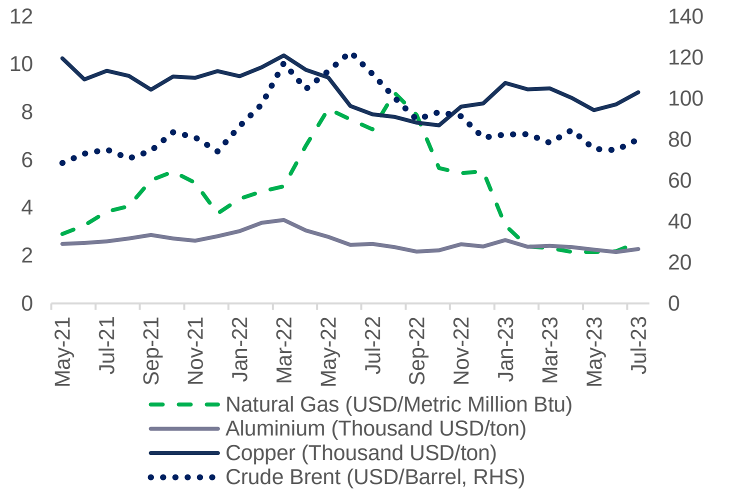
The FAO Food Price Index (FFPI) declined by 11.8% Y-o-Y in July 2023, compared to the 20.5% Y-o-Y drop in March. The index fell due to lower prices of sugar, cereals, dairy, and meat, whereas the price index for vegetable oils increased.

Figure.1.9. Financial Conditions Indices



Sources: Federal Reserve Bank of Chicago, Bloomberg.
Notes: For ANFCI, positive values indicate tightening financial conditions.

Figure.1.10. Commodity Prices



Source: Bloomberg.

UAE's International Trade

In 2022, total non-oil exports increased by 11.1% compared to the previous year, reaching AED 368 billion. About a third of UAE's non-oil exports is accounted for by India (10.9%), Saudi Arabia (9.8 percent), Switzerland (8.4%), and Hong Kong (6.1%). Compared to 2021, non-oil exports are marginally less concentrated, with other trading partners showing higher shares at the expense of the major ones. In terms of goods, the most exported non-oil commodity was gold, accounting for 34% of the total non-hydrocarbon exports, followed by aluminum (6.2%) and petroleum oils and oils obtained from minerals (5.5%).

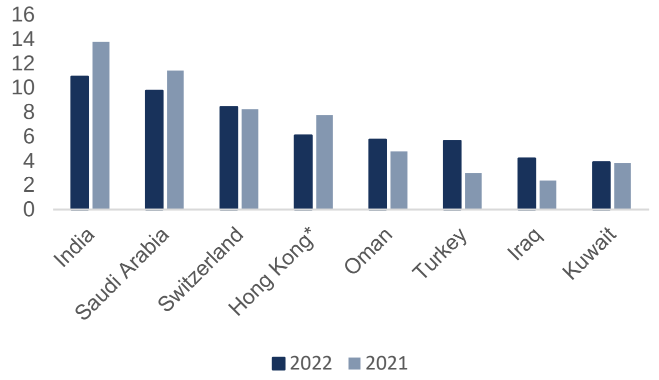
Re-exports also performed well, increasing by 25.8% Y-o-Y to AED 583 billion. Saudi Arabia, with a share of 11.5%, was the top destination for UAE re-exports in 2022, followed by Iraq (10.9%), India (8.3%), the US (5.2%), and China (4.4%). Telecommunications equipment, diamonds, and articles of jewelry dominate re-exports, accounting for 17.5% and 18% of the total, respectively.

On the back of dynamic non-oil sector economic activity and appreciation of the AED, imports increased by 22.6% in 2022 compared to the previous year, reaching AED 1,216 billion. While non-oil exports became less concentrated, the shares of imports of the top three import partners increased with respect to 2021: China (20.3%), India (8.2%) and the US (6.5%). Gold topped the list of the most imported goods, accounting for 18% of imports, followed by telecommunications equipment (9.8%), diamonds (5.3%) and motor vehicles (5.2%).

Exchange rate

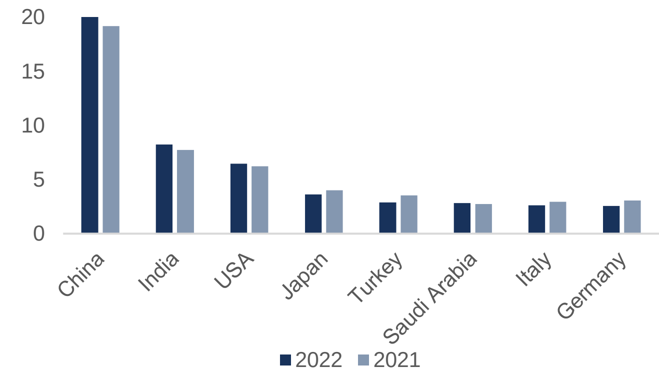
During the second quarter of 2023 the average Nominal Effective Exchange Rate (NEER), which factors in the multilateral rates of the UAE's trading partners, appreciated by 2.8% Y-o-Y, a lower rate of appreciation compared to 6% in the previous quarter. During the same period, the average Real Effective Exchange Rate (REER), which takes into account the inflation differentials with its trading partners, appreciated by 6.7% Y-o-Y, which was lower than the 8.4% appreciation observed in the first quarter of 2023.

Figure.1.11. UAE Non-Oil Exports to Major Trading Partners (% of Non-Oil Exports)



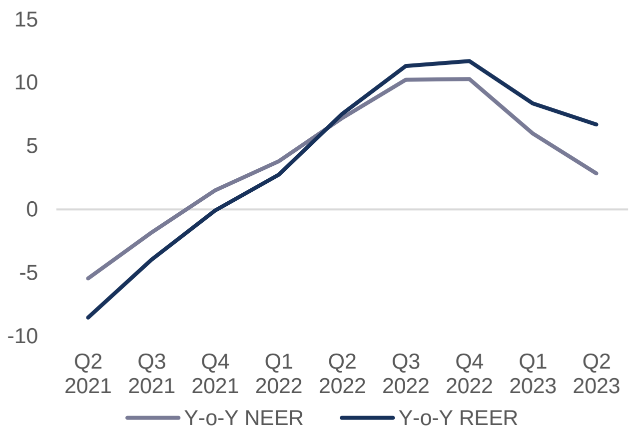
Source: Federal Competitiveness and Statistics Centre.
Notes: *Hong Kong Special Administrative Region

Figure.1.12. UAE Imports from Major Trading Partners (% of Imports)



Source: Federal Competitiveness and Statistics Centre.

Figure.1.13. Nominal and Real Effective Exchange Rates Appreciation/Depreciation (Y-o-Y, %)



Source: Bank for International Settlements.

Chapter 2

Domestic Economic Developments

II.1. Economic Growth

GDP growth moderated to 3.8% Y-o-Y in Q1 2023, largely reflecting a slowdown in oil production	Real GDP growth is forecasted to slow to 3.3% in 2023 and to rebound to 4.3% in 2024	OPEC+ cuts weigh on the outlook for oil GDP in 2023, while non-oil GDP growth is expected to moderate

Real GDP Outlook

In the first quarter of 2023, the UAE economy posted a growth rate of 3.8% Y-o-Y, down from 5.5% Y-o-Y in Q4 2022. This reflects resilient yet moderating economic activity in the non-oil sector (which accounts for three quarters of the economy), along with significantly lower growth in oil production.

As recent developments are largely in line with the CBUAE's forecasts, the growth projection for 2023 and 2024 remained unchanged at 3.3% and 4.3% respectively. These figures for overall GDP growth are accounted for by a deceleration in the non-oil sector for 2023 and 2024 as global demand softens and a significant drop in oil production in 2023 due to the OPEC+ agreed cuts. Oil production, however, is expected to rebound in 2024 as some of the production constraints ease.

The forecasts for 2023 and 2024 remain subject to uncertainty, in particular due to the evolution of the conflict in Ukraine, faster than expected deceleration in global growth, further OPEC+ cuts or increases in oil production, and subdued oil production of other OPEC+ members.

Non-Oil GDP

Non-oil GDP growth slowed to 4.5% Y-o-Y in Q1 2023, down from 5.2% Y-o-Y in the previous quarter. This is in line with the projections for the non-oil sector in 2023 and 2024. Across the different segments of the non-oil economy, the largest expansions were registered for construction (9.2% Y-o-Y), wholesale and retail trade (5.4% Y-o-Y), transportation and storage (10.9% Y-o-Y) and accommodation and food services (7.8% Y-o-Y). Manufacturing and arts and recreation marginally contracted by 0.2% Y-o-Y.

Oil GDP

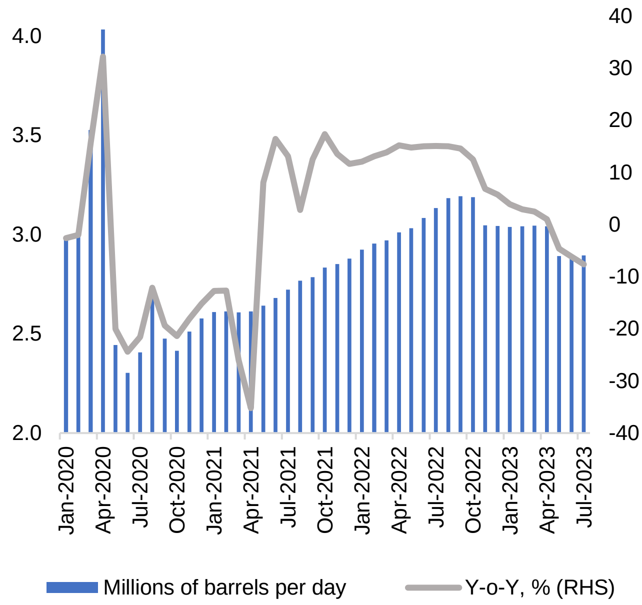
The oil sector of the economy significantly decelerated in the first quarter of 2023 to 1.5% Y-o-Y from 6.4% Y-o-Y in the last quarter of 2022. The UAE oil production declined to 3 million barrels per day in the first quarter of 2023, in line with the OPEC+ agreements. As further production cuts have been agreed to start in May 2023 (144 thousand barrels per day for the UAE), oil GDP growth is expected to decline further in the reminder of the year, resulting in a contraction in oil output in 2023 with respect to 2022. The lower oil production is projected to be partially offset by the production of other hydrocarbon products, such as natural gas liquids (NGL), which is not regulated by the OPEC+ agreements. As production resumes, oil GDP growth is forecasted to rebound to 3.5% in 2024.

Table.2.1. Real GDP Growth in the UAE (%)

	2020	2021	2022	2023 F	2024 F
Overall GDP	-5.0	4.4	7.9	3.3	4.3
Non-oil GDP	-5.4	6.5	7.2	4.5	4.6
Oil GDP	-3.8	-1.1	9.5	-0.3	3.5

Sources: Federal Competitiveness and Statistics Centre for 2020-22, CBUAE forecasts for 2023-24.
Notes: F=forecast.

Figure.2.1. Average UAE Crude Oil Production



Source: Organization of the Petroleum Exporting Countries.

II.2. Sectoral Analysis

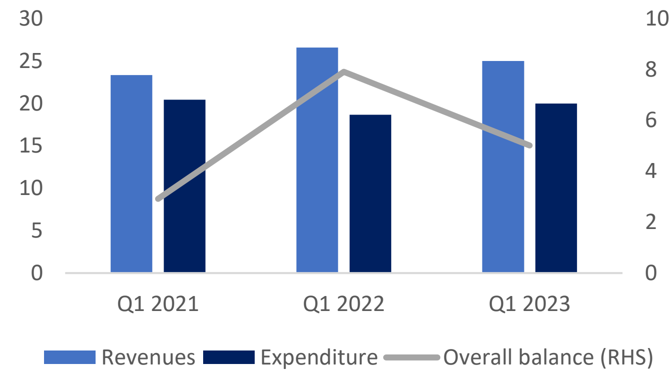
Real estate continued its solid performance in Q2 and July of 2023	Tourism and hospitality registered high occupancy rates	Abu Dhabi International Airport passengers' traffic increased by 67% in H1 2023, while in Dubai it rose by 49%

Government Investment and Consumption

In Q1 2023, the consolidated fiscal balance recorded a surplus of AED 23.2 billion or an annualized 5% of the GDP, compared to a surplus of 7.9% over the same period in 2022.

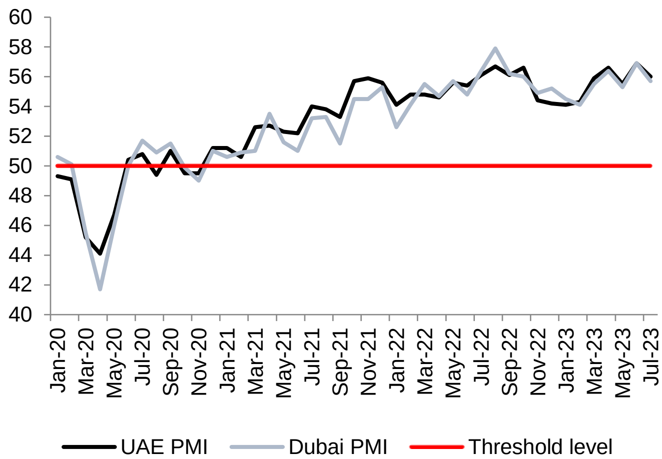
Government revenues reached AED 116 billion (or annualized 25% of GDP) in the first quarter of 2023. Lower social contributions and other revenues than in Q1 2022, partially compensated by higher taxes, led to a decline in total revenue by 6.6% Y-o-Y. Total expenditures reached AED 92.5 billion (or annualized 20% of GDP), marking a 6.3% increase compared to Q1 2022. Current spending rose by 7.6% Y-o-Y compared to Q1 2022, reaching AED 92 billion (or annualized 19.8% of GDP), after increasing by 16.6% Y-o-Y in Q1 2022. The increase in expenses reflects higher spending in all sub-categories, partially offset by a decline in compensation of employees, use of goods and services, and consumption of fixed capital. Capital spending, measured by net investment in non-financial assets, dropped by 56% Y-o-Y in the first quarter of 2023 to AED 0.8 billion (or annualized 0.2% of GDP).

Figure.2.2. Consolidated Fiscal Stance (% of GDP)



Sources: UAE Ministry of Finance; Federal Competitiveness and Statistics Centre; CBUAE.

Figure.2.3. UAE PMI (above 50 means expansion)



Source: S&P Global.

Private Investment and Consumption

Economic activity in the non-oil private sector continued to prove very dynamic. The UAE's PMI rose to 56.9 in June—the highest level since June 2019 and up from 55.5 in May, on account of new orders from abroad due to competitive pricing and promotional sales, despite higher input costs. During the same month, new businesses increased at the fastest rate in four years. The July PMI reading was marginally lower at 56, but still well above the neutral 50-point mark, and marking the 32nd consecutive month of expansion. The data indicates that firms continued to be able to reduce selling charges, aided by sufficient inventory levels and an easing in commodity prices and freight costs. Similarly, the Dubai PMI mimicked the PMI trajectory at the federal level, increasing to 56.9 in June from 55.3 in May, and then declining to 55.7 in July.

Matching the dynamism in economic activity, private sector employment continued to expand quickly. The number of private sector employees in July was 16% higher than a year before. Similarly, the overall wage bill of the private sector increased by 18% Y-o-Y.[1] The PMI survey for the UAE also pointed to a rise in employment to meet the sharp uplift in new orders both at the end of Q2 2023 and in July. As demand pressure mounted and despite strong employment growth, firms signaled an uptick in backlogs of work in the PMI survey.

[1] Based on the Wage Protection System (WPS) as of mid-August. The reported Y-o-Y growth rates for employment and wages are computed on the 12-month moving average of the respective levels. Positive percent changes can potentially be overestimated as new firms enter the WPS.

The rest of this section summarizes the recent developments in the real estate sector, the tourism and hospitality sector, and the transportation sector, which in total represent more than a quarter of the 2022 non-oil GDP.

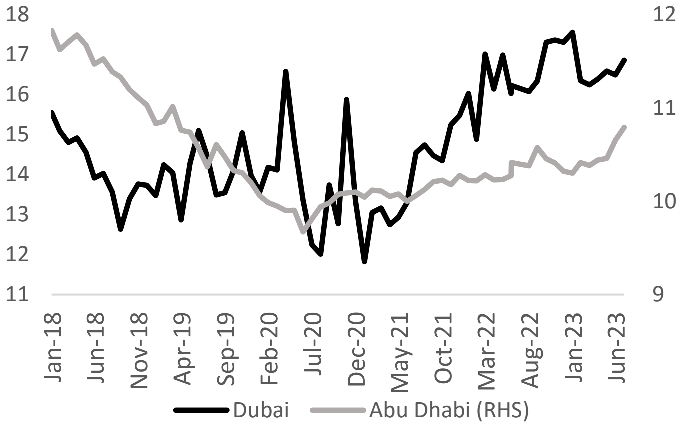
Residential Real Estate

Despite the continuing global uncertainty and further monetary policy tightening, the UAE real estate sector continued its good performance in the period from April to July 2023.

In Q2 2023, the value of residential transactions in the Abu Dhabi Emirate increased by 103% Y-o-Y to AED 6.1 billion. According to REIDIN[2], the sales prices of residential properties in Abu Dhabi registered a 2.7% increase in Q2 2023 compared to the same period a year ago. In July 2023, sales prices growth accelerated to 3.6% Y-o-Y. Rents reversed their declining trend, marking and a Y-o-Y increase of 0.5% and 0.4% in the second quarter and July 2023, respectively; after a decline by 1.5% Y-o-Y in Q1 2023. This resulted in an average rental yield of 6.3% in Q2 2023, slightly declining to 6.1% in July.

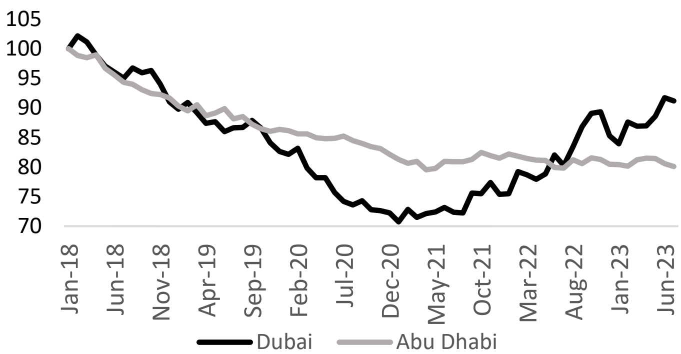
Based on Dubai Land Department (DLD) data, Dubai's residential real estate sector displayed a strong performance in H1 2023. The number of real estate transactions conducted in the first six months of the year increased by 40% Y-o-Y. The number of new investors in the Dubai's real estate market increased by 15% Y-o-Y during H1 2023, reflecting Dubai's enduring appeal to a diverse pool of investors. Residential property sale prices in Dubai increased on average by 0.6% Y-o-Y in Q2 2023 and 3.9% Y-o-Y in July.

Figure.2.4. Average Residential Sale Prices (Thousands of AED per SQM)



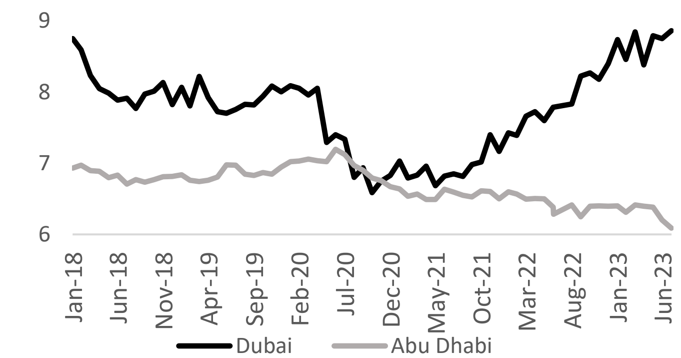
Sources: Dubai Land Department, REIDIN.

Figure.2.5. Average Rent Price Indices (January 2018=100)



Sources: Dubai Land Department, REIDIN, CBUAE calculations.

Figure.2.6. Average Rental Yield (%)



Sources: Dubai Land Department, REIDIN.

[2] REIDIN Residential Sales and Rents Prices and cover 7 areas and 5 districts in Abu Dhabi.

Tourism and Hospitality

During H1 2023, Abu Dhabi experienced a robust performance in the hospitality sector. Total hotel guests reached 2.4 million, up by 34% Y-o-Y. The hotel occupancy rate stood at 70% despite the start of the traditionally less busy summer season, with an average stay of 2.4 nights. The average revenues per room amounted to AED 425, up by 24% Y-o-Y.

H1 2023 data indicate that Dubai continues to be a prominent hub for global tourism. The Emirate welcomed a total of 8.5 million visitors during the first six months of the year, with the hotel occupancy rate as high as 78%.

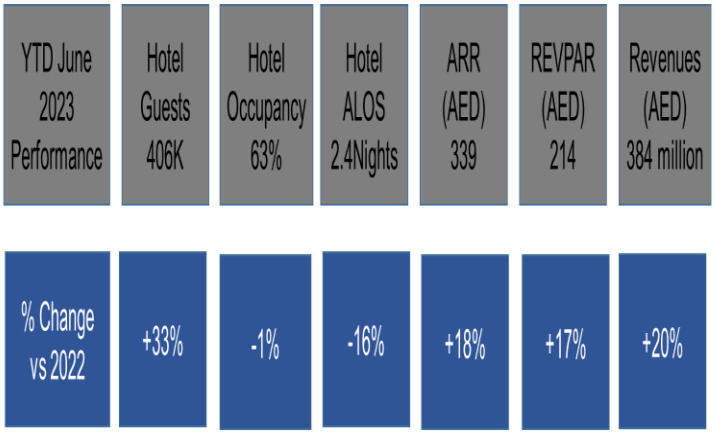
The sector is projected to continue its strong performance throughout the remainder of the year, driven by significant upcoming global events (e.g., the Abu Dhabi Formula 1 Grand Prix and the COP 28 summit) and the gradual return of key source markets that reopened after the pandemic (e.g., China).

Transportation

The Abu Dhabi International Airport recorded a sizeable traffic growth in the first half of 2023. The airport experienced a 67% increase in passenger traffic, serving over 10 million passengers compared to the 6 million in the same period of last year. The number of flights also rose significantly, with almost 68 thousand flights recorded, marking a 36% increase from the previous year. Moreover, the Abu Dhabi International Airport's network further expanded, and now offers flights to 114 destinations through 27 airlines. During H1 2023, the airport's busiest routes included Mumbai, London, Delhi, Kochi, and Doha, each experiencing substantial passenger traffic.

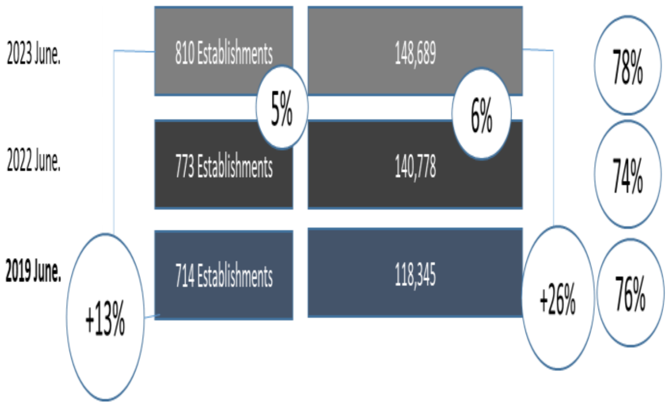
The Dubai International Airport served 41.6 million guests in H1 2023, 49% increase compared to the same period in 2022, fueled by a 43% Y-o-Y rise in Q2 2023. It recorded 201 thousand flights in the first half of the year, an increase by 30% Y-o-Y and an increase of 13% compared to H1 2019. Air cargo volumes in Q2 2023 increased by 16.1% Y-o-Y to 456 thousand tonnes. The Dubai International Airport currently ranks as the world's busiest international airport in international passenger traffic by the Airports Council International (ACI) for the ninth consecutive year.

Figure.2.7. Tourism Sector Performance in Abu Dhabi in June 2023 (YTD)



Source: Abu Dhabi Department of Culture and Tourism.
Notes: ALOS refers to average length of stay, ARR is average room rate and REVPAR is revenue per available room.

Figure.2.8. Accommodation Supply and Demand in Dubai in June 2023



Source: Dubai Department of Economy and Tourism.

II.3. Inflation

Dubai's CPI inflation continued to decelerate through July of 2023 in line with global trends	The disinflation in Dubai was primarily driven by declines in transportation prices and a deceleration of food inflation	The CBUAE lowered its inflation projections to 2.8% for 2023 and to 2.6% 2024

Inflation Outlook

Based on information available at the time of writing, the CBUAE has marginally lowered its inflation projections for 2023, from 3.1% to 2.8%. The downward revision mainly reflects the stronger than expected pass-through of the decline in oil prices to transportation prices, partially offset by rising housing prices. Other factors, which account for a small part of the revision, include lower food prices, the appreciation of the AED and global disinflationary trends. The introduction of the corporate income tax in June 2023 is expected to only contribute moderately to the inflation outlook. In 2024 inflation is projected to slow further to 2.6%, a downward revision from 2.8% due mainly to the continued moderation in transport and food prices.

Inflation in Dubai

Dubai's CPI inflation continued to decelerate in the second quarter of 2023 in line with global trends and remained below the global average. According to the Dubai Statistics Center (DSC), the CPI headline inflation dropped to 2.8% Y-o-Y in the second quarter of 2023 from 4.6% Y-o-Y in Q1 2023.[3] The disinflation trend continued in July 2023, with prices growing by a modest 1% Y-o-Y. Inflation of non-tradeable goods and services was 2.9% Y-o-Y in Q2 2023, down from 4.2% Y-o-Y in the previous quarter, and continued to moderate to 1.5% Y-o-Y in July. Similarly, inflation of tradable goods and services declined to 2.3% Y-o-Y from 5.7% Y-o-Y in Q1 2023, and declined even further in July to 0.4% Y-o-Y.

The lower CPI inflation in Q2 2023 and July 2023 was primarily driven by sizeable decreases in transportation prices by 9.8% Y-o-Y and 19.7% Y-o-Y respectively, reflecting the softening in global energy prices. Tobacco prices also continued to decline, but their contribution to the headline figures is marginal. In July, prices for recreations, sport and culture also dropped by 6.7% Y-o-Y. These price declines were more than offset by increases in housing prices (whose weight, together with water, electricity, gas and other fuels, is as high as 40.7%) by 5.7% Y-o-Y in Q2 2023 and 6.1% Y-o-Y in July 2023, up from 4.7% Y-o-Y in Q1 2023, and increases in the prices of household items (whose weight is however modest at 3.5%) by 8.2% Y-o-Y in Q2 2023 and 7.7% Y-o-Y in July 2023. These figures mirror the high demand in the real estate sector as well as increasing rent prices. As for other categories with relatively large weights in the Dubai's CPI index, food and beverages continued to display a declining trend, reaching 3.2% Y-o-Y in July.

Table.2.2. Dubai CPI Inflation (Y-o-Y, %)

	Weight	Q1 23	Q2 23	July 23
General Index	100.0	4.6	2.8	1.0
Non-Tradeable	74.9	4.2	2.9	1.5
Tradeable	25.1	5.7	2.3	-0.4
Housing, water, electricity, gas and other fuels	40.7	4.9	5.7	6.1
Food and beverages	11.7	6.0	4.8	3.2
Transport	9.3	2.5	-9.8	-19.7
Education	8.1	0.8	0.5	1.6
Restaurants and accommodation services	6.1	4.4	5.7	3.5
Information and communication	5.7	0.2	0.3	0.4
Personal care, social protection and miscellaneous goods and services	5.1	4.4	2.6	2.2
Clothing and footwear	5.0	6.3	4.4	4.1
Furnishings, household equipment and routine household maintenance	3.5	9.4	8.2	7.7
Recreation, sport and culture	2.4	19.2	0.5	-6.7
Insurance and financial services	1.3	3.7	5.0	5.3
Health	0.9	0.8	0.7	0.7
Tobacco	0.3	-8.1	-8.1	-7.4

Source: Dubai Statistics Center.

[3] The reported Y-o-Y inflation rates are computed on the quarterly averages of the price levels.

Chapter 3

Monetary and Financial Markets Developments

III.1. Money Supply and Interest Rates

Monetary aggregates M1, M2 and M3 grew in Q1 2023 by 4.3%, 12.2% and 16.5% Y-o-Y, respectively	**The CBUAE's Base Rate increased to 5.4% in July 2023, following the Fed tightening cycle**	**The DONIA remained below the Base Rate, with the gap averaging 30 bps since the end of Q1**

Monetary Aggregates

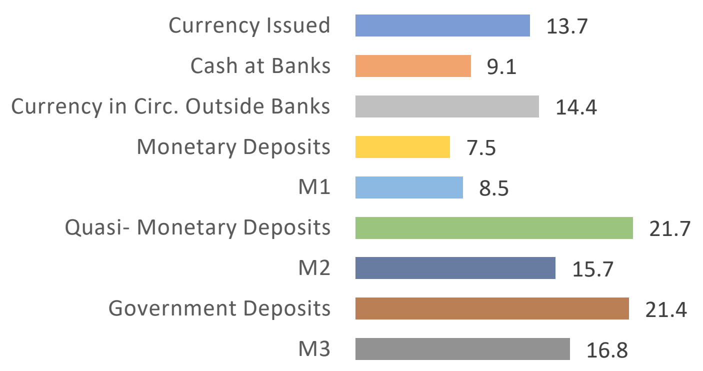
M1[4] rose by 8.5% Y-o-Y, standing at AED 782 billion at the end of July 2023. This reflects a 14.4% Y-o-Y increase in currency in circulation (14.4% of M1) and a 7.5% increase in monetary deposits (85.6% of M1). M2[5] increased by 15.7% Y-o-Y reaching AED 1,859 billion, owing to the increase in M1 and a rise in quasi-monetary deposits[6] (57.9% of M2) by 21.7% Y-o-Y. M3[7] grew by 16.8% Y-o-Y, reaching AED 2,299 billion. The rise in M3 largely reflects a 21.4% increase in government deposits at commercial banks and at the CBUAE (16.8% of M3).

Interest Rates

In line with changes to the Federal Reserve's Interest on Reserve Balances (IORB) rate, the CBUAE increased its key policy rate (the Base Rate) twice since the end of Q1, with hikes in both May and July, lifting it to 5.4%. Overnight interbank rates largely followed such moves, with both the DONIA and the overnight EIBOR increasing by a similar magnitude. The spread between the DONIA and the Base Rate has persisted, with the former averaging 30 basis points below the latter since end of Q1. This reflected the ongoing expansion in the CBUAE balance sheet on account of an increase in net foreign assets through Q2. As a result, the sizeable excess reserves position of the banking sector evident at the end of Q1 has been maintained, thereby putting downward pressure on short-term rates relative to the Base Rate.

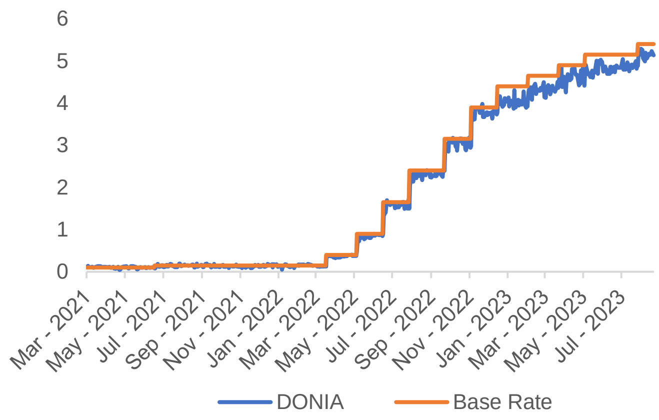
Since the end of Q1, term interest rates in UAE money markets have increased in line with firming interest rate expectations in the US, particularly ahead of the May and July FOMC meetings. More recently, market-based expectations have begun to price in a peak in the current interest rate cycle resulting in the longer EIBOR tenors stabilizing from late July. This was evident at Monetary Bills auctions, where longer dated Monetary Bills have also remained relatively stable since July.

Figure.3.1. Change in Monetary Aggregates and their Components (Y-o-Y, %)



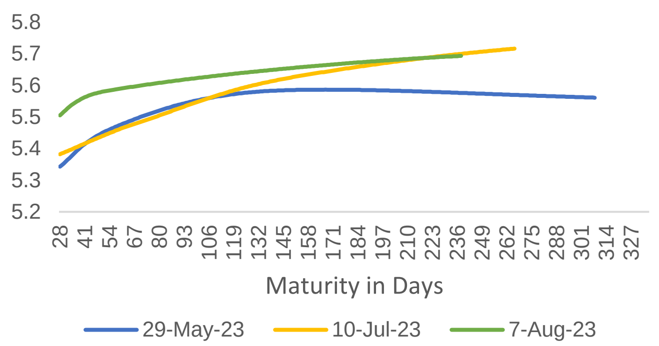
Source: CBUAE.

Figure.3.2. DONIA and Base Rate (%)



Source: CBUAE.

Figure.3.3. Monetary Bills Yield Curve (%)



Sources: Bloomberg, CBUAE.

[4] M1 consists of monetary deposits and currency in circulation outside banks.
[5] M2 is equal to M1 plus the quasi-monetary deposits.
[6] Quasi-monetary deposits include resident time deposits in AED and all types of foreign currency deposits.
[7] M3 is equal to M2 plus government deposits at the CBUAE and commercial banks.

III.2. Banking Developments

Overall banking system's lending continued to grow in Q2 2023, driven by lending to the retail sector	Continued growth in household and corporate sectors' loan demand reflected in the credit sentiment survey	Favorable funding and liquidity conditions supported banks' appetite to extend credit, underpinned by strong deposit growth

Banking System Assets and Structure

At the end of June 2023, the UAE banking system's total assets expanded by 12.3% Y-o-Y, reaching AED 3,873 billion. The number of licensed banks in the UAE was unchanged at 61, of which 22 were national banks and 39 were foreign banks. Meanwhile bank branches in the UAE decreased to 565, amidst continued adoption of digital banking services in the UAE banking sector.

Banking System Credit and Deposits

The UAE banking system's lending portfolio expanded by 4.2% Y-o-Y as of the end of June 2023, with growth across key lending categories. Domestic private sector lending increased by 5.1% Y-o-Y, broadly in line with the trend observed in previous quarters, supported by lending to retail and private corporate sectors. Retail credit growth remained broad-based across key sub-categories (i.e. mortgage loans, personal loans, and credit cards). Lending to the government continued to decline, albeit at a more moderate pace, while GRE sector lending grew by 1.7% Y-o-Y.

The second quarter of 2023 continued to record sustained ample liquidity and funding conditions, with bank deposits growing by 13.9% Y-o-Y, predominantly supported by resident private sector and government sector deposits. On the other hand, non-resident deposits fell by 15.0% Y-o-Y. The loan-to-deposits ratio continued to edge lower to 81.6% due to the higher growth in deposits compared to credit growth. The favorable funding conditions continued to support ample lending capacity and growth in domestic and foreign credit.

The CBUAE Credit Sentiment Survey

The CBUAE Credit Sentiment Survey Q2 2023 reported persistent strong credit conditions in the UAE through mid-year. The survey indicated growth in the demand for business and personal loans across all key industries and economic activities as well as financial institutions' increased appetite for lending. Growth in business loan demand increased predominately in the retail and wholesale trade sector, manufacturing, and property development. Within personal loans, credit demand remained strong for key retail sub-categories, including housing-related loans, credit cards, and car loans.

Table.3.1. Assets and Credit at UAE Banks (AED billions)

	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Total Assets	**3,449**	**3,583**	**3,668**	**3,765**	**3,873**
(Y-o-Y change)	7.5%	10.3%	10.4%	12.8%	12.3%
Gross Credit	**1,866**	**1,873**	**1,879**	**1,896**	**1,945**
(Y-o-Y change)	5.5%	5.5%	4.8%	3.5%	4.2%
Domestic Credit	**1,659**	**1,655**	**1,651**	**1,674**	**1,717**
(Y-o-Y change)	4.0%	3.3%	2.0%	2.1%	**3.5%**
Government	222	213	212	216	219
(Y-o-Y change)	-9.5%	-13.3%	-10.3%	-4.8%	-1.6%
GREs	260	256	253	245	264
(Y-o-Y change)	16.3%	14.8%	3.2%	-7.1%	1.7%
Private Sector	1,163	1,174	1,173	1,200	1,222
(Y-o-Y change)	4.5%	4.9%	4.7%	5.9%	5.1%
Retail	361	369	375	384	396
(Y-o-Y change)	7.3%	7.2%	7.8%	7.7%	9.6%
Wholesale	802	805	798	816	826
(Y-o-Y change)	3.3%	3.8%	3.2%	5.1%	3.0%
NBFIs	14	14	13	13	12
(Y-o-Y change)	1.5%	-8.2%	-23.2%	-18.1%	-10.2%
Foreign Credit	207	218	229	222	228
(Y-o-Y change)	19.2%	25.0%	30.5%	15.2%	9.8%

Source: CBUAE.
Notes: Data as of end of period.

Table.3.2. Total Deposits at UAE Banks (AED billions)

	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Bank Deposits	**2,092**	**2,187**	**2,222**	**2,306**	**2,382**
(Y-o-Y change)	9.6%	12.6%	11.3%	14.9%	13.9%
Resident Deposits	1844	1,958	2,010	2,093	2,171
(Y-o-Y change)	9.5%	15.3%	13.8%	16.8%	17.8%
Government Sector	317	402	397	406	426
(Y-o-Y change)	12.7%	35.3%	37.7%	39.5%	34.2%
GREs	213	232	217	214	214
(Y-o-Y change)	-6.4%	5.5%	-12.5%	-10.4%	0.7%
Private Sector	1,265	1,275	1,350	1,423	1,482
(Y-o-Y change)	11.6%	11.2%	13.3%	16.6%	17.1%
Retail	529	537	559	601	618
(Y-o-Y change)	3.8%	5.7%	7.6%	15.1%	16.7%
Wholesale	736	738	790	822	864
(Y-o-Y change)	18.0%	15.6%	17.7%	17.7%	17.3%
NBFIs	48	50	47	49	50
(Y-o-Y change)	18.7%	38.7%	22.0%	20.8%	3.1%
Non-Resident Deposits	248	229	213	213	211
(Y-o-Y change)	10.1%	-6.0%	-8.0%	-0.7%	-15.0%

Source: CBUAE.
Notes: Data as of end of period.

III.3. Financial Developments

The UAE banking system remained well capitalized with sufficient liquidity and funding levels	In Q2 2023, share prices rose by 6.1% Y-o-Y in Dubai and 3.9% Y-o-Y in Abu Dhabi	CDS premium for Abu Dhabi continued to decline, while it marginally increased for Dubai

Financial Soundness Indicators

The UAE banking system's capital level remained well above the minimum regulatory requirements. The aggregated Capital Adequacy Ratio increased by 1.3 percentage points compared to the same period last year, reaching 18.2% in Q2 2023.

The UAE banking system's deposits continued to grow at a strong pace, contributing to further improvements in liquidity and funding positions in Q2 2023. As a result, the overall banking system recorded improvements across the key liquidity and funding ratios.

The UAE banking system's asset quality ratios continued to improve in Q2 2023 from the deterioration during the pandemic. The Net NPL ratio moderated to 2.8%, due to both the growth in the banking system's lending and reduction in the stock of non-performing loans.

Equity Markets

The Abu Dhabi Securities Market General Index decreased by 3.9% Y-o-Y in Q2 2023 but bounced back by 1.3% Y-o-Y in July, while the market capitalization increased to AED 2.8 trillion. The Dubai Financial Market General Index rose by 6.1% Y-o-Y in the second quarter of 2023 and by 23.4% Y-o-Y in July, with the market capitalization reaching AED 0.7 trillion.

Credit Default Swaps (CDS)

The CDS for the government of Abu Dhabi continued to fall from 43.1 bps in Q1 2023 to 40.2 bps in Q2 2023 and to 36.6 in July. The decline in the Abu Dhabi's CDS reflects its strong fiscal position and large sovereign wealth funds. As of July, Abu Dhabi has one of the lowest CDS premiums in the Middle East and Africa region. Dubai's CDS increased to 80.8 bps in Q2 2023, but then declined to 73.9 bps in July, remaining significantly below the 2022 levels due to the declining debt-to-GDP ratio.

Table.3.3. UAE Financial Soundness Indicators

	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Capital Adequacy					
Capital Adequacy Ratio	16.9%	17.5%	17.4%	17.8%	**18.2%**
Tier 1 Capital Ratio	15.8%	16.3%	16.2%	16.6%	**17.0%**
Common Equity Tier 1 Ratio	14.0%	14.5%	14.4%	14.8%	**15.3%**
Liquidity and Funding					
Advances to Stable Resources Ratio	79.1%	76.4%	75.6%	74.8%	**73.8%**
Net Stable Funding Ratio[3]					
Loan-to-deposit Ratio	89.2%	85.7%	84.6%	82.2%	**81.6%**
Eligible Liquid Assets Ratio	18.0%	17.3%	19.1%	19.7%	**20.8%**
Liquidity Coverage Ratio[3]	136.0%	154.7%	156.0%	154.8%	**162.5%**
Asset Quality					
Net Non-Performing Loans Ratio[4]	3.2%	3.2%	3.0%	2.9%	**2.8%**
Specific Provision Coverage Ratio	59.9%	59.6%	60.4%	60.8%	**61.6%**
Total Provision Coverage Ratio	**87.2%**	**87.0%**	**88.6%**	**90.9%**	**92.7%**

Source: CBUAE.
Notes: Data as of end of period. [3] Liquidity Coverage Ratio and Net Stable Funding Ratio apply to five approved banks. [4] The Net Non-Performing Loans Ratio excludes specific provisions and provides a better indicator of asset quality, taking into account the provisioning levels in the UAE banking system.

Table.3.4. UAE Equity Markets

			Q3-2022	Q4-2022	Q1-2023	Q2-2023	July 2023
Abu Dhabi	Share Price Index*	Y-o-Y	29.0%	25.2%	4.0%	-3.9%	1.3%
	Market Capitalization*	AED bn	2104.1	2574.1	2591.6	2754.4	2816.3
		Y-o-Y	53.7%	63.7%	47.8%	40.3%	39.7%
	Traded Value**	AED bn	88	92.6	85.4	64	21.7
		Y-o-Y	2.4%	-21.6%	-15.4%	-35.2%	-4.8%
Dubai	Share Price Index*	Y-o-Y	20.8%	9.4%	0.6%	6.1%	21.6%
	Market Capitalization*	AED bn	566.9	577.6	589	630.9	688.6
		Y-o-Y	46.4%	44.7%	39.7%	13.8%	23.4%
	Traded Value**	AED bn	19.8	20.4	19	26.5	11.6
		Y-o-Y	101.5%	-36.7%	-16.3%	-0.3%	177.7%

Source: Securities and Commodities Authority.
Notes: *denotes average in the month or quarter, ** denotes end-of-month or quarter values.

Table.3.5. UAE – Sovereign Credit Default Swaps (average, bps)

	2022				2023		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**July 23**
Abu Dhabi	50.4	59.6	56.8	52.6	43.1	40.2	36.6
Dubai	98.9	112.7	125.8	106.7	78.0	80.8	73.9

Source: Securities and Commodities Authority.

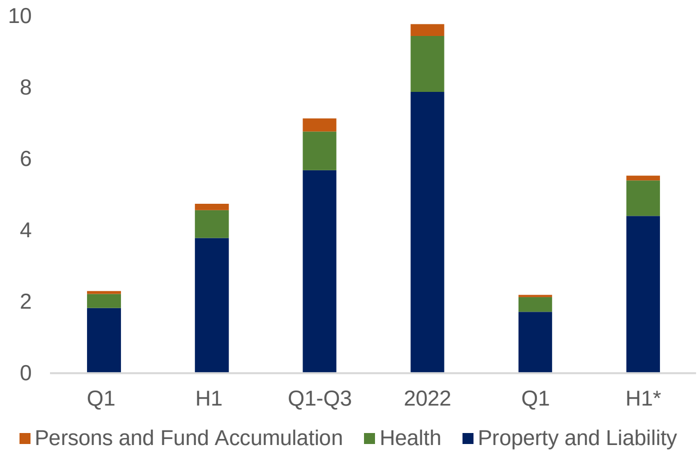
III.4. Insurance Sector Developments

In the first half of 2023, the insurance sector continued to grow in terms of gross written premiums and gross paid claims	Technical provisions, investment and the retention ratio showed healthy increases	The insurance sector remained well capitalized and profitable

Insurance Sector Structure and Activity

The size of the UAE insurance sector in terms of number of insurance companies remained unchanged in Q2 2023 with respect to Q1 2023. As of the end of Q2 2023, there were 60 licensed insurance companies operating in the UAE, of which 23 traditional national companies, 10 Takaful national and 27 foreign companies. The number of entities and individuals practicing insurance related professions marginally decreased to 492 in Q2 2023 from 493 in Q1 2023. The sector continued to grow as measured by the number of insurance policies and the amount of gross written premiums.

Figure.3.3. Number of Written Insurance Policies (AED millions)



Source: CBUAE.
Notes: * Preliminary data; end-of-period values.

Gross Written Premiums (GWP)

During the first six months of 2023, the GWP increased by 1.9% Y-o-Y to AED 27.2 billion. This increase is largely accounted for by health insurance premiums, which increased by 22.8% during the same period and, to a lesser extent, by a 1% Y-o-Y increase in property and liability insurance premiums. In contrast, the premiums of insurance of persons and fund accumulation fell by 40% Y-o-Y, reflecting a decline in unit-linked life insurance premiums.

Gross Claim Payments

Gross claim payments for all types of insurance plans increased by 7.6% Y-o-Y to AED 14.1 billion in H1 2023. This was mainly driven by a 29.6% Y-o-Y surge in payments related to health insurance policies and an 11.4% Y-o-Y increase related to property and liability insurance policies. Payments related to insurance policies of persons and fund accumulation fell by 60% Y-o-Y, reflecting the decline in individual life insurance claims.

Technical Provisions

The total technical provisions[8] of all types of insurance increased by 9.2% Y-o-Y to AED 76.7 billion in H1 2023 compared to AED 70.3 billion in H1 2022.

Investments

The volume of invested assets in the insurance sector increased to AED 72.9 billion in H1 2023 (57.1% of total assets) from AED 71.8 billion in H1 2022 (59.2% of total assets).

Table 3.6. Key Indicators of the Insurance Sector (AED billions)

	2022				2023*	
	Q1	**H1**	**Q1-Q3**	**2022**	**Q1**	**H1**
1- Gross Written Premiums	**15.6**	**26.7**	**36.7**	**47.2**	**17.8**	**27.2**
Property & Liability	5.6	9.8	14.6	17.8	6.5	9.9
Health	8.1	11.4	16.4	21.7	9.3	14.0
Persons and Fund Accumulation	1.9	5.5	5.7	7.7	2.0	3.3
2- Gross Claims Paid	**6.5**	**13.1**	**18.7**	**27.7**	**7.1**	**14.1**
Property & Liability	1.9	3.5	5.2	7.6	1.7	3.9
Health	4.0	7.1	11.8	17.1	4.9	9.2
Persons and Fund Accumulation	0.6	2.5	1.7	3.6	0.5	1.0
3- Technical Provisions	**68.4**	**70.3**	**68.8**	**68.6**	**73.7**	**76.7**
4- Total Invested Assets	**70.4**	**71.8**	**72.2**	**71.4**	**70.5**	**72.9**
5- Total Assets	**120.2**	**121.2**	**118.2**	**120.1**	**128.3**	**127.7**
6- Total Equity	**27.0**	**26.7**	**27.1**	**26.9**	**26.3**	**27.0**

Source: CBUAE.
Notes: * Preliminary data; end-of-period values.

[8] The technical provisions that the insurers must deduct and maintain to meet the insured's accrued financial liabilities as per the legislation on the financial regulations for insurance companies.

Retention

The retention ratio[9] of written insurance premiums for all types of insurance reached 53.8% (AED 14.6 billion) in H1 2023, compared to 57.8% (AED 15.4 billion) in H1 2022.

Insurance Soundness Indicators

The UAE insurance sector remained well capitalized during the first half of 2023. The own funds to minimum capital requirement ratio increased to 349.8% in H1 2023, compared to 274% in H1 2022, due to an increase in own funds eligible to meet the minimum capital requirements. Similarly, the own funds to solvency capital requirement ratio rose to 250.9% in H1 2023, up from 170.8% in H1 2022, also reflecting an increase in own funds eligible to meet solvency capital requirements. The own funds to minimum guarantee fund ratio reached to 393.4% in H1 2023 from 280.8% in H1 2022, due to higher eligible funds to meet minimum guarantee funds. In terms of earnings, the net total profit to net written premiums increased to 12.7% in H1 2023, compared to 8.8% in H1 2022.

Table.3.7. Insurance Soundness Indicators (%)

	2022				2023*	
	Q1	**H1**	**Q1-Q3**	**2022**	**Q1**	**H1**
1- Reinsurance						
Retention ratio	52.1	57.8	51.2	54.9	53.2	53.8
2- Capital Adequacy						
Own funds to Minimum Capital Requirement	275.4	274.0	325.0	309.3	319.5	349.8
Own Funds to Solvency Capital Requirement	175.9	170.8	203.6	208.5	213.2	250.9
Own Funds to Minimum Guarantee Fund	287.3	280.8	323.1	314.6	336.3	393.4
3- Earnings						
Net total profit to net written premiums	9.4	8.8	8.4	2.9	8.0	12.7

Source: CBUAE.
Notes: * Preliminary data; end-of-period values.

[9] Retention ratio is calculated as net written premiums divided by gross written premiums.

Head Office
Central Bank of the UAE
King Abdullah Bin Abdul-Aziz Al Saud Street
P. O. Box 854
Abu Dhabi
United Arab Emirates

Dubai Branch
26th
Street
Bur Dubai
P. O. Box 448
Dubai
United Arab
Emirates

Sharjah Branch
King Abdul Aziz
Street Sharjah
Industrial Area
P. O. Box 645
Sharjah
United Arab
Emirates

Ras Al Khaimah Branch
Al Muntasir Road
P. O. Box 5000
Ras Al Khaimah
United Arab
Emirates

Fujairah Branch
Hamid Bin
Abdullah Road
P. O. Box 768
Fujairah
United Arab
Emirates

Al Ain Branch
Ali Bin Abi Talib Street
P. O. Box 1414
Al Ain
United Arab Emirates

For further information, contact
Toll Free: 800 CBUAE (800 22823)
Telephone: +9712-6652220
Fax: +9712-6652504