



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



# Annual Report

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## 2020



**H.H. SHEIKH KHALIFA BIN ZAYED BIN SULTAN AL NAHYAN**  
PRESIDENT OF THE UNITED ARAB EMIRATES



# 01

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## THE CBUAE BOARD OF DIRECTORS



**H.H. SHEIKH MANSOUR  
BIN ZAYED AL NAHYAN**  
CHAIRMAN



**H.E. ABDULRAHMAN  
AL SALEH**  
DEPUTY CHAIRMAN



**H.E. ABDULHAMID M.  
SAEED ALAHMADI**  
GOVERNOR



**H.E. KHALID  
AHMED ALTAYER**  
MEMBER



**H.E. ALI MOHAMMED  
BAKHEET AL RUMAITHI**  
MEMBER



**H.E. YOUNIS HAJI  
AL KHOORI**  
MEMBER



**H.E. KHALED MOHAMMED  
SALEM BALAMA**  
MEMBER



**MESSAGE FROM  
H.H. SHEIKH MANSOUR  
BIN ZAYED AL NAHYAN,  
DEPUTY PRIME MINISTER  
AND MINISTER OF  
PRESIDENTIAL AFFAIRS**

**CHAIRMAN OF THE BOARD OF DIRECTORS**

In 2020, the COVID-19 pandemic challenged every aspect of our lives, our communities, and our economy. However, adversity can also bring out the best in nations. The UAE was among the top 10 countries in terms of its handling of the pandemic, according to the Global Response to Infectious Diseases Index.

The pandemic took a severe toll on the world's economies, especially in the first half of 2020, with an impact on global GDP, redefining of trade routes, and an almost complete shutdown of many economies. The outlook improved in the second half of the year as lockdowns eased, and limited travel and tourism resumed. We have ended the year on a more positive note with a pickup in global activity and on effective rollout of vaccines against COVID-19.

The Central Bank of the UAE's (CBUAE) independence and ability to act quickly and decisively proved to be the key to the UAE's response. The actions of the CBUAE in formulating and rolling out the Targeted Economic Support Scheme were a key contributor to the UAE overcoming the worst consequences of the pandemic, ensuring that the nation could quickly resume its growth trajectory.

Although UAE's Gross Domestic Product decreased in 2020 in line with the rest of the world, all key indicators of financial system's stability remained solid. Banks had sufficient capital and liquidity buffers, while aggregate assets, deposits, and lending increased. Despite the pandemic's adverse impact on the profitability of UAE banks in 2020, no fundamental shift in the sector's solvency or a decline in appetite for business was experienced – a promising signal as we seek to guide the economy to renewed growth in 2021.

The CBUAE developed a comprehensive roadmap for the next five decades, in line with the UAE government's "Towards the Next 50" initiative. We also unveiled an ambitious Fin-Tech strategy aiming to establish the UAE as a top five global Fin-Tech hub and ensuring that our Fin-Tech regulations conform to the highest international standards.

The experiences of 2020 have demonstrated the extent of the UAE's resilience and positioned the country in good stead to welcome the future and capitalize on the opportunities ahead. The CBUAE employees should be immensely proud of their contribution and dedication to our nation's efforts to rise to the challenge.

On my behalf and on behalf of the entire Board, I would like to sincerely thank the CBUAE Governor and the entire team of competent and dedicated professionals who confidently guided the institution through what has been an unprecedented year of turbulence.

We remain committed to our goal of being one of the top central banks globally.



## MESSAGE FROM H.E. ABDULHAMID M. SAEED ALAHMADI

GOVERNOR

The year 2020 has been challenging, to say the least, for businesses, government, and our people. The Central Bank of the UAE navigated 2020 by adapting to the challenges presented by the pandemic and by embarking on entirely new ways of working and planning.

As early as March 2020, the CBUAE approved the strategy to address the potential threats of the pandemic. The key element of this pro-active response was the Targeted Economic Support Scheme (TESS). The AED 256 billion stimulus package devised by the CBUAE provided liquidity to the UAE banking sector and ensured that banks and customers had the latitude in very challenging times. The measures put in place by the CBUAE included the zero-cost funding facility for the UAE banks and the relaxation of bank capital and liquidity buffer requirements. By the end of 2020, the TESS loan deferral programme directly benefitted over 10,000 SMEs, 1,700 other private companies, and 310,000 individuals in the UAE.

The pandemic may have defined 2020, but throughout the year, the CBUAE made many advances towards its 2017-2021 strategic objectives. On banking regulation, our multi-year strategy to implement global standards and best banking practices continued, and we further enhanced the

regulatory framework in the UAE. The UAE banking system entered the pandemic with adequate capital and liquidity buffers and remained well-capitalised through 2020. The CBUAE also implemented a new investment policy for its foreign currency reserves, supported by a revamped framework for performance measurement and risk management.

In the same vein and with our commitment to invest in infrastructure and technology, we continued to increase the robustness of our payment systems by the implementation of the multi-year National Plan for Payment Systems Strategy. Our commitment to digitisation continued with the establishment of the Fin-Tech office and multilateral engagements with other Central Banks and technology companies.

Other key initiatives aimed at strengthening financial stability and consumer protection included the launch of the Dirham Monetary Framework; the implementation of a comprehensive Financial Consumer Protection Regulatory Framework; the

issuance of new Shari'ah governance standards for all UAE Islamic financial institutions.

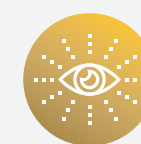
Significant progress was made in the CBUAE's efforts to ensure that banks and other regulated financial institutions have appropriate systems and controls to prevent money laundering and the financing of terrorism. We remain committed to doing everything possible to combat these illegal activities through close cooperation with authorities in the UAE and around the world. Through these activities, we are reinforcing the UAE's long-standing efforts to strengthen the implementation of the international standards on combating money laundering and the financing of terrorism and proliferation, in particular the FATF standards.

As an independent central bank, we are proud to support the UAE's journey toward becoming a global centre of finance, tourism, and knowledge and, in doing so, become one of the world's most competitive economies.

I would like to offer my sincere thanks to the Board of Directors, The CBUAE employees, and all our associates for their tireless efforts and shared dedication during 2020. Together we have solidified the foundations and readied the organisation to achieve our goal of becoming a top central bank globally. We look at 2021 with enthusiasm and hope and believe that better times are around the corner.

# THE CBUAE AT A GLANCE

The Central Bank of the UAE (CBUAE) promotes financial and monetary stability, efficiency and resilience of the financial system, and the protection of consumers through effective supervision that supports economic growth for the benefit of the UAE and its people.



## OUR VISION

Promoting monetary and financial stability towards sustainable economic growth.



## OUR MISSION

Enhancing monetary and financial stability through effective supervision, prudent reserve management, and robust financial infrastructure in line with international best practices and standards.



## OUR VALUES

### PROACTIVE

Establishing a proactive mindset that increases ownership, accountability, and innovation through empowering and enabling employees across all levels and facilitating effective decision making.

### TRANSPARENT

Creating transparency and openness with the highest integrity across the organisation through effective communication and collaboration.

### TALENT-CENTRIC

Building a caring, talent-centric organisation that rewards and recognises employees and emphasises their development.





## HIGHLIGHTS OF OUR HISTORY

**1973**

The Currency Board was established, as per Union Law No. (2) of 1973. The Currency Board issued the national currency that replaced the Bahraini Dinar and the Qatari and Dubai Riyal currencies that were in use at the time with the UAE Dirham

**1974**

The establishment of the Research and Statistics Centre

**1978**

The establishment of the Banking Supervision Department

**1980**

The Union Law No. (10) of 1980 saw the establishment of the Central Bank of the UAE as a public institution. The Law No. (10) also augmented the functions of the Central Bank (previously assigned to the Currency Board)

H.E. Abdul Malik Yousef Al Hamar appointed Governor

**1982**

Formation of the Risk Bureau

**1991**

H.E. Sultan Bin Nasser Al Suwaidi appointed Governor

**1998**

Anti-Money Laundering and Suspicious Case Unit (AMLSCU) was established

**2000**

Formation of the National Anti-Money Laundering Committee

**2009**

Financial Stability Unit was formed

**2012**

Regulatory Development Division was formed, Central Bank publishes its first Financial Stability Report

**2014**

H.E. Mubarak Rashed Al Mansoori appointed Governor

**2018**

Decretal Federal Law No. (14) of 2018 regarding the Central Bank & Organisation of Financial Institutions and Activities issued

Consumer Protection Department was formed

**2020**

H.E. Abdulhamid M. Saeed Alahmadi appointed Governor

AML/CFT Supervision Department was formed

**2021**

The merger of Insurance Authority into the Central Bank pursuant to Decretal Federal Law No. (25) of 2020

H.E. Khaled Mohammed Salem Balama appointed Vice Governor



## EXECUTIVE LEVEL COMMITTEES

The CBUAE formed seven different working committees to facilitate an efficient and proactive decision-making process.

### Financial Stability Policy Committee

The committee reviews financial and economic developments and identifies threats to the UAE's financial and economic stability to mitigate systemic risks, while also reviewing related comprehensive analyses and publications.

### Monetary and Reserves Management Committee

The committee's primary objective is to ensure monetary stability through the use of monetary management and policy tools and reserve management by optimising tactical asset allocation and adopting investment guidelines.

### Supervisory and Regulatory Committee

The committee is responsible for the supervision of the safety and soundness of Financial Institutions licensed by the CBUAE by proposing and implementing prudential regulations and recommending enforcement actions.

### Executive Committee

The committee decides on all operational matters related to operations and support functions as well as any matters delegated to it by the Board of Directors to ensure efficient and effective use of the CBUAE resources.

### Risk Committee

The committee is responsible for recommending risk management frameworks to the Board Risk Committee and implementing policies to maintain adequate and effective risk management across all areas of the CBUAE.

### Strategy Committee

The committee is responsible for the CBUAE's overall strategy, which encompasses financial stability, consumer protection, supervisory and regulatory and monetary and reserve management.

### Financial Crisis Preparedness and Management Committee

In response to the risk of systemic financial distress, the committee coordinates the CBUAE's response and financial crisis management measures with the objective to ensure that serious problems in the financial system are effectively and immediately addressed.

## PART 1

## ECONOMIC, MONETARY AND FINANCIAL DEVELOPMENTS

# CHAPTER 1. INTERNATIONAL ECONOMIC DEVELOPMENTS

The pandemic witnessed in the year 2020 constituted a double shock to the economy, i.e., a supply side shock and a demand side shock. This led to the world's worst recession in peacetime since the great depression of the 1930s. The economic outlook improved in the second half of the year mainly due to unprecedented monetary easing and fiscal stimulus. Moreover, as lockdowns were eased, and business travel and tourism resumed along with vaccine administration, interest rates were kept at record low levels in an attempt to boost demand. Inflation remained well below the 2% target in developed countries, while it surged in some Emerging and Developing Economies due to supply disruptions, and depreciation of the local currency.

## 1.1 ECONOMIC GROWTH

The pandemic-related fallout constituted a double shock to the global economy. The supply-side shock took its toll on the economy as lockdowns were instituted, global supply chains disrupted, and travel and tourism activities ground to a halt. The impact on economic activity was compounded by the concurrent shock on the demand side, which was due to job and income losses, increased precautionary savings and social distancing.

In developing economies, additional factors exacerbated the crisis: dominance of the informal sector, weak public health systems and social safety nets. In addition, debt overhang and reduced fiscal space limited the scope for an adequate policy response.

As a result, the world economy witnessed the worst recession in peacetime since the great depression of the 1930s. Nonetheless, the outlook started to improve in the second half of the year, as lockdown measures were eased, business travel and tourism partially resumed, and vaccines were administered.

In the United States, economic activity appeared to have recovered robustly by the end of the year, and real GDP is estimated to have contracted by only 3.5% in 2020. The lower than previously expected contraction was mainly due to the resumption of economic activity after the lockdowns, easing of travel restrictions, and a pick-up in personal income as unemployment decreased and support-programmes were maintained. Nonetheless, growth remained negative as a result of the adverse effects from the new waves of the pandemic.

In the Eurozone, the economy contracted by 7.2%. A higher contraction than that of the US is mainly due to the fact that European economies faced structural problems even before the outbreak of the pandemic, notably in labour markets where unemployment was at double digit levels by the end of 2019 in countries such as Spain, Italy and Greece. This was exacerbated by the heavy reliance of the Eurozone on severely hit sectors such as tourism and services.

In the UK, the contraction was even higher, at -9.8%, due to services' economic contribution (about 80%), as well due to uncertainties about the possibility of a "no-deal Brexit", which persisted until Christmas Eve.

**TABLE.1.1.a: REAL GDP GROWTH IN SELECTED COUNTRIES/GROUPS (%)**

	2019	2020
World Output*	2.9	-3.5
USA**	2.2	-3.5
Advanced Economies*	1.7	-4.9
Eurozone**	1.3	-7.2
France**	1.5	-8.2
Germany**	0.6	-5.3
United Kingdom*	1.4	-9.8
Japan**	0.3	-4.9
EMDEs <sup>1</sup> *	3.7	-2.4
China**	6.0	2.3
India*	6.5	-8.0
MECA <sup>2</sup> *	1.0	-3.2

Source: \*IMF, World Economic Outlook, January 2021 projections.

\*\*The Federal Reserve for the US, ECB for Eurozone, France and Germany, and Office of National Statistics for the UK.

<sup>1</sup>Emerging Market and Developing Economies

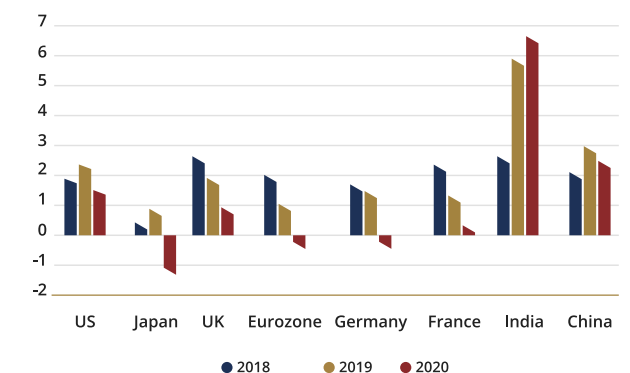
<sup>2</sup>Middle East and Central Asia

In emerging and developing economies (EMDEs), output shrunk by 2.4% in 2020, with noticeable divergence between countries. China was the only large economy to grow by 2.3% during the year thanks to timely and effective containment measures, and forceful public support programmes. Most other EMDEs suffered from output contraction, especially economies that rely heavily on intensive human-contact services and tourism.

## 1.2 INFLATION

Inflation during the year remained well below the 2% target in developed countries (1.4% in the US, 0.9% in the U.K., -0.3% in the Eurozone, and -1.2% in Japan), owing to the impact of low oil prices and subdued demand. In emerging markets and developing economies, CPI inflation declined sharply in the initial stages of the pandemic, but has recently picked up in some countries due to economic disruptions and steep currency depreciation in some cases.

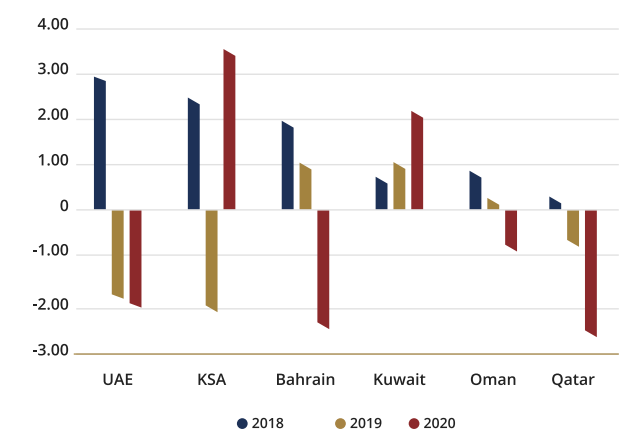
**FIGURE 1.2.a: YEARLY CONSUMER PRICE INFLATION IN SELECTED ECONOMIES (%)**



Source: Bloomberg

In the GCC, Saudi Arabia's annual inflation rate increased from -0.2% in 2019 to 3.4% in 2020, as a result of a value-added tax hike from 5% to 15% in July. All other GCC countries, except Kuwait, experienced negative inflation due to subdued economic activity and falling house prices.

**FIGURE 1.2.b: Y-O-Y CONSUMER PRICE INFLATION IN GCC COUNTRIES (%)**



Source: Bloomberg



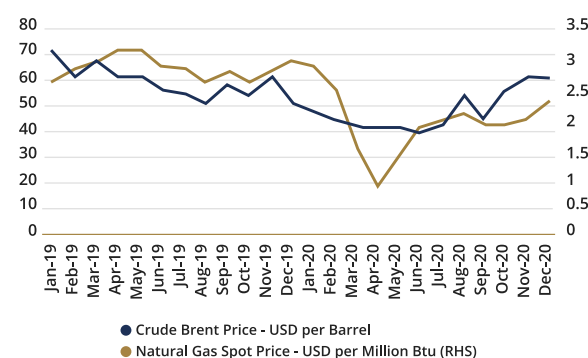
### 1.3 COMMODITY PRICES

The fall in global energy demand far outstripped supply cuts, thereby leading to a slump in prices, especially during the first half of the year.

The price of Brent Crude decreased from USD 67.3 per barrel in December 2019 to USD 50.0 per barrel at the end of December 2020, and from an average of USD 64.3 in 2019 to USD 42.0 per barrel in 2020.

In contrast, gold continued to benefit from safe-haven status, with prices increasing from USD 1,517 per oz. in 2019 to USD 1,899 per oz. in 2020.

**FIGURE 1.3.a: CRUDE BRENT AND NATURAL GAS PRICES**



Source: US Energy Information Administration (EIA)

### 1.4 MONETARY POLICY

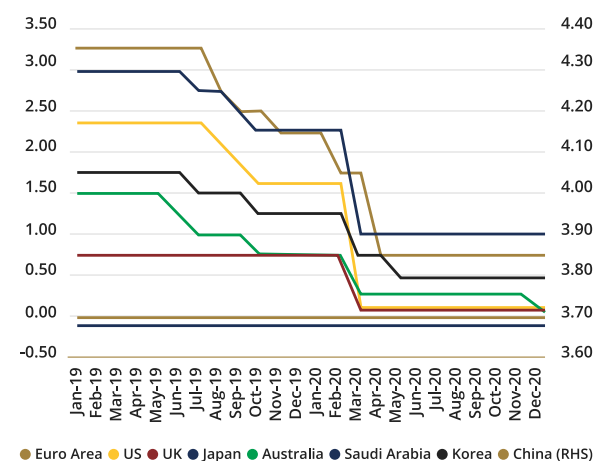
Monetary authorities responded swiftly to the outbreak of the COVID-19. The world's main central banks cut benchmark policy rates to near zero, in addition to unprecedented quantitative easing.

In the U.S., the Federal Reserve lowered the target federal funds rate by 150 bps to a range of 0.0% - 0.25%, in tandem with an asset-purchasing programme at USD 120 billion in monthly bond buys, which expanded the Fed's balance sheet from USD 4.2 trillion at the end of 2019 to USD 7.4 trillion at the end of 2020.

Meanwhile, 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). In addition, the ECB took the following measures: (1) EUR 1,350 billion pandemic emergency purchase programme (PEPP) adopted in June, aimed at lowering borrowing costs and increasing lending in the euro area, (2) longer-term refinancing operations which provided liquidity support to banks and safeguarded money market conditions, and (3) continuing an asset purchase program in the amount of EUR 20 billion per month, as long as needed.

The Bank of England maintained the key bank rate at a record low of 0.1% and the size of its bond-buying programme at GBP 745 billion. Moreover, the stock of asset purchases was expanded in early November by GBP 150 billion which brought the total to GBP 895 billion.

**FIGURE 1.4: POLICY RATES IN SELECTED ECONOMIES (%)**



Source: BIS

## CHAPTER 2. DOMESTIC ECONOMIC DEVELOPMENTS

Economic activity in the UAE remained subdued during 2020 as a result of the global contraction, the cut in oil production due to the implementation of the OPEC+ agreements, and the stringent measures taken to counter the pandemic. As a result, in 2020, the GDP contracted for the first time since the global financial crisis. The surplus of the balance of payments narrowed due to a contraction in exports and net investment income. Headline CPI declined during the year, mainly due to the fall in rents and energy prices, in tandem with a weaker aggregate demand. Meanwhile, the Dirham appreciated in nominal terms, while depreciating in real terms.

### 2.1 ECONOMIC ACTIVITY AND GROWTH

The CBUAE foresees real GDP growth to recover to 2.5% in 2021, with non-oil GDP growing by 3.6% while oil GDP is expected to remain flat as per the production schedule of OPEC+. The recovery in real non-oil GDP growth is expected to be driven by increased fiscal spending in line with higher oil prices, pick up in credit and employment, relative stabilisation of the real estate market, recovery in confidence and the preparation for the Dubai EXPO in 2021.

In 2022, a full recovery is expected, with overall real GDP projected to increase by 3.5%, and non-oil real GDP by 3.9%. This will be the result of continued increase in fiscal spending, healthy credit growth, strong improvement in employment and improved business sentiment - with part of Dubai EXPO taking place in 2022. Furthermore, with the 2022 FIFA World Cup to take place in Qatar, the UAE is expected to benefit by being a major tourism, transit and trade hub in the region.

The non-oil sector experienced challenges in 2020, as lockdowns put in place at the end of Q1 and beginning of Q2, followed by restrictions with varying degree of stringency, led to disruptions in different areas, such as international travel and

tourism, regional and global trade, and supply chains. Resumption of these activities started in the third quarter and further improved by the end of the year.

However, the recovery was partial, subdued by weaker than initially expected fiscal spending and the repercussions of the second wave of COVID-19 pandemic globally. In Q4, restrictions were further eased and travel resumed, while the country started the initial phases of vaccine distribution. Leading economic indicators showed that by the end of the year the decline in residential real estate prices had slowed significantly, with prices in Abu Dhabi registering monthly gains in all the months of the second half of 2020, while employment also picked up towards the end of December. The reduction of PMI in the last quarter of the year, compared to the same period in 2019, was limited to 0.9%, while the index reached 51.2 in December.

The Oxford Stringency Index<sup>1</sup> stabilised from a peak of 90 in April, to below 50 in the last quarter of 2020, indicating further opening of the economy.

The real GDP growth estimate for 2020 is at -5.8%<sup>2,3</sup> with real non-hydrocarbon GDP estimated to have declined by 5.7%.

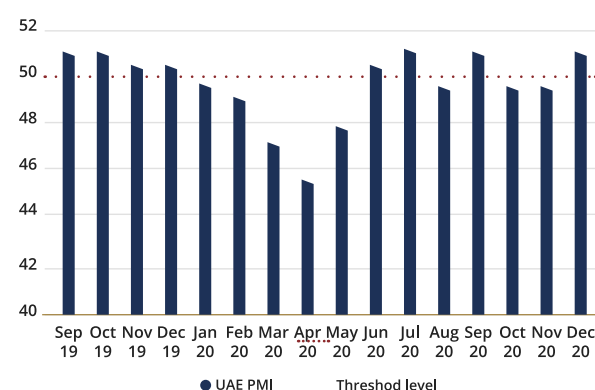
<sup>1</sup> A measure, produced by the University of Oxford, between 0 and 100, indicating how much the country is closed, due to restrictions, aiming to reduce the spread of COVID-19.

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

<sup>3</sup> The CBUAE estimates/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

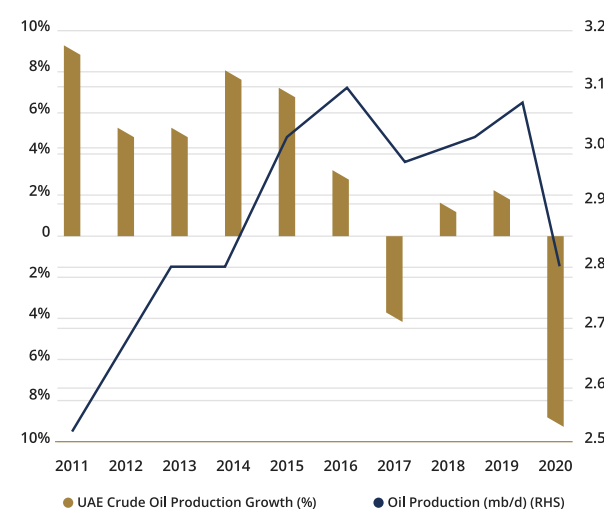
0-100 Index (> 50 = improvement since previous month)



Source: IHS Markit

As an oil exporter, the UAE felt the hit from the fall in global demand for oil due to the contraction in economic activities worldwide, including transportation and international travel. The UAE oil production fell by 9.1% in 2020, in line with the agreement by OPEC+ to stabilise oil prices. 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: AVERAGE UAE CRUDE OIL PRODUCTION (IN MILLION BARRELS PER DAY)



Source: OPEC

TABLE 2.1: 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 the CBUAE estimates and projections for 2020 – 2022.

## 2.2 DEVELOPMENTS IN THE RESIDENTIAL REAL ESTATE MARKET

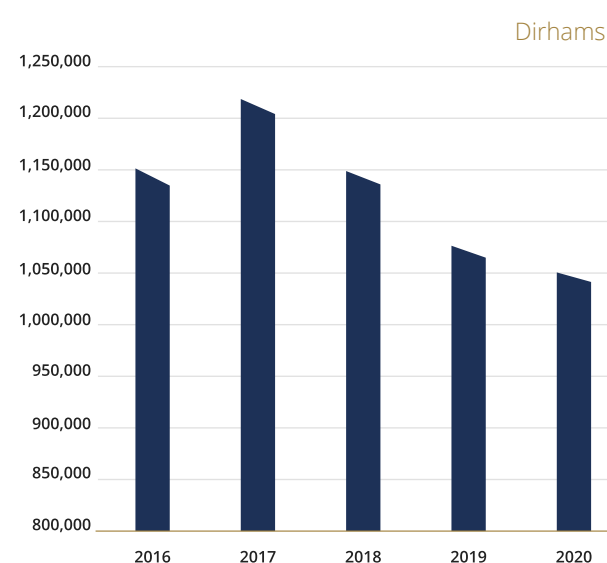
In 2020, average residential real estate prices fell as a result of subdued demand, mainly due to overall economic contraction and restrictions related to COVID-19.

### DUBAI RESIDENTIAL MARKET

According to recent data from Dubai Land Department (DLD)<sup>4</sup>, average residential property prices in the Emirate declined by 2.3% in 2020.

Meanwhile, average rents decreased by 5.0%, an improvement from the 6.2% drop in 2019. The implied average rental yield<sup>5,6</sup> moved to 6.7%, down from 6.8% in the previous year.

FIGURE 2.2.a: AVERAGE DUBAI RESIDENTIAL UNIT SALE PRICES

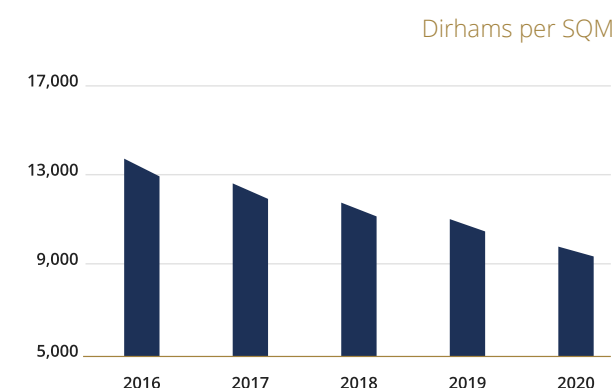


Source: DLD

## ABU DHABI RESIDENTIAL MARKET

According to the REIDIN<sup>7</sup> house price index, average prices in the Abu Dhabi housing market increased in the last two quarters of the year. Although prices witnessed some improvement, this was not enough to offset the fall that took place in the first half of the year, leading to an average annual decline of 6.0%.

FIGURE 2.2.b: ABU DHABI RESIDENTIAL SALE PRICES



Source: REIDIN

Average rents in 2020 declined by 4.4%, a much milder drop than the 7.5% in the previous year. The lower decline in rents compared to sales prices resulted in an increase in the average rental yield to 7.0%, compared to 6.8% in 2019.

## 2.3 THE CONSUMER PRICE INDEX AND INFLATION

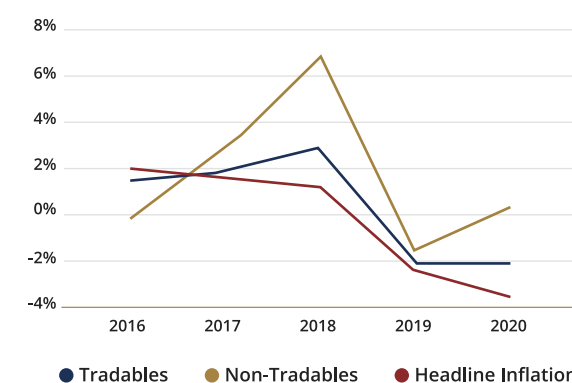
The headline Consumer Price Index (CPI) declined by 2.1%, compared to a drop of 1.9% in 2019. This was the result of a fall of 3.3% in the price of non-tradables - goods and services that are not traded across borders. The price of non-tradeables are mainly determined by domestic supply and demand conditions<sup>8</sup>. Meanwhile, prices of tradables<sup>9</sup> rose by 0.3%.

Tradables' prices, accounting for 34% of the CPI consumption basket, increased due to the rise in the price of food and soft drinks, beverages and tobacco, and textile, clothing and footwear, which was likely due to the disruptions in the global supply chains during the year.

The decline in the housing component by 3.7%, transportation by 5.8%, and recreation and culture by 17.3% were the drivers of the significant drop in the non-tradables prices.

Based on the CBUAE projections, average CPI inflation for 2021 will remain negative, at about -0.6%. The negative inflation will prevail especially in the first half of the year in view of the subdued real estate market and private consumption, while a move into positive territory is expected to start in the second half of the year.

FIGURE 2.3: HEADLINE, TRADABLE AND NON-TRADABLE INFLATION (%)



Source: FCSC

<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> The CBUAE calculates the implied rental yield in Dubai, by dividing the annual rent by the average Dubai residential unit 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.

<sup>8</sup> As per the CBUAE calculations, non-tradables include 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> 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.

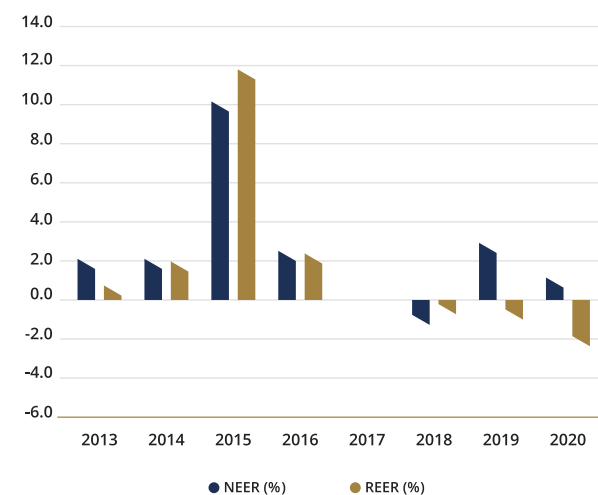


## 2.4 EXCHANGE RATES AND OUTWARD PERSONAL REMITTANCES

### 2.4.1 EXCHANGE RATES

The average Nominal Effective Exchange Rate (NEER) of the Dirham, which takes into account the bilateral exchange rates of the UAE's trading partners, appreciated by 0.7%, lower than its 2019 appreciation of 3.4%, following the same trend as the USD.

**FIGURE 2.4.1: NOMINAL AND REAL EFFECTIVE EXCHANGE RATES APPRECIATION/DEPRECIATION (%)**



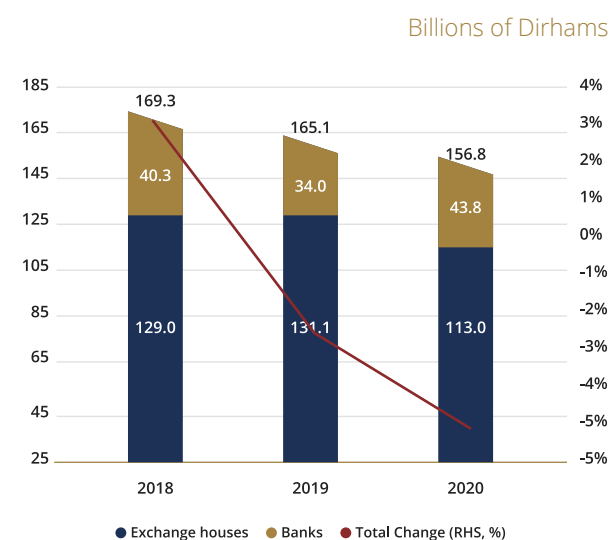
Source: BIS

In real terms, the Dirham Real Effective Exchange Rate (REER), which takes into account the inflation differential between the UAE and its trading partners, depreciated by 3.3% in 2020. The contrast between the REER depreciation compared to the NEER appreciation was due to the lower and negative inflation in the UAE compared to the inflation rates prevailing in its trading partners.

### 2.4.2 OUTWARD PERSONAL REMITTANCES

Outward personal remittances declined by 5.0% or AED 8.3 billion in 2020. Transfers through exchange houses fell by AED 18.1 billion or 13.8%, while outward remittances through banks increased by AED 9.8 billion or 28.8%.

**FIGURE 2.4.2: OUTWARD PERSONAL REMITTANCES SETTLED THROUGH BANKS AND EXCHANGE HOUSES, 2018-2020**



Source: The CBUAE

The top three countries for outward personal remittances in 2020 were India, Pakistan and the Philippines, accounting for 33.6%, 11.9% and 6.7% of the total, respectively. Personal remittances declined by 15.6% and 15.3% for India and the Philippines, while increasing by 5.3% for Pakistan.

## 2.5 BALANCE OF PAYMENTS DEVELOPMENTS

The current account surplus decreased from AED 137.1 billion (8.9% of GDP) in 2019 to AED 77.1 billion in 2020 (5.9% of GDP). This was attributed to the decline in the trade balance by AED 66.6 billion, as oil prices declined from an average of USD 64.3 per barrel in 2019 to USD 42.7 per barrel in 2020<sup>10</sup>.

Primarily due to the decrease in the price of crude oil and other petroleum products, hydrocarbon exports decreased by 36.2%, or AED 79.9 billion, while non-hydrocarbon exports declined by 4.9% (or AED 20.5 billion) as demand contracted in the midst of the unforeseen global pandemic. Furthermore, re-exports decreased by 9.5% (or AED 49 billion). Total exports and re-exports (FOB, in free-on-board prices) decreased by 13% or AED 149.4 billion.

Total imports (FOB), i.e., excluding the cost of insurance and freight for the transport of the goods from the importing partners, decreased by AED 82.8 billion or 9.7% in 2020.

With regard to the services balance, global restrictions drove the Travel and Transport accounts downwards on both the credit and debit sides. On the credit side, a decrease was seen of AED 96.6 billion and on the debit side, the decrease was AED 92.7 billion. This resulted in an increase in the surplus of the balance of services by AED 2 billion.

A fall in the outflow from public sector enterprises by AED 19.7 billion turned net investment income from an inflow of AED 7.6 billion in 2019 to an outflow of 1.7 billion in 2020.

The financial account deficit decreased by AED 11.9 billion, reaching AED -78.5 billion or 6% of GDP. This was mainly due to an increase in inward FDI by AED 7.3 billion.

The overall balance turned from a surplus of AED 35.7 billion in 2019 to a deficit of AED -13.1 billion in 2020.

The net foreign assets of the CBUAE, including the reserve position with the IMF, decreased by AED 13.1 billion.

<sup>10</sup> The CBUAE calculations.

TABLE 2.6: UAE BALANCE OF PAYMENTS STATISTICS (AED, BILLION)

In billion Dirhams

	2019	% change	% of GDP	2020*	% change	% of GDP
<b>I. Current Account Balance (A+B+C+D)</b>	<b>137.1</b>	<b>-9.5</b>	<b>8.9</b>	<b>77.1</b>	<b>-43.8</b>	<b>5.9</b>
<b>A - Trade Balance (FOB)</b>	<b>295.5</b>	<b>-6.1</b>	<b>19.1</b>	<b>228.9</b>	<b>-22.5</b>	<b>17.5</b>
<b>1 - Total Exports of Hydrocarbon</b>	<b>220.8</b>	<b>-10.7</b>	<b>14.3</b>	<b>140.9</b>	<b>-36.2</b>	<b>10.8</b>
1-1 Crude Oil Exports	109.1	-7.2	7.1	68.4	-37.3	5.2
1-2 Petroleum Products Exports	83.4	-12.3	5.4	52.5	-37.1	4.0
1-3 Gas Exports	28.3	-18.3	1.8	20.0	-29.3	1.5
<b>2 - Total Exports of Non-Hydrocarbon</b>	<b>415.0</b>	<b>1.1</b>	<b>26.8</b>	<b>394.5</b>	<b>-4.9</b>	<b>30.1</b>
2-1 Free Zone Exports	264.1	1.1	17.1	251.8	-4.7	19.2
2-2 Other Exports <sup>1</sup>	150.9	1.1	9.8	142.7	-5.4	10.9
<b>Re Exports<sup>2</sup></b>	<b>516.6</b>	<b>-0.9</b>	<b>33.4</b>	<b>467.6</b>	<b>-9.5</b>	<b>35.7</b>
<b>Total Exports &amp; Re Exports ( FOB )</b>	<b>1152.4</b>	<b>-2.3</b>	<b>74.5</b>	<b>1003.0</b>	<b>-13.0</b>	<b>76.6</b>
<b>Total Imports ( FOB )</b>	<b>-856.9</b>	<b>-0.9</b>	<b>-55.4</b>	<b>-774.1</b>	<b>-9.7</b>	<b>-59.1</b>
<b>B- Services ( NET )</b>	<b>7.6</b>	<b>711.1</b>	<b>0.5</b>	<b>9.6</b>	<b>26.4</b>	<b>0.7</b>
<b>4 - Credits</b>	<b>331.5</b>	<b>3.2</b>	<b>21.4</b>	<b>228.2</b>	<b>-31.2</b>	<b>17.4</b>
4-1 Travel***	141.1	3.8	9.1	90.4	-35.9	6.9
4-2 Transport	106.7	2.6	6.9	60.8	-43.0	4.6
4-2-1 Air & Ports	106.0	2.6	6.9	60.1	-43.3	4.6
4-2-2 Postal	0.7	6.0	0.0	0.7	0.0	0.1
4-3 Government Services	3.6	2.9	0.2	3.2	-11.1	0.2
4-4 Other services	80.1	3.0	5.2	73.8	-7.9	5.6
4-4-1 Construction	10.1	3.1	0.7	7.6	-24.8	0.6
4-4-2 Intellectual property	14.1	3.3	0.9	11.2	-20.6	0.9
4-4-3 Information - Computer – Telecom.	25.4	2.7	1.6	29.1	14.6	2.2
4-4-3-1 Computer	18.5	2.5	1.2	21.9	18.4	1.7
4-4-3-2 Information & Telecom	6.9	3.2	0.4	7.2	4.3	0.5
4-4-4 Other <sup>3</sup>	30.5	2.9	2.0	25.9	-15.1	2.0

<sup>1</sup> Including estimates of other exports from all emirates<sup>2</sup> Including re-exports of non-monetary gold<sup>3</sup> Includes estimation for financial services, research and development services, professional and management consulting services, technical, trade-related and other business services, and the rest of insurance services apart from cargo

UAE Balance of Payments Statistics (Continued)

	2019	% change	% of GDP	2020*	% change	% of GDP
<b>5 - Debits</b>	<b>-323.9</b>	<b>1.1</b>	<b>-20.9</b>	<b>-218.6</b>	<b>-32.5</b>	<b>-16.7</b>
5-1 Travel	-122.6	1.5	-7.9	-55.4	-54.8	-4.2
5-2 Transport	-56.0	2.0	-3.6	-30.5	-45.5	-2.3
5-2-1 Air & Ports	-55.5	1.9	-3.6	-30.0	-45.9	-2.3
5-2-2 Postal	-0.5	13.6	0.0	-0.5	0.0	0.0
5-3 Government Services	-4.9	3.2	-0.3	-5.0	2.0	-0.4
5-4 Freight & Insurance	-95.2	-0.9	-6.2	-86.0	-9.7	-6.6
5-5 Other services	-45.2	3.2	-2.9	-41.7	-7.7	-3.2
5-5-1 Construction	-9.9	3.3	-0.6	-7.4	-25.3	-0.6
5-5-2 Intellectual property	-10.6	3.6	-0.7	-6.9	-34.9	-0.5
5-5-3 Information - Computer – Telecom.	-13.1	2.9	-0.8	-15.8	20.6	-1.2
5-5-3-1 Computer	-2.6	1.5	-0.2	-5.8	123.1	-0.4
5-5-3-2 Information & Telecom	-10.5	3.2	-0.7	-10.0	-4.8	-0.8
5-5-4 Other <sup>3</sup>	-11.6	3.2	-0.8	-11.6	0.0	-0.9
<b>C - Investment Income (NET)</b>	<b>7.6</b>	<b>45.2</b>	<b>0.5</b>	<b>-1.7</b>	<b>-122.4</b>	<b>-0.1</b>
C-1 Banking System <sup>4</sup>	-5.1	-26.0	-0.3	-2.8	-45.1	-0.2
C-2 Private non-banks	-6.0	23.8	-0.4	-3.0	-50.0	-0.2
C-3 Enterprises of Public Sector	35.6	0.9	2.3	15.9	-55.3	1.2
C-4 Official Debt Services (Interest)	-6.6	1.5	-0.4	-3.4	-48.5	-0.3
C-5 Foreign Hydrocarbon Companies in UAE	-10.3	-12.7	-0.7	-8.4	-18.4	-0.6
<b>D - Transfers ( NET )</b>	<b>-173.6</b>	<b>2.5</b>	<b>-11.2</b>	<b>-159.7</b>	<b>-8.0</b>	<b>-12.2</b>
D-1 Public	-34.0	18.8	-2.2	-32.0	-5.9	-2.4
D-1-1 Inflows	0.0		0.0	0.0		0.0
D-1-2 Outflows	-34.0	18.8	-2.2	-32.0	-5.9	-2.4
D-2 Private	-139.6	-0.8	-9.0	-127.7	-8.5	-9.7
D-2-1 Inflows	25.5	-10.6	1.6	22.3	-12.5	1.7
D-2-2 Outflows	-165.1	-2.5	-10.7	-150.0	-9.1	-11.4

<sup>4</sup> Central Bank and all banks

\* Preliminary estimates subject to revision

\*\* Source: the Federal Competitiveness and Statistics Centre (FCSC)

\*\*\* Negative numbers of international reserves indicate an increase, positive numbers indicate a decrease



## UAE Balance of Payments Statistics (Continued)

	2019	% change	% of GDP	2020*	% change	% of GDP
<b>II. Financial Account</b>	<b>-90.4</b>	<b>-32.9</b>	<b>-5.8</b>	<b>-78.5</b>	<b>-13.2</b>	<b>-6.0</b>
a. Private capital	-75.0	-36.4	-4.8	-67.8	-9.6	-5.2
a-1 Direct Investment	-12.3	-28.4	-0.8	3.4	-127.6	0.3
a-1-1 Outward	-77.9	40.8	-5.0	-69.5	-10.8	-5.3
a-1-2 Inward**	65.6	71.9	4.2	72.9	11.1	5.6
a-2 Portfolio Investment	4.1	2.5	0.3	4.0	-2.4	0.3
a-3 Banks	-31.5	-58.8	-2.0	-42.4	34.6	-3.2
a-3-1 Securities	-63.8	217.8	-4.1	-34.2	-46.4	-2.6
a-3-1-2 Other investment (loans, deposits)	32.3	-157.3	2.1	-8.2	-125.4	-0.6
a-4 Private nonbanks	-35.3	24.7	-2.3	-32.8	-7.1	-2.5
b. Enterprises of Public Sector	-15.4	-7.8	-1.0	-10.7	-30.5	-0.8
<b>III. Errors and omissions</b>	<b>-11.3</b>	<b>194.7</b>	<b>-0.7</b>	<b>-12.2</b>	<b>7.9</b>	<b>-0.9</b>
<b>Overall balance (I+II+III+IV)</b>	<b>35.7</b>	<b>166.4</b>	<b>2.3</b>	<b>-13.1</b>	<b>-136.7</b>	<b>-1.0</b>
Change in Reserves at the Central Bank***	-35.4	172.3	-2.3	13.6	-138.4	1.0
IV. Change in Reserve Position with IMF & SDR***	-0.3	-25.0	0.0	-0.5	66.7	0.0
<b>Total change in International Reserves***</b>	<b>-35.7</b>	<b>166.4</b>	<b>-2.3</b>	<b>13.1</b>	<b>-136.7</b>	<b>1.0</b>

## UAE Central Bank

Foreign Assets (including the IMF)	<b>397.9</b>	<b>8.9</b>	<b>25.7</b>	<b>391.9</b>	<b>-1.5</b>	<b>29.9</b>
Foreign Assets of the Central Bank	394.7	8.9	25.5	388.1	-1.7	29.6
Reserve Position with IMF & SDR	3.2	10.3	0.2	3.8	18.8	0.3
Reserve Position with IMF	2.4	14.3	0.2	3.0	25.0	0.2
SDR Holding	0.8	0.0	0.1	0.8	0.0	0.1
Foreign Liabilities (including the IMF)	3.7	-47.1	0.2	10.8	191.9	0.8
SDR Allocation	2.9	0.0	0.2	3.0	3.4	0.2
Foreign Liabilities of the Central Bank	0.8	-80.5	0.1	7.8	875.0	0.6
Net Foreign Assets (including the IMF)	394.2	10.0	25.5	381.1	-3.3	29.1
Net Foreign Assets at the Central Bank (Excluding the IMF)	393.9	9.9	25.5	380.3	-3.5	29.0
Change in Net Foreign Assets (including the IMF)	35.7	166.4	2.3	-13.1	-136.7	-1.0
Change in Net Foreign Assets at the Central Bank (Excluding the IMF)	35.4	172.3	2.3	-13.6	-138.4	-1.0
Change in Reserve Position with IMF + SDR	0.3	-25.0	0.0	0.5	66.7	0.0

## THE CBUAE'S TARGETED ECONOMIC SUPPORT SCHEME

The CBUAE announced a comprehensive AED 100 billion Targeted Economic Support Scheme (TESS) for banks and financial institutions under its jurisdiction on 14 March. The scheme was expanded to AED 256 billion on 4 April, in response to the potential widening repercussions of the pandemic on the domestic economy.

The TESS consisted of the following measures: (1) AED 50 billion of funds made available through collateralised loans at zero cost to all banks and finance companies operating in the UAE, (2) AED 50 billion of funds freed up from banks' capital buffers, (3) a reduction of the required reserve ratio on demand deposits by half, to 7%, freeing up about AED 61 billion of liquidity for banks, and (4) AED 95 billion equivalent in relief through reduced liquidity requirements for banks. Additional TESS measures were introduced on 8 August, in relation to stable funding relief, which further enhanced banks' lending capacity to support the UAE economy.

The TESS deferral programme provided eligible retail and private corporate bank clients with temporary relief from the payments of principal and/or interest during the period when their cash-flows were disrupted. In particular, the enhanced TESS supported micro, small and medium enterprises (MSMEs) by encouraging banks to provide small businesses with payment deferrals and access to new credit lines.

All UAE national banks along with several participating foreign banks operating in the UAE played an active and effective role in providing relief to businesses and households, in line with the objectives of the TESS. The banks' capital and liquidity relief was conditional on their participation in the TESS Zero Cost Facility (ZCF) deferral programme.

By the end of the year, about 10,000 MSMEs benefited from the TESS loan deferral programme, in addition to 2,000 other private companies and more than 310,000 people.

On 16 November, the CBUAE extended the applicability period of the TESS deferral programme until the end of June 2021. Starting 1 January 2021, participating financial institutions may also grant new loans/financing through the TESS recovery program. According to the CBUAE's forecast, the UAE economy will rebound in 2021, with non-oil GDP growth to recover to 3.6%. The TESS will continue to have an active role during 2021 in support of the UAE economic recovery.

## CHAPTER 3. BANKING AND FINANCIAL DEVELOPMENTS

Deposits at banks and gross credit increased in 2020, despite the economic contraction. Meanwhile, the financial soundness indicators remained healthy, which is testament to the positive impact of the CBUAE's enhanced Targeted Economic Support Scheme (TESS) and the gradual recovery of the economy.

### 3.1 BANKING STRUCTURE

The number of licensed commercial banks in the UAE decreased by one with the closure of MUFG Bank - Abu Dhabi, bringing the total to 58 (21 national banks, 37 foreign banks, 10 wholesale banks). Moreover, the need for operating efficiency and cost effectiveness has driving digitisation. The number of bank branches decreased from 656 at the end of 2019 to 541 at the end of 2020, while the number of banks' staff fell by 2,193 (-6.2%) to 33,444 at the end of 2020.

#### 3.1.1 Bank Deposits

Resident deposits (89.3% of total deposits) increased by 2.0% Y-o-Y owing mainly to an increase in private sector deposits by 4.0% (AED 42.2 billion), in addition to a rise in GREs' deposits by 3.9% (AED 9.5 billion). Meanwhile, non-resident deposits (10.7% of total deposits) declined by 8.6% (AED 19.0 billion).

**TABLE 3.1.1.a: TOTAL DEPOSITS AT UAE BANKS**

(In billion of Dirhams, unless otherwise indicated)

Item	Dec-18	Dec-19	Dec-20
<b>Bank Deposits</b>	<b>1,756</b>	<b>1,870</b>	<b>1,885</b>
(Y-o-Y change %)	7.9	6.5	0.8
<b>Resident Deposits</b>	<b>1,542</b>	<b>1,649</b>	<b>1,682</b>
(Y-o-Y change %)	7.4	6.9	2.0
<b>Government Sector</b>	<b>290</b>	<b>303</b>	<b>287</b>
(Y-o-Y change %)	36.9	4.4	-4.6
<b>GREs</b>	<b>207</b>	<b>244</b>	<b>255</b>
(Y-o-Y change %)	8.1	17.7	3.9
<b>Private Sector</b>	<b>1,009</b>	<b>1,058</b>	<b>1,100</b>
(Y-o-Y change %)	0.8	4.8	4.0
<b>NBFI</b>	<b>36</b>	<b>44</b>	<b>40</b>
(Y-o-Y change %)	14.1	24.8	-9.9
<b>Non-Resident Deposits</b>	<b>213</b>	<b>221</b>	<b>202</b>
(Y-o-Y change %)	11.3	3.7	-8.6

Source: The CBUAE  
All data indicate the end of period values unless otherwise indicated

Data by bank type showed the share of deposits at the end of the year were at 78.2% and 21.8% in conventional and Islamic banks, respectively. The share of national and foreign banks for customer deposits was 87.7% and 12.3%, respectively.

### 3.1.2 Banks' Assets and Credit

Total assets increased by 3.4% and gross credit increased by 1.2%. In addition, domestic credit increased by 0.3%, owing mainly to the rise in credit to GREs by 18.7% (AED 34.6 billion), while credit to both the government and the private sector declined.

**TABLE 3.1.2.a: ASSETS AND CREDIT AT UAE BANKS**

(In billion of Dirhams, unless otherwise indicated)

Item	Dec-18	Dec-19	Dec-20
<b>Total Assets</b>	<b>2,867</b>	<b>3,086</b>	<b>3,188</b>
(Y-o-Y change %)	6.5	7.6	3.4
<b>Gross Credit</b>	<b>1,656</b>	<b>1,759</b>	<b>1,779</b>
(Y-o-Y change %)	4.8	6.2	1.2
<b>Domestic Credit</b>	<b>1,509</b>	<b>1,594</b>	<b>1,597</b>
(Y-o-Y change %)	3.9	5.6	0.3
<b>Government</b>	<b>192</b>	<b>258</b>	<b>252</b>
(Y-o-Y change %)	9.2	34.9	-2.1
<b>GREs</b>	<b>168</b>	<b>185</b>	<b>220</b>
(Y-o-Y change %)	-2.6	9.9	18.7
<b>Private Sector</b>	<b>1,130</b>	<b>1,135</b>	<b>1,108</b>
(Y-o-Y change %)	4.0	0.4	-2.3
<b>NBFI</b>	<b>20</b>	<b>16</b>	<b>17</b>
(Y-o-Y change %)	7.5	-19.5	8.5
<b>Foreign Credit</b>	<b>147</b>	<b>165</b>	<b>182</b>
(Y-o-Y change %)	15.0	12.6	9.8

Source: The CBUAE  
All data indicate the end of period values unless otherwise indicated

Lending by economic activity showed that the highest yearly increase was in transport, storage and communication (48.6% or AED 27.7 billion), followed by construction and real estate (5.3% or AED 16.4 billion). Nonetheless, lending to trade decreased by 9.2% (AED 13.9 billion), followed by a decrease in credit to manufacturing by 8.6% (AED 6.9 billion). These activities were among the hardest hit by the pandemic.

**TABLE 3.1.2.b: BANK LENDING BY ECONOMIC ACTIVITY**

(In billion of Dirhams, unless otherwise indicated)

Economic Activity	Dec-19	Dec-20
<b>Total</b>	<b>1,593</b>	<b>1,597</b>
(Y-o-Y change %)	5.5	0.3
<b>Of which:</b>		
<b>Construction and Real Estate</b>	<b>311</b>	<b>328</b>
(Y-o-Y change %)	-1.4	5.3
<b>Trade</b>	<b>153</b>	<b>139</b>
(Y-o-Y change %)	-0.9	-9.2
<b>Transport, Storage and Communication</b>	<b>57</b>	<b>85</b>
(Y-o-Y change %)	10.8	48.6
<b>Manufacturing</b>	<b>80</b>	<b>74</b>
(Y-o-Y change %)	4.5	-8.6

Source: The CBUAE  
All data indicate the end of period values unless otherwise indicated

Analysis by type of banks showed the share at the end of 2020 for 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 a 10.2% share in gross credit. On a yearly basis, total assets of national banks increased by 3.6% and total assets of foreign banks increased by 1.9%.

Bank lending to Micro, Small and Medium Enterprises (MSMEs) increased by AED 3.3 billion to reach AED 92.8 billion, 3.7% 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 81.0% at the end of December 2019 to 77.6% at the end of December 2020, which indicates that the structural liquidity of the banking sector has improved.

Eligible Liquid Assets<sup>11</sup> as a percent of total liabilities<sup>12</sup> increased to reach 18.4%, well above the 10% regulatory minimum requirement, constituting an adequate buffer for the banking system.

<sup>11</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

<sup>12</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>



Total liquid assets at banks at the end of December 2020, stood at AED 474.2 billion, i.e., AED 18.3 billion higher compared to the end of 2019 (4.0% increase).

Overall, the UAE banking system remains well capitalised, with an average Capital Adequacy Ratio (CAR) at 18.1%, Tier 1 Capital Ratio at 17.0%, and Common Equity Tier 1 Ratio (CET 1) at 14.8%<sup>13</sup> at the end of the year.

The Loan to Deposit (LTD) ratio for the whole banking system increased to 94.5% at the end of 2020, from 94.0% at the end of 2019.

**TABLE 3.1.3.a: UAE FINANCIAL SOUNDNESS INDICATORS**

(In %)

Item	Dec-18	Dec-19	Dec-20
Advances to Stable Resources Ratio (ASRR)	82.3	81.0	77.6
Eligible Liquid Assets Ratio (ELAR)	17.5	18.1	18.4
Capital Adequacy Ratio (CAR)	17.5	17.7	18.1
Tier 1 Capital Ratio	16.2	16.5	17.0
CET 1 Ratio	14.3	14.7	14.8

Source: The CBUAE  
All data indicate the end of period values unless otherwise indicated

## 3.2 FINANCIAL DEVELOPMENTS

### 3.2.1 Share Prices

Stock markets continued their upward trend worldwide in 2020 despite the continued economic contraction and rising risks. Additionally, due to improved investor sentiment and economic recovery hopes after the vaccine rollouts, the MSCI World Index gained 14.1% over the year.

On the other hand, the Abu Dhabi Securities Exchange (ADX) share price index slightly declined in 2020 by 0.6% Y-o-Y, while the Dubai Financial Market (DFM) index declined by 9.9% over the same period.

At the same time, the combined market capitalization of both ADX and DFM reached AED 1.1 trillion in 2020, an increase of 19.6% from 2019, supported by the rise in foreign ownership limits of several listed companies along with new listings.

**TABLE 3.2.1: UAE SECURITIES MARKETS**

(Y-o-Y % change)

Item	December		
	2018	2019	2020
Share Price Index	11.7	3.3	-0.6
Abu Dhabi Market Capitalisation	10.5	5.1	39.8
Turnover (Traded Value)	105.6	-32.5	129.3
Share Price Index	-24.9	9.3	-9.9
Dubai Market Capitalisation	-12.9	9.0	-9.1
Turnover (Traded Value)	-57.2	13.3	35.0

Source: SCA  
Note: Change based on annual average values for the share price index and market capitalisation.

### 3.2.2 Credit Default Swaps (CDS)

CDS, i.e. the insurance premium the lender pays to be reimbursed in case the borrower defaults, increased worldwide in the first half of 2020 due to the pandemic. In Abu Dhabi, the CDS premium increased by 10.5 basis points (bps) to reach 64.5bps in 2020, while in Dubai, it increased by 43.2 bps to reach 171.4 bps. The moderate increase is testament to low risks associated with UAE sovereigns during this period.

**Table 3.2.2: UAE – Sovereign Credit Default Swaps**

(In bps)

	2017	2018	2019	2020
Abu Dhabi	53.8	62.6	54.0	64.5
Dubai	123.7	118.2	128.2	171.4

Source: Bloomberg  
Note: All data are yearly averages.

## CHAPTER 4. INTEREST RATES AND MONEY SUPPLY

LIBOR rates declined sharply during 2020, in line with the cut in policy rates by key monetary authorities, in an attempt to counter the repercussions of COVID-19. The spread between the EIBOR and the USD LIBOR narrowed, and the 10-year swap interest rate on the Dirham fell. Meanwhile, money supply increased, owing to increased resident private sector deposits, while government deposits declined.

### 4.1 INTEREST RATES

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

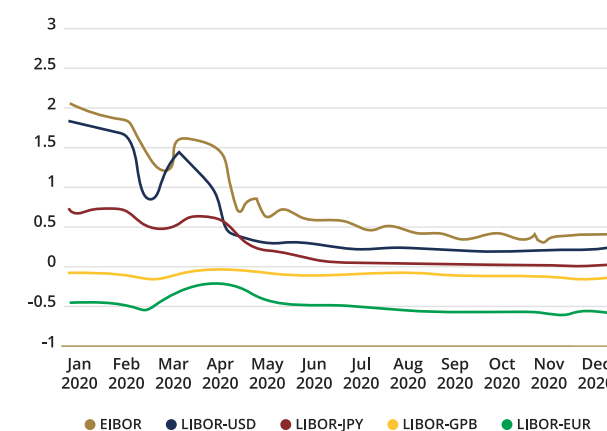
The 3-month USD LIBOR sharply declined during the year, from 1.9% in the last week of 2019 to 0.2% in the last week of 2020. This resulted mainly from the substantial monetary easing engineered by the Fed to counter the COVID-19 repercussions on the economy and the Fed's commitment to keep low rates through 2023.

Similarly, the Bank of England cut its Base Rate by 50 bps to 0.25% in March 2020 then to 0.1% in April to control the economic shock of the pandemic amid persistent uncertainties about the no-deal Brexit, which lasted until Christmas Eve.

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

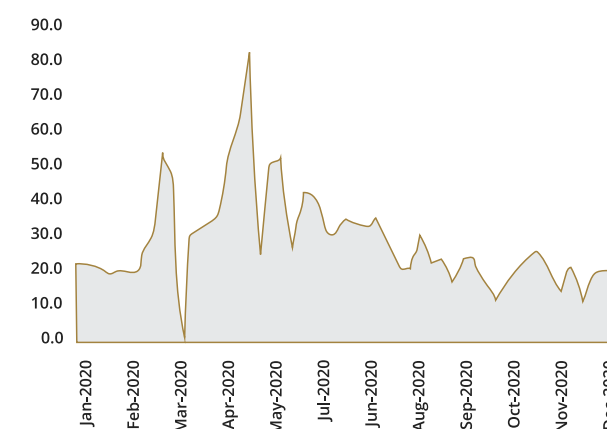
Following the CBUAE's decision on 16 March to cut the interest rate applicable to the 1-week Certificates of Deposit by 75 basis points, in line with the Federal Funds Target Rate - Upper Bound, the 3-month EIBOR generally declined in line with the 3-month USD LIBOR, from 2.2% in the last week of 2019 to 0.4% in the last week of 2020.

**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

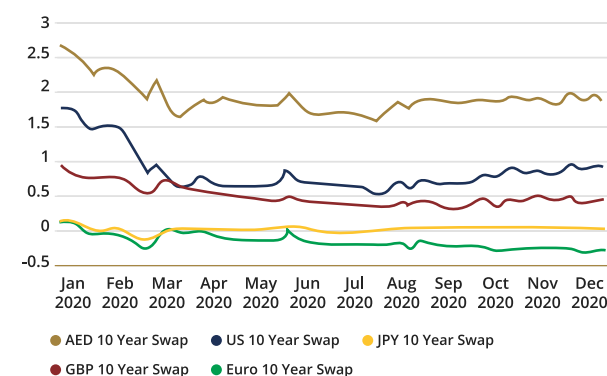
The Spread 3-month EIBOR vis-à-vis 3-month USD LIBOR decreased from 24.2 bps in the last week of 2019 to 19.2 bps at the end of 2020.

<sup>13</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.

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

Interest rate swaps involve an exchange of a fixed rate for a floating rate payment that is linked to a specified benchmark rate. The 10-year swap rate on the Dirham decreased from 2.8% in the last week of 2019 to 1.9% in the last week of 2020.

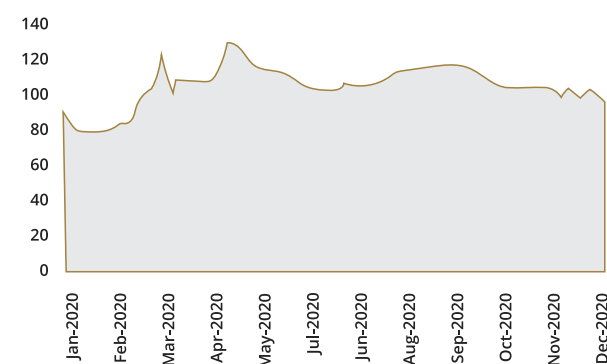
**FIGURE 4.1.c: SELECTED 10-YEAR INTEREST RATE SWAPS (%)**



Source: Bloomberg, weekly data

The spread of the 10-year swap rate on the Dirham vs. that on the US dollar declined during 2020 (figure 4.1.d).

**FIGURE 4.1.d: SPREAD OF 10-YEAR AED SWAP VS. USD SWAP (BPS)**



Source: Bloomberg, weekly data

## 4.2 MONEY SUPPLY

Money supply increased during the year due to an increase in resident private sector deposits.

Monetary aggregate  $M_1^{14}$  increased by 16.6% (AED 85.2 billion) to reach AED 600.0 billion, driven by the rise in monetary deposits (84.2% of  $M_1$ ) by 15.7% (AED 68.7 billion) to reach AED 505.3 billion, and an increase in currency in circulation outside banks (15.7% of  $M_1$ ) by 21.1% (AED 16.5 billion) to reach AED 94.7 billion.

**TABLE 4.2.1: MONEY SUPPLY IN THE UAE**

In billion Dirhams

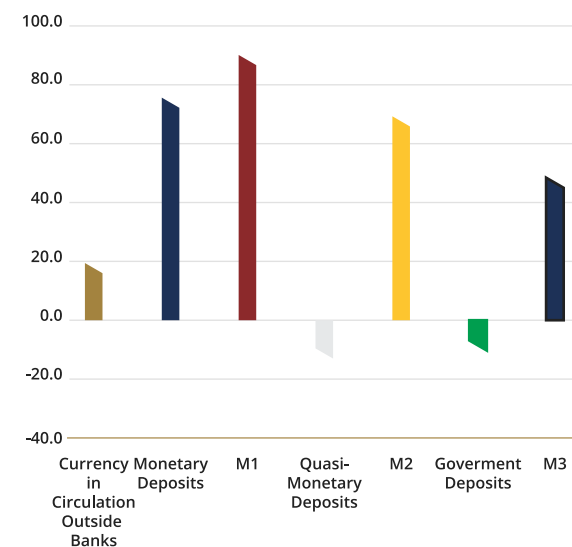
	$M_1$	$M_2$	$M_3$
Dec-19	514.8	1,411.5	1,717.4
Dec-20	600.0	1,478.5	1,769.3

Source: The CBUAE

Meanwhile, monetary aggregate  $M_2^{15}$  increased by 4.7% (AED 67.0 billion) to reach AED 1,478.5 billion, as the above-indicated rise in  $M_1$  was partially offset by a drop in quasi-monetary deposits (59.4% of  $M_2$ ) of AED 18.2 billion. The latter was due to the fact that the low interest rates made term deposits less attractive.

**FIGURE 4.2: MONETARY AGGREGATES IN 2020 (Y-O-Y CHANGE) 2020**

In billions of Dirhams



Source: The CBUAE

$M_3^{16}$  increased by 3.0% (AED 51.9 billion) to reach AED 1,769.3 billion. The lower increase compared to  $M_2$  is due to the fact that government deposits at both banks and the Central Bank (16.4% of  $M_3$ ) declined during the year by AED 15.1 billion, reaching AED 290.8 billion.

<sup>14</sup> Currency in Circulation outside banks + Monetary Deposits

<sup>15</sup>  $M_1$  + Quasi-Monetary Deposits

<sup>16</sup>  $M_2$  + Government Deposits at banks and the CBUAE

## PART 2

## KEY HIGHLIGHTS IN 2020



## 1. 2020 STRATEGIC PRIORITIES

In 2020, the CBUAE continued its journey to become a leading central bank. Over the course of the year, much work was undertaken to improve all areas of operation and strategy while embracing a culture of innovation and digitalisation. This work included strategic initiatives to enhance banking and financial stability, strengthen monetary and reserve management, further improve supervision and regulatory frameworks, and promote a culture of innovation and excellence.

In 2020, the CBUAE made significant progress on our strategic priorities and focus areas:

- 1. Dirham Monetary Framework:** Introduction of the Dirham Monetary Framework to achieve the CBUAE's monetary policy objectives and facilitate better management of liquidity in the UAE banking system. The implementation roadmap of the new Dirham Monetary Framework will be fully completed by the end of 2021.
- 2. Financial Crisis Management:** Implementation of a the CBUAE's comprehensive financial crises management framework and its application through the Targeted Economic Support Scheme in response to the COVID-19 repercussions.
- 3. National Payment Strategy:** Advancement of the National Payment Strategy to ensure safe, innovative and convenient electronic payments to support the drive to become a cashless society.
- 4. FinTech Strategy:** The CBUAE developed a FinTech Strategy and established a dedicated FinTech Office supported by a series of regulations to improve the financial intermediation and advance UAE's position as a global FinTech hub.
- 5. Islamic Finance Roadmap:** Implementation of strategy for regulation of Islamic Finance in the UAE.
- 6. Compliance with AML/CFT Standards:** In 2020, the CBUAE prepared revisions to the UAE's National Strategy and action plan to ensure the UAE's adherence to global best practices and standards in anti-money laundering and combatting of terrorism financing.
- 7. Consumer Protection Regulations:** Issuance of consumer protection regulations to improve market conduct and customer confidence in the financial system.

- 8. Implementation of Enhanced Risk-Based Supervision Approach:** The CBUAE continues to improve its supervisory framework and enforcement capabilities, and ensure compliance with the Basel Core Principles and Principles for Financial Market Infrastructures. The CBUAE is making good progress towards our target to further increase the compliance with best practices and global standards. The CBUAE is investing in transforming its Banking Supervision function and exploring ways of adopting new and innovative technologies.

In line with the UAE government's 'Towards the next 50' programme, the CBUAE developed a roadmap for the next five decades. The plan firmly focuses on strengthening monetary and financial stability, the effective management of reserves and the creation of a robust infrastructure in line with the global best practices, in addition to achieving the goal of becoming a pioneer in innovation and supporting the UAE's digital transformation journey.

## 2. TARGETED ECONOMIC SUPPORT SCHEME (TESS) TO ADDRESS THE COVID-19 REPERCUSSIONS

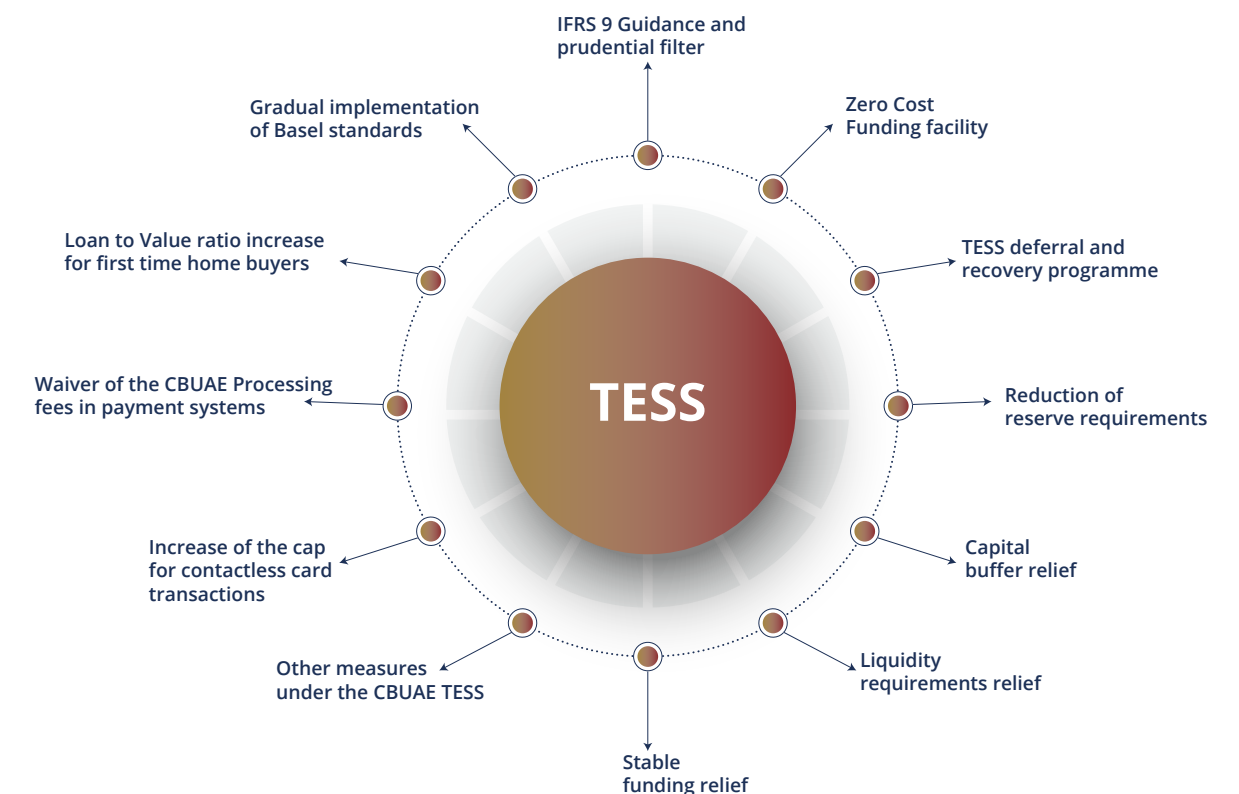
Over a period of several years, the CBUAE prepared contingency plans for the event of financial crisis, resulting in internal Financial Crisis Preparedness and Management Framework. The framework designates appropriate response to different kind of disturbances in the financial system, including both financial and conventional threats, such as the pandemic.

As the potential scale of the global COVID-19 pandemic became apparent, the UAE witnessed the launch of the CBUAE Targeted Economic Support Scheme (TESS) – an AED 256 billion stimulus package to enable banks and finance companies to support businesses and households so that economic momentum would recover quickly from the crisis.

In particular, TESS measures contributed to maintaining the UAE banking sector's funding and liquidity, as evidenced by growth of deposit and lending during the year.

The CBUAE encouraged all UAE national banks along with participating foreign banks operating in the UAE to play an active and effective role in providing financial relief to private business and households and positively contributing to the national economy. The TESS loan deferral programme, one of the implemented measures within the scheme, benefited more than 320,000 bank customers in 2020.

## TESS MEASURES



Reaffirming the CBUAE's commitment to the preparedness of the banking sector to cope with the economic consequences of the pandemic, the Governor of the CBUAE, H.E. Abdulhamid M. Saeed Alahmadi, held regular meetings with the CEOs of banks operating in the country, focusing on the implementation of TESS measures. The interactions were aimed at complementing the CBUAE's regular monitoring of banking and financial sector trends with feedback from the country's banking executives on structural, financial and real economy issues. These meetings also covered topics relevant to banking and financial stability as well as macro-prudential conditions.

**The Central Bank of the UAE is honoured to be recognised as an essential hero institution by the Frontline Heroes Office**

for safeguarding the stability of the UAE's financial system and economy during the COVID-19 pandemic

TESS by the CBUAE was hailed by the Frontline Heroes Office, an initiative decreed by His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE, to recognise the CBUAE as an essential institution for safeguarding the financial system and economy during the pandemic.

### 3. TACKLING MONEY LAUNDERING AND THE FINANCING OF TERRORISM IN THE UAE

In April 2020, the Financial Action Task Force (FATF) issued its Mutual Evaluation Report (MER) on the UAE's Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) measures. Based on an assessment conducted in 2019, the MER analyses the level of the UAE's compliance with the FATF 40 Recommendations and effectiveness of its AML/CFT system and provides recommendations on how the system could be strengthened.

Subsequently the UAE's National AML/CFT Committee, chaired by the Governor of the CBUAE, H.E. Abdulhamid M. Saeed Alahmadi, revised the UAE's National Strategy in line with the risks identified in the MER and the UAE's National Risk Assessment. This is supported by an enhanced National Action Plan, which outlines detailed series of initiatives and actions with multiple domestic stakeholders and authorities to implement the MER's recommendations.

#### Establishment of the AML/CFT Supervision Department (AMLD)

The AMLD was established in the CBUAE in August 2020 to handle all matters pertaining to AML/CFT that were previously under the remit of the Banking Supervision Department. AMLD reports directly to H.E. Khaled Mohammed Balama Al Tameemi, Vice Governor of the CBUAE.

The strategic objective of the Department is to examine Licensed Financial Institutions (LFIs), ensuring adherence to the UAE's AML/CFT legal and regulatory framework, and identify relevant threats, vulnerabilities and emerging risks in the UAE financial sector. AMLD coordinates closely with the UAE's National AML/CFT Committee to effectively implement the National Action Plan.

AMLD's functions are allocated to three divisions, each with defined mandates:

- **Compliance and Examination:**

Devises the annual AML/CFT risk-based supervisory plan, conducts supervisory examinations and issues corrective actions to LFIs. It also recommends sanctions and disciplinary measures in addressing cases of non-adherence by LFIs.

- **Policy and Cooperation:**

Prepares policy and guidance for supervised LFIs, performs outreach activities, handles requests for information from local and international regulators, manages coordination with national committees and other authorities and liaises with domestic and international stakeholders.

- **Research and Risk Analysis:**

Collects AML/CFT related data points from LFIs and other stakeholders, performs institutional and sectoral risk assessments and creates dashboards for risk analysis to identify areas of vulnerability in LFIs for input to the AMLD's compliance and examination plans.

Within the CBUAE, the Department coordinates with the Banking Supervision Department's Examination Division for exchanging AML/CFT information on LFIs and Enforcement Division on imposing penalties required as per the CBUAE's legal, regulatory and enforcement framework.

Externally, the Department cooperates with domestic stakeholders to enhance the LFIs' compliance with AML/CFT requirements, including with UAE supervisory, regulatory and law enforcement authorities, the UAE Financial Intelligence Unit (FIU) and the UAE Banks Federation (UBF). The Department also cooperates with international stakeholders to exchange information on best practices on AML/CFT processes, and with foreign supervisors to handle requests for information on AML/CFT cases and perform joint AML/CFT examinations.

### Key AML/CFT 2020 Actions

The CBUAE defined compliance with the MER recommendations as the key strategic objective and focus area for 2020-2021 and contributed to the development of detailed action items for the National Action Plan.

In 2020, the CBUAE conducted AML/CFT examinations in 28 local and foreign banks, 61 exchange houses and 2 finance companies operating in the UAE. The examinations covered areas of risk assessment, risk culture and governance, as well as focused on expertise, systems, tools and processes necessary for the LFIs to maintain an effective AML/CFT framework. In addition, the CBUAE evaluated the LFIs' transaction monitoring systems to ensure suspicious activities and transactions are reported with sound rationale and in a timely manner.

The CBUAE enhanced its supervisory tools by introducing an automated tool to test the adequacy and effectiveness of LFI's sanctions screening systems that was used to test over 90 systems at 35 LFIs. The aim of this review was to determine whether sanctions screening systems have the capability to detect all sanctioned persons and entities as per United Nation Security Council Resolutions, in line with the UAE's Federal Decree Law No. (20) of 2018 and Cabinet Decision No. (10) of 2019.

Furthermore, during 2020, the CBUAE performed a comprehensive AML/CFT data collection exercise to evaluate and risk-rate money laundering and terrorist financing inherent risks, controls and residual risks in all LFIs.

The CBUAE led the development of a joint guidance on the treatment of financial crime risks and obligations in the context of the COVID-19 crisis in coordination with the Dubai Financial Services Authority (DFSA) of the Dubai International Financial Centre (DIFC), the Financial Services Regulatory Authority (FSRA) of the Abu Dhabi Global Market (ADGM), the Securities and Commodities Authority (SCA), the Insurance Authority and the Ministries of Justice and of Economy.

Additionally, the CBUAE issued instructions regarding the implementation of the United Nations Security Council Resolutions (UNSC) and the UAE Local lists, with the objective of updating the relevant legal and reporting obligations of LFIs. In cooperation with the UAE's Financial Intelligence Unit (FIU) and the Banking Supervision Department, the CBUAE held training sessions with LFIs on suspicious transactions reporting awareness and requirements.

Following the issuance of the Registered Hawala Providers Regulation in 2019, the CBUAE launched a series of public campaigns as part of the mandatory registration framework for informal money transfer service providers that operate in the UAE.

The CBUAE continued to focus on strengthening key partnerships between domestic and international stakeholders, including the private sector.

In its effort to develop and promote AML/CFT compliance among the regulated community, the CBUAE established a Compliance Officers Forum as a platform to discuss issues relating to regulatory compliance and consumer protection as well as to share best practices in other regulatory development areas.

The AML Department also hosted bi-lateral discussions related to AML/CFT with other domestic supervisory authorities, including Financial Free Zone (FFZ) supervisors, and actively participated in the UBF forum to discuss issues and challenges facing the banking industry in relation to AML/CFT. Furthermore, it actively participated in supervisory colleges with domestic and foreign supervisors.

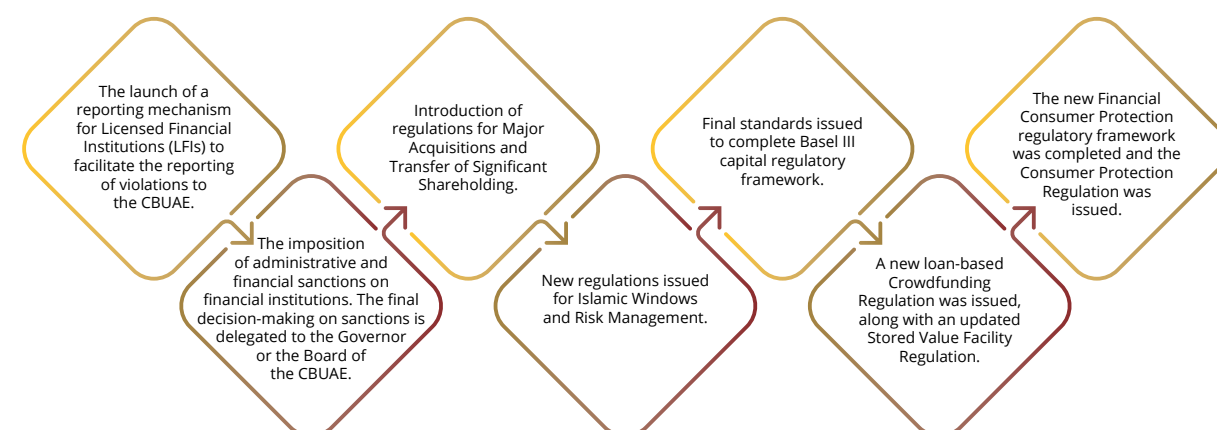
### 4. RAISING THE BAR FOR SOUND AND EFFECTIVE SUPERVISION

The CBUAE is mandated to oversee that all aspects of banking and financial sector operation in the UAE adhere to the highest supervisory standards - underpinning financial stability.

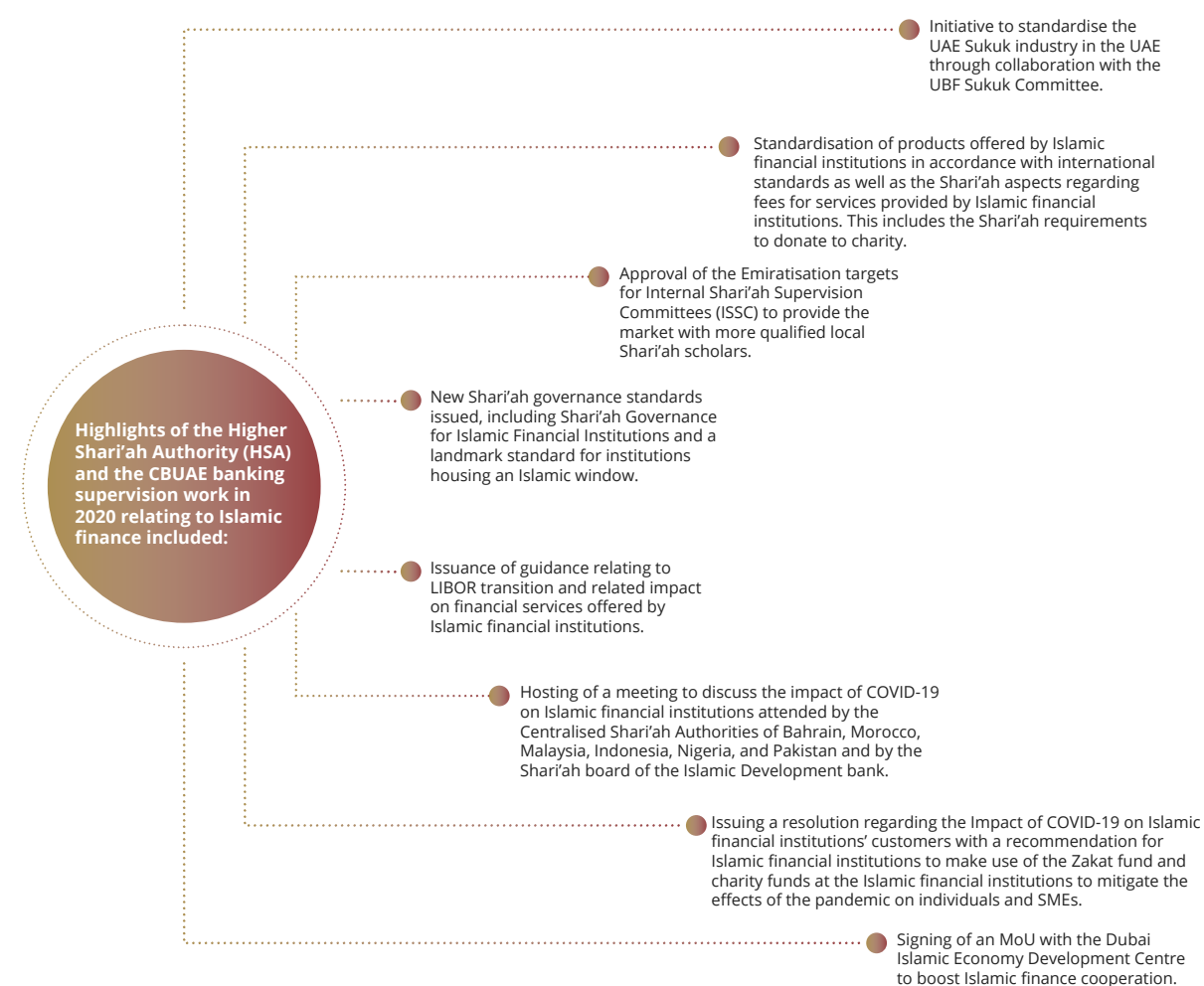
This mandate is undertaken by the CBUAE's Licensing, Regulatory and Supervision divisions and supported by the Enforcement division.



## 2020 Key Highlights of the CBUAE banking supervision



## Islamic finance



In line with the CBUAE's commitment to harnessing cutting edge technologies to enhance its services, a new digital Licensing Automated Portal was launched to facilitate licensing processes for all UAE financial and banking services entities.

## Total number of licensed institutions in 2020

	Total as of 2020
Bank	59
Finance Company	22
Exchange House	97
Payment Service Provider	1
Representative Office	77
Financial Intermediary (Broker)	11
<b>Total</b>	<b>267</b>

## Bank examinations

During the pandemic, much attention was focused on those Licensed Financial Institutions (LFIs) which required greater intensity of supervision. Accordingly, the CBUAE examination of LFIs was prioritised according to specific bank risk profiles and systemic importance.

Examples of changes to normal the CBUAE banking supervision processes made because of the pandemic included undertaking LFIs examinations remotely, and ensuring subsequent compliance with the necessary corrective measures. During the year, the CBUAE successfully implemented a paperless examination framework by adopting an onsite examination tool.

## Monitoring liquidity and credit risks

The CBUAE collects returns from all UAE banks in order to facilitate monitoring of risk profiles. During 2020, in response to the impact of the pandemic on the economy, special regulatory returns were collected daily, weekly and fortnightly to closely monitor the liquidity and asset quality of banks and the implementation of the Targeted Economic Support Scheme (TESS).

## National Loan Scheme

The CBUAE National Loan Scheme continued to support UAE nationals encountering problems with excessive debt. The objective of this landmark initiative, originally launched in 2019 by the CBUAE, is to ease the burden of debt accumulation and management of debt settlements for UAE nationals.

# 4,470

## UAE Nationals

Number of beneficiaries since the launch of the National Loan Scheme.

## Supervisory and Evaluation Review Programme

The CBUAE developed the Supervisory Review and Evaluation Programme (SREP) conceptual framework to conduct a comprehensive assessment of the overall business model, corporate governance, as well as the risk to and adequacy of bank's own funds and liquidity resources.

## Specialist teams

During the year, specialist teams were established within the Banking Supervision Department to analyse and assess the quality and suitability of banks' models for determining credit and market risks, counterparty risk, stress testing, IFRS 9 expected credit loss (ECL) provisions, and Pillar 2 capital requirements. The specialist teams also oversee compliance with Shari'ah laws and regulations, as well as examine banks' compliance and practices in relation to consumer protection and market conduct.

Additionally, the specialist teams assess the risks and controls in place at banks to prevent information security failures. Lockdown and other precautions resulting from the pandemic resulted in increased reliance on digital banking channels, which meant increased potential for cyber threats and fraud. In response to this, the CBUAE enhanced focus on information security by benchmarking banks against the national Information Assurance Standards.

## Assessment of the UAE payment systems

The CBUAE is the sole operator and owner of all UAE payment system infrastructure. In 2020, the CBUAE undertook its annual assessment of all payment systems, assessing the compliance with the Principles for Financial Market Infrastructures (PMFI) standard. The assessment found that most of the principles were observed or broadly observed. The CBUAE will continue its efforts to align the payment systems to international standards, with the objective of achieving full compliance.

## 5. SUPERVISORY AND REGULATORY RESPONSIBILITY OF THE UAE INSURANCE SECTOR

The CBUAE's supervision and regulation of the UAE insurance sector was mandated by Decretal Federal Law No. (25). Under the new law, the Insurance Authority was to merge into the CBUAE in 2021. Throughout 2020, the UAE insurance sector maintained its position as the Gulf/MENA regional leader in terms of written premiums, despite the challenges posed by the COVID-19 pandemic.

The sector was well supported throughout the crisis – and particularly through the Targeted Economic Support Scheme (TESS).

Circulars were issued by the Insurance Authority to UAE insurance companies to raise awareness of the importance of maintaining high safety protocols during the pandemic – notably through initiatives such as the Hand-in-Hand programme.

A sector-wide working group was created to oversee all aspects of the adoption of the new IFRS 17 accounting standard by UAE insurers and to conduct a study of the effectiveness of risk management policies within the sector.

In addition, a smart system was launched to facilitate increased customer satisfaction. All of the 8,855 complaints received from policyholders and the public in 2020 were processed and resolved using the system. To sustain the momentum of this progress, a system for knowledge management was also launched.

Emiratization strategies were updated to encourage employment stability for UAE nationals during the crisis. In 2020, the number of UAE nationals employed within the insurance sector reached 1,183, or 12.7% of total employees.

To ensure the provision of world-class training, the Insurance Authority Professional Academy was launched, which comprised training programmes focused on a wide range of insurance-related topics, including Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

## 6. FACILITATING THE RESILIENCE OF THE UAE FINANCIAL SYSTEM TO WITHSTAND SHOCKS AND SUPPORT THE ECONOMY

The role of central banks in maintaining economies and safeguarding banking and financial stability is crucial, particularly during times of uncertainty. In 2020, the global COVID-19 pandemic caused economic disruption to all of the world's economies. During the year, the CBUAE undertook a broad range of measures to mitigate the effects of the crisis in the UAE so that foundations were in place for rapid recovery.

The CBUAE harnessed its Financial System Surveillance framework and undertook system-wide analyses to identify emerging risks and proactively mitigate them. Analyses were also conducted to model potential economic impact caused by the pandemic and to help formulate appropriate policy responses.

Areas of particular focus included gaining a comprehensive understanding of the implications of the COVID-19 pandemic for the banking system in light of funding and liquidity risks, exposure concentrations, profitability pressures and capital adequacy. Work was also undertaken to assess credit quality, risk concentrations, provisioning levels and foreign exposures.

### Macro-Prudential Policy Framework

The CBUAE revised the Macroprudential Policy Framework in 2020, which was launched three years ago. The framework is designed to address both cyclical and structural systemic risks.

In line with the revision of the Macroprudential Policy Framework, the CBUAE updated the methodology for the designation of UAE's Domestic Systemically Important Banks (D-SIBs) to incorporate a greater range of risk factors. The CBUAE designated four banks as systemically important.

Over the course of the year, the pandemic highlighted the importance of macroprudential policy in counteracting the build-up and impact of systemic risks. Building up capital and liquidity buffers in advance to be used in times of stress enabled banks to continue to support the wider UAE economy.

## Stress Testing

The CBUAE Stress Testing framework provides a comprehensive and forward-looking assessment of potential banking sector vulnerabilities.

In 2020, due to the extraordinary circumstances arising from the COVID-19 pandemic, the CBUAE postponed the bottom-up stress test until 2021. The decision was taken to provide operational relief to banks to allow them to concentrate on core risk management operations. Instead, the CBUAE focused on continuing to evaluate the impact of shocks to the economy on banks' capital and liquidity by more frequent top-down stress tests. Several solvency and sensitivity stress tests were conducted, focused on macroeconomic scenarios including shocks to GDP, the oil price and capital markets.

Potential disruption caused by a second wave of the COVID-19 pandemic, and the effect such a wave would have on sustained economic activity was also modelled. The results showed a significant increase in default rates across corporates, SMEs and individuals. However, the CBUAE found that the UAE banking sector would be able to withstand the considered scenario while maintaining capital levels above the minimum requirement.

The CBUAE also conducted frequent liquidity stress tests and the results showed that the UAE banking system as a whole is capable of withstanding a severe liquidity shock.

## 7. DATA-DRIVEN RESEARCH TO INFORM DECISION MAKING

Data gathering and analysis is core to all areas of the CBUAE operation. The CBUAE's research activity in 2020 was focused on developing of a new macro model, and the first UAE Micro, Small and Medium Sized Enterprises Business Survey Report as well as issuance of Quarterly Economic Review that covered developments in domestic and international economies, banking and financial markets.

**In 2020, the CBUAE published the first UAE Micro, Small and Medium Sized Enterprises (MSMEs) Business Survey Report.**

In 2020, the CBUAE finalised the first version of a new macroeconomic model for the UAE. The OASiS is a dynamic stochastic general equilibrium model using UAE-specific data. In 2020, the CBUAE started using the model for policy analysis.



Other achievements of the year included the launch of statistics database covering historical monetary and banking data, and significant progress in the automation of data collection, processing and dissemination to support policy decisions.

## 8. ENSURING EFFECTIVE MONETARY MANAGEMENT THROUGH DIRHAM MONETARY FRAMEWORK

The Central Bank of the UAE (CBUAE)'s statutory monetary policy objective – as per Article (31) of Decretal Federal Law No. (14) of 2018 – is to maintain the soundness and stability of the monetary system in the UAE, in order to ensure stability and required confidence in the national economy. To do so, the CBUAE shall determine monetary tools and operational means for achievement of monetary policy objectives, including policies relating to management of the exchange rate of the national currency and money markets in the UAE. The Dirham Monetary Framework serves that objective.

For this reason, in 2020 the CBUAE endorsed a new Dirham Monetary Framework to advance the CBUAE's monetary policy.



#### Steps taken under the framework include:

- The CBUAE introduced an Overnight Deposit Facility (ODF) for UAE banks. The ODF became the prime facility for managing surplus liquidity in the UAE banking sector replacing one-week Certificates of Deposit. After the introduction of ODF, the CBUAE monetary policy is now signalled through the ODF interest rate - the main the CBUAE policy rate. This base rate, which is anchored to the US Federal Reserve's Interest on Excess Reserves (IOER), also provides the effective interest rate floor for overnight money market rates. ODF supports banks operating in the UAE to proactively manage day-to-day liquidity by aligning overnight money market rates with the base rate.
- The CBUAE launched new regulations on reserve requirements for deposit-taking licensed financial institutions to make maintenance of reserve requirement balances more flexible. The duration of the reserve maintenance period was extended from seven to fourteen days, incentivising institutions to manage day-to-day liquidity more efficiently to take advantage of the reserve averaging mechanism. Additionally, deposit-taking licensed financial institutions were able to draw on the CBUAE-held reserve balances - up to 100 percent on any day - for daily settlement purposes, to deal with swings in overnight money market rates. Institutions must meet daily average requirements over a fourteen-day reserve maintenance period.
- In line with the CBUAE's commitment to providing a holistic solution to manage liquidity within the UAE banking sector, a new Monetary Bills (M-Bills) securities issuance programme was launched in 2020. The M-Bills programme represents an important milestone towards the implementation of the new Dirham Monetary Framework. M-Bills facilitate the establishment of robust infrastructure to manage liquidity, to ensure the maintenance of currency cover ratio threshold (minimum 70%) and to provide a stable collateralised source of funds to UAE banks and financial institutions. These securities are auctioned and traded through Bloomberg's primary and secondary market solutions and settled through a local platform. The CBUAE expects the initiative to promote development of a local market for securities denominated in UAE Dirhams while improving market transparency.

## 9. ENSURING BEST PRACTICE FOR RESERVE MANAGEMENT

One of the key strategic objectives of the CBUAE is to ensure prudent management of foreign exchange reserves. As part of the transformation programme, strengthening reserve and risk management practices was a major strategic initiative and the CBUAE successfully completed this initiative in 2020.

In 2020, the CBUAE reached a milestone in terms of strengthening the foreign exchange reserve management framework in the UAE in line with the recommendations of the IMF Guidelines for Foreign Exchange Reserve Management.

The CBUAE Board approved the new the CBUAE Investment Policy that covers technical specifications, Strategic Asset Allocation (SAA), and specifies the CBUAE's maximum risk budget. Stemming from the new Investment Policy was an overhaul of related procedures, including the Investment Guidelines, which take into consideration policy objectives and constraints and clearly express the Board's risk tolerance and preferred long-term reference portfolio (benchmark) derived from SAA analysis.

The SAA analysis segregates the reserves into four tranches, Money Market Tranche, Capital Market Tranche, Gold Tranche and a Long-Term Investment Tranche. Each tranche serves a different purpose and objective. The Money Market Tranche is for daily liquidity management and the Capital Market Tranche is for return enhancement and diversification. The Gold Tranche holds the gold reserves that aim to offset inflation risk, add diversification and align gold exposure to the level of peer central banks. The Long-Term Investment Tranche aims at maximising long-term return and ensuring capital preservation and growth over time.

The liquidity constraint is assessed against a multi-pronged Reserves Adequacy Framework that considers both potential volatility arising from the balance of payment disturbances and the stress in the domestic banking system. The mandatory legal requirement to maintain foreign exchange reserves sufficient to cover at least 70% of the monetary base is also carefully monitored. The reserve adequacy assessment enabled the Board to set clear targets for primary liquidity invested in the Money Market Tranche.

The combination of the Reserve Adequacy Framework and SAA analysis enables the Board to meet its policy objectives and strikes a careful balance between the traditional central bank investment objectives of safety, liquidity and return.

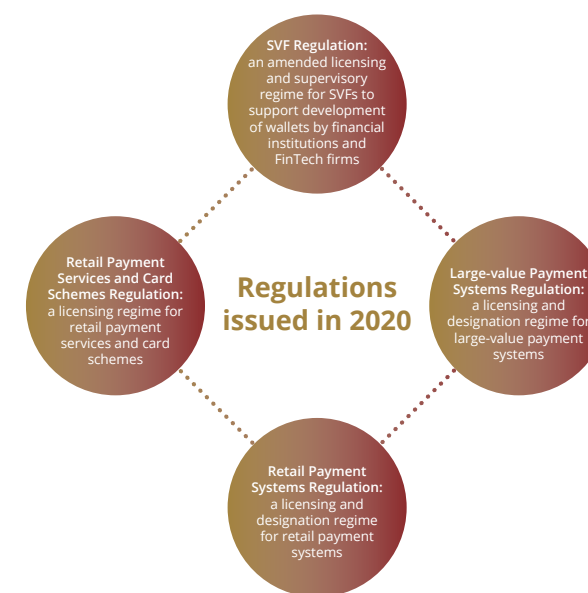
In 2021, the CBUAE will focus on portfolio implementation and operational excellence in the continued quest to meet its fiduciary duties and operationalizing best practice in the prudent management of the foreign exchange reserves.

## 10. DEVELOPING PAYMENT REGULATORY FRAMEWORKS TO KEEP PACE WITH RAPID INNOVATION

Increasingly rapid technological breakthroughs have effected significant changes in the way goods and services are paid for, and the manner in which funds are transferred between financial institutions, businesses and people. It is essential for a banking regulator to offer clarity and enable a level playing field for all market participants, creating an environment which facilitates innovation whilst managing risks effectively. The CBUAE recognises its responsibility to ensure that policy-formulation is swift and suitable to further stimulate innovation.

Accordingly, the CBUAE created a comprehensive regulatory policy framework to enhance payment-related regulations in the UAE, and to mitigate associated risks. The policy framework includes:

- Licensing and supervisory requirements for Stored Value Facilities (SVF) that allow non-bank payment service providers and technology firms to set-up operations in the UAE market
- Large-value Payment Systems Regulation sets out the designation and oversight requirements for all systematically important large-value payment systems. This is aimed at ensuring financial stability and the safe and efficient operations of inter-bank and large-value payments in the UAE
- Retail Payment System Regulation which is applicable to systematically important retail payment systems to ensure seamless and efficient execution of retail payment transactions
- Retail Payment Activity Regulation which covers regulatory approval requirements for retail payment activities such as payment card issuances, domestic remittances, cross-border remittances, merchant acquiring, and payment services that involve crypto or virtual assets, among others



### National Payment Systems Strategy Implementation

The UAE aims to further strengthen its role as a global financial hub through the National Payment Systems Strategy (NPSS), which is expected to ensure safe, innovative and convenient electronic payments that will make the UAE a leading cashless economy.

In 2020, the CBUAE commenced the NPSS implementation to modernise UAE Financial Market Infrastructures (FMIs). Key objectives included the development of best-in-class FMIs, provision of innovative payment solutions, increased financial inclusion and the enabling of cashless transactions.

Additionally, the NPSS will enable implementation of an Instant Payments Platform (IPP) to offer innovative services such as:

**Connectivity of banks, exchange houses and e-wallets**

To facilitate cross-institution payments for customers.

**Core processing services**

Enabling settlement of real time payments in the form of credit transfers and direct debits.

**Value-added services**

Facilitating payments through electronic direct debit authorisation, e-Cheques and an addressing scheme using mobile number, email address or any unique identifier.

## Central Banking Digital Currency – ABER

The CBUAE and the Saudi Central Bank completed a joint proof-of-concept project on wholesale Central Bank Digital Currency (CBDC), project ABER. The proof-of-concept enabled participating banks in the UAE and Saudi Arabia to make domestic and cross-border CBDC transfers in real-time.

## Cross-border payment system implementation

The CBUAE played a key role in facilitating the hosting of “BUNA” in the UAE, a multicurrency platform that provides clearing and settlement services for cross-border payments in eligible Arab and foreign currencies across the Arab region and beyond. Developed by the Arab Monetary Fund, the cross-border payment platform “BUNA” complies with international standards and is predicated on enhancing collaboration among central banks in the Arab world. The UAE Dirham was the first settlement currency made available on the “BUNA” platform that went live in December 2020.

## 11. DEVELOPING A ROBUST FINTECH ECOSYSTEM IN THE UAE

Global FinTech advancements continue to bring about innovation across all financial sectors. In 2020, the CBUAE developed a FinTech Strategy to underpin the government's drive to establish the UAE as a leading global FinTech hub. The strategy will stimulate innovation and collaboration within a culture of robust risk management.

Over the course of the year, the CBUAE issued series of regulations – including for payment and emerging financial services such as crowdlending – to facilitate creation of a strong FinTech regulatory framework in the UAE.

To ensure effective FinTech strategy implementation, the CBUAE launched a dedicated FinTech Office and initiatives including:

- Development of a common FinTech regulatory framework.
- Establishment of co-sandboxing arrangements among regulatory authorities to facilitate faster technological developments and streamline regulatory approval processes.
- Development of an Electronic Know Your Customer (eKYC) protocol to enable non-face-to-face and digital onboarding processes.

- Implementation of a distributed ledger technology-based trade finance platform to reduce the risk of trade fraud.
- Creation of a FinTech Talent Development Programme.
- Co-hosting of the FinTech Abu Dhabi Festival, in partnership with Abu Dhabi Global Market (ADGM) attended by 7,000 FinTech and financial services professionals from 23 countries.

In 2021, the CBUAE will step up efforts in four strategic areas such as: conduct of research and application of innovative solutions; further development of the regulatory framework; continued nurturing talents to meet the growing needs of FinTech; and proactive collaboration with partners and peers in regional and international markets to promote FinTech development.

## 12. STRENGTHENING CONSUMER TRUST IN THE FINANCIAL SYSTEM

Consumers are the lifeblood of the UAE economy. Ensuring that their rights are protected adequately is a core the CBUAE objective, following the adoption of the new the CBUAE law.

In line with this commitment, the CBUAE Board in 2020 approved a new Consumer Protection Regulation - part of a comprehensive Financial Consumer Protection Regulatory Framework - to enhance consumer trust in the financial sector.

The new principles-based regulation sets out the regulatory expectations relating to disclosure, product oversight, market conduct and privacy to which Licensed Financial Institutions (LFIs) must conform.

As part of the efforts to enhance services through the use of best-in-class digital technologies, the CBUAE launched the MS Dynamics 365 system to facilitate handling of consumer complaints, requests and enquiries. The system was integrated with UAE Pass to align with the UAE government's vision of the digitisation of government services.

Additionally, the CBUAE strengthened its market conduct supervisory function in 2020 to further promote and verify compliance of licensed financial institutions with the CBUAE regulations. UAE banks and other LFIs will be required to demonstrate compliance by the end of 2021.

The CBUAE also commissioned surveys to gauge consumer needs and satisfaction level with the provided services.

## 13. CONTINUING TO OPERATE IN A PANDEMIC

The CBUAE demonstrated agility in navigating the operational challenges which the global COVID-19 pandemic presented in 2020.

While prioritising the safety of employees, partners and all visitors to the CBUAE's premises, the CBUAE not only remained fully operational throughout the year but was also able to formulate and implement policies to maintain confidence in the economy and to support the banking and financial system.

To achieve this goal, it was crucial to embrace flexibility in terms of the ways in which the CBUAE worked.

The activation of the CBUAE Business Continuity Plan and the CBUAE Crisis Management Plan allowed to adjust quickly to the new reality of remote working for all employees during periods of lockdown. As a result, full functionality of the services was maintained throughout the year.

In line with the CBUAE Crisis Management Plan, a Crisis Management and Emergency Committee was rapidly established to collect and analyse data and to provide the CBUAE management with updates on operational issues relating to the pandemic while ensuring that the CBUAE's response to the crisis remained consistent.

To ensure all business processes continued to conform to the highest international standards throughout the pandemic, the CBUAE reviewed its Business Impact Analysis (BIA) across all departments. Subsequent to the exercise, Business Continuity Plans (BCPs) for the CBUAE departments with time-critical processes were updated accordingly.

## Enhancing Cyber Resilience

As many of the CBUAE's employees were working from home, recourse to digital technologies during the pandemic heightened cyber risk. Steps taken by the CBUAE to combat cyber risk included:

- All employees were required to undertake cyber risk awareness training as part of the CBUAE Cyber Security Awareness Programme.
- Two Cyber Security exercises were conducted in cooperation with the UAE Banks Federation (UBF) for the CBUAE's employees and the wider banking community.
- Regular Cyber Risks briefings were provided to the UAE banking community.
- The BUAE actively collaborated with UAE banks in their efforts to meet UAE Assurance Standards in cyber resilience.

In a proactive action to limit the impact of the pandemic, in Q1 2020 the CBUAE moved to remote working using the CBUAE's Private Virtual Network (VPN). The transition to remote work was witnessed by the average daily successful VPN logins per month by the CBUAE staff, which peaked in April 2020. The CBUAE staff returned to work from premises in mid-summer 2020.





## 14. INVESTING IN OUR PEOPLE TO ENSURE A PERFORMANCE-BASED CULTURE

The CBUAE is committed to creating a world-class talent-centric, transparent and proactive working culture, within which all employees can achieve their full potential.

The CBUAE has a long-standing track record of investing in its people and providing professional training opportunities for career advancement.

In 2020, the CBUAE undertook a broad range of strategic measures, aligned with its values, to ensure its Human Resources function adhered to international best practice.

### Key the CBUAE Human Resources initiatives in 2020

The number of professional certifications achieved by the CBUAE staff across all departments was 25, an increase of 25 percent compared to the previous year. At the end of 2020, CBUAE had a 608 staff members.

Additionally, a new Performance Management System framework was developed to improve performance management across the CBUAE. A secession Planning and Development Framework was launched to help develop talent within the CBUAE, and to ensure long-term business continuity.

### Talent Acquisition

Despite challenges related to the global COVID-19 pandemic in 2020, the CBUAE recruited 38 new employees.

## 15. ENSURING PUBLIC AWARENESS OF THE CBUAE'S WORK TO SAFEGUARD THE ECONOMY

Communications excellence underpins the effectiveness of the CBUAE operations.

In 2020, as all financial sectors were negatively impacted by the global COVID-19 pandemic, it was critical that the work of the CBUAE was communicated clearly to the right audiences in order to safeguard the economy and to offer guidance to individuals in need of support. A strong communication was the key to navigating the crisis over the course of the year. In particular, the CBUAE recognised the importance of communicating TESS measures widely, so that businesses and households were made cognisant of the extensiveness of support schemes available to them.

### Communicating in a pandemic

Measures implemented by the CBUAE to mitigate the effects of the global COVID-19 pandemic were effectively communicated and resulted in broad outreach of our messages:

- Development and distribution of over 40 press releases
- Generation of more than 500 news stories in local, regional and global media
- Generation of more than 30 million online views of the CBUAE-related media content

In addition to communication relating to the pandemic, the CBUAE effectively communicated work being undertaken to demonstrate that the UAE implements best practices and international standards in the area of AML/CFT, and also to publicise the formulation of policy and activities relating to FinTech.

Additionally, the CBUAE undertook a multi-media campaign to heighten consumer awareness of increased cyber threats and related fraud during the pandemic and participated in the "Together Against Fraud" campaign organised by UAE Banks Federation (UBF), Abu Dhabi Police, and Dubai Police.

# PART 3

## FINANCIAL REPORTING

## STATEMENT OF FINANCIAL POSITION — AS AT 31 DECEMBER

	2020 AED'000	2019 AED'000
<b>ASSETS</b>		
Cash and balances with banks	332,235,835	254,466,126
Deposits	44,802,363	127,591,049
Derivative financial instruments	6,901	3,818,157
Loans and advances	30,246,918	49,908
Investments at amortised cost	48,053,099	54,813,558
Investments at fair value through other comprehensive income	1,861,403	498,098
Gold Bullion	12,862,335	4,044,436
Property and equipment	168,677	125,684
Other assets	273,976	838,594
<b>TOTAL ASSETS</b>	<b>470,511,507</b>	<b>446,245,610</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Current accounts and deposits	192,046,104	160,706,555
Certificates of deposit	129,325,000	160,183,125
Currency issued	110,703,812	93,728,577
Derivative financial instruments	7,465,080	16,813
Other liabilities	3,685,987	6,561,518
<b>TOTAL LIABILITIES</b>	<b>443,225,983</b>	<b>421,196,588</b>
<b>EQUITY</b>		
Fully paid up capital	20,000,000	20,000,000
General reserve	5,234,580	4,602,639
Fair value reserve	2,050,944	446,383
<b>TOTAL EQUITY</b>	<b>27,285,524</b>	<b>25,049,022</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>470,511,507</b>	<b>446,245,610</b>

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## LIST OF ABBREVIATIONS

ADX	Abu Dhabi Securities Exchange
AED	Arab Emirates Dirham
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering & Combating the Financing of Terrorism and illegal Organisations
BIS	Bank for International Settlements
BOP	Balance of Payments
CAR	Capital Adequacy Ratio
CBUAE	The Central Bank of the UAE
CET	Common Equity Tier 1 Capital
CIF	Cost of Insurance and Freight
CPD	Consumer Protection Department
CPI	Consumer Price Index
DFM	Dubai Financial Market
DLD	Dubai Land Department
D-SIB	Domestic Systemically Important Bank
ECB	European Central Bank
EIBOR	Emirates Inter-Bank Offer Rate
ELAR	Eligible Liquid Asset Ratio
FATF	Financial Action Task Force
FCSC	Federal Competitiveness and Statistics Centre
FDI	Foreign Direct Investment
Fed	Federal Reserve System
FI	Financial Institutions
FIU	Financial Intelligence Unit
FMI	Financial Market Infrastructure
FOB	Free on Board
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GRES	Government Related Entities



LIST OF ABBREVIATIONS

IFIs	International Financial Institutions
IMF	International Monetary Fund
L/D	Loan-to-Deposit
LCR	Liquidity Coverage Ratio
LIBOR	London Inter-Bank Offer Rate
LFIs	Licensed Financial Institutions
M1	Money Aggregate 1
M2	Money Aggregate 2
M3	Money Aggregate 3
mb/d	Million Barrels per Day
MoF	Ministry of Finance
MOU	Memorandum of Understanding
M-o-M	Month-on-Month
MSMEs	Micro, Small and Medium Enterprises
NAMLCFTIOC	National Anti-Money Laundering & Combating the Financing of Terrorism and Illegal Organisations Committee
NEER	Nominal Effective Exchange Rate
OPEC	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers Index
Q-o-Q	Quarter-on-Quarter
REER	Real Effective Exchange Rate
SA	Standardised Approach
SCA	Securities and Commodities Authority
SDR	Special Drawing Right
SME	Small and Medium Enterprises
STR	Suspicious Transaction Report
SVF	Stored Value Facility
UAE	United Arab Emirates
UK	United Kingdom
US	United States
USD	United States Dollar
VAT	Value Added Tax
Y-o-Y	Year-on-Year

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