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United Arab Emirates: Selected Issues

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UNITED ARAB EMIRATES

SELECTED ISSUES AND STATISTICAL APPENDIX

June 27, 2013

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I. MACROPRUDENTIAL POLICY IN THE UNITED ARAB EMIRATES

A. Introduction

1. The global financial crisis triggered major changes in the approach to financial regulation with the recognition that in order to ensure macroeconomic stability, economic policy has to include financial stability as an additional objective. The crisis highlighted the need for a better understanding of macrofinancial linkages and underscored the importance of macroprudential policies in addition to microprudential regulation and supervision, as well as strong fiscal and monetary policy frameworks. A general goal of macroprudential policy is to limit the risk of systemwide distress that has significant macroeconomic costs (Borio and Drehmann, 2009). The other major objective is to strengthen the resilience of the financial system to shocks. It is important to note that macroprudential policy complements but does not substitute for sound microprudential and macroeconomic policies.

2. In small open economies with fixed exchange rate regimes in particular, risks are not easily contained by traditional monetary policy instruments. Instead, they require more targeted prudential intervention that acts more directly to constrain excessive credit and leverage as well as exposure to aggregate shocks, such as changes in exchange rates and asset prices. The challenge of containing financial risks is exacerbated in commodity-based economies that are subject to potentially large swings in commodity prices, thus the use of macroprudential tools can be particularly helpful.

3. Macroprudential policy complements but does not substitute for sound macroeconomic and structural policies. In fixed exchange rate regimes where the independence of monetary policy is limited, fiscal policy is the main policy tool for demand management. Efforts to reduce the procyclicality of fiscal policy and to prevent the build-up of expenditure rigidities should accompany the use of macroprudential policy to increase the effectiveness of the latter. Macroprudential policy should be complemented by an effective supporting environment for mitigating systemic risk and reducing moral hazard, in particular by a strong crisis management and resolution framework.

4. Maintaining financial stability requires flexible and adaptive macroprudential policies. A macroprudential policy framework should ideally encompass (i) a system of early warning *indicators* that signal increased vulnerabilities to financial stability; (ii) a set of *policy tools* that can help contain risks ex ante and address the increased vulnerabilities at an early stage, as well as help build buffers to absorb shocks ex post; (iii) and an *institutional framework* that ensures the effective implementation of macroprudential policies.

5. The reminder of the paper is organized as follows. Section 2 explains why macroprudential policies are particularly important for the GCC countries. Section 3 describes the existing and planned institutional framework macroprudential policy in the UAE, and presents

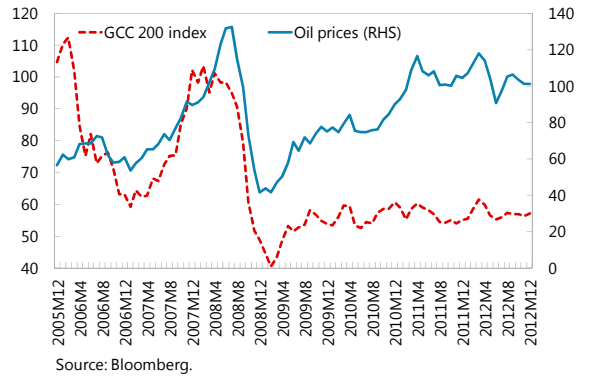
international examples. Section 4 provides a wide range of macroprudential instruments as discussed in the emerging literature on these instruments, and describes the current macroprudential toolkit in the UAE. Section 5 presents policy recommendations. Section 6 concludes.

THE RATIONALE FOR MACROPRUDENTIAL POLICY IN THE UAE AND THE GCC

6. Several characteristics of the economy, financial sector and the economic policy framework of GCC countries in general, and the UAE in particular, make macroprudential policy a particularly relevant policy tool. The reliance on hydrocarbon resources in the context of volatile of hydrocarbon prices (Dubai's notable achievements in diversifying its economy notwithstanding), limited monetary policy independence in light of the Dirham's peg to the US dollar, a history of procyclical fiscal policy, the importance of real estate as a major asset class for investment, underdeveloped financial markets providing limited risk management tools, and shortcomings in crisis resolution frameworks all underline the importance of macroprudential policy to limit systemic risk in the financial system.

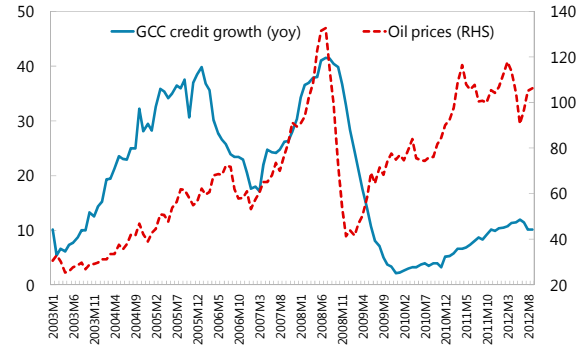
7. Being largely commodity exporters, GCC economies are prone to pro-cyclical systemic risk in the financial system (Table 1). During periods of high hydrocarbon prices, the external balance strengthens significantly, which customarily results in credit and asset prices booms (Box 1). Although it is a very important tool for macroeconomic management, due to the significant time lag and expenditure rigidities, fiscal policy has not been a flexible tool to prevent credit booms and the build-up of systemic risk in the UAE and in some GCC countries, in fact procyclical fiscal policy was an important contributor to credit booms. As increased hydrocarbon revenues are channeled into the domestic economy lifting GDP growth, demand for credit is increasing in the private sector. Favorable economic prospects make the financial sector keen to lend, leading to higher domestic credit growth and easier access to external financing.

Oil Prices and Stock Index, 2005–12



Source: Bloomberg.

Oil Prices and Credit Growth, 2003–12



Sources: Bloomberg, country authorities.

Table I.1. Selected Financial Soundness Indicators

Capital Adequacy Ratio	2005	2006	2007	2008	2009	2010	2011	2012	Last data
Bahrain	26.9	22.0	21.0	18.1	19.6	19.9	19.9	19.3	Dec-12
Kuwait	21.1	20.2	19.3	15.6	16.7	18.9	18.5		Dec-11
Oman	18.5	17.2	15.8	14.7	15.5	15.8	15.9	15.4	Jun-12
Qatar	24.8	14.3	13.5	15.5	16.1	16.1	20.6	21.1	Jun-12
Saudi Arabia	17.8	21.9	20.6	16.0	16.5	17.1	17.4		Dec-11
United Arab Emirates[1]	17.4	16.6	14.4	13.0	19.9	20.7	20.0	20.6	Dec-12
NPLs to Loans[2]	2005	2006	2007	2008	2009	2010	2011	2012	
Bahrain	5.8	4.8	6.0	2.3	3.9	5.1	4.9	5.8	Dec-12
Kuwait	4.1	4.6	3.8	6.8	11.5	8.9	7.3		Dec-11
Oman	7.0	4.6	3.2	2.1	2.7	2.9	2.4	2.5	Jun-12
Qatar	4.3	2.2	1.5	1.2	1.7	2.0	1.7	1.8	Jun-12
Saudi Arabia	1.9	2.0	2.1	1.4	3.3	3.0	2.3		Dec-11
United Arab Emirates[1]	8.3	6.3	2.9	2.3	4.3	5.6	7.2	8.7	Dec-12
Provisioning Rate	2005	2006	2007	2008	2009	2010	2011	2012	
Bahrain	67.7	68.5	74.0	84.0	60.3	58.0	60.4	53.1	Dec-12
Kuwait		47.4	47.2	29.0	38.3	33.9	29.5		Dec-11
Oman	97.4	109.6	111.8	127.3	104.0	110.3	120.6	118.2	Jun-12
Qatar	84.3	94.3	90.7	83.2	84.5	85.1	86.3	89.3	Jun-12
Saudi Arabia	202.8	182.3	142.9	153.3	89.8	115.7	132.8		11-Dec
United Arab Emirates[1,3]	95.7	98.2	100.0	102.6	85.0	89.0	90.0	85.0	Dec-12
Return on Assets	2005	2006	2007	2008	2009	2010	2011	2012	
Bahrain	2.1	2.1	1.2	1.3	1.2	1.1	1.2	1.2	Dec-12
Kuwait	3.3	2.7	3.3	0.8	0.7	1.2	1.1		Dec-11
Oman	2.3	2.3	2.1	1.7	2.1	1.6	1.7	1.9	Jun-12
Qatar	4.3	3.7	3.6	2.9	2.6	2.6	2.7	2.5	Jun-12
Saudi Arabia	3.4	4.0	2.8	2.3	2.0	1.8	1.9	2.1	Jul-12
United Arab Emirates[1]	2.7	1.4	1.5	1.4	1.4	1.3	1.5	1.5	Dec-12

[1] UAE: Local banks only.

[2] Figures are not comparable as methodologies to measure NPLs vary from one country to the other.

[3] Specific and general provisions.

Source: Country authorities.

Box I.1. The 2003–08 GCC Credit and Asset Price Boom, the Impact of the Global Crisis and the Policy Response

The 2003–08 oil price boom led to large fiscal and external balance surpluses, buoyant economic activity, rising consumer and investor confidence in the GCC countries.[1] Abundant liquidity fueled credit growth, inflation, and asset price increases. During this period, real annual average credit growth of the GCC banks was 23 percent, which led to increasing bank leverage and almost doubling the ratio of private sector credit to non-oil GDP to 122 percent by end-2008. In some GCC countries, credit growth went largely into construction and real estate lending, fuelling a real estate boom, and some countries experienced an increase in lending for the purchase of securities. The GCC stock markets posted 22–60 percent gains in 2007. In some countries, notably the U.A.E., speculative investments contributed to marked increases in real estate prices. These developments took place notwithstanding the fact that GCC countries implemented several measures of macroprudential nature to limit credit growth (see Section V).

While most of this credit growth was financed by domestic deposits, banks' foreign liabilities increased, partly related to banks' issuance of foreign-currency denominated medium-term notes to address asset-liability maturity mismatches. However, banks also used short-term speculative foreign deposits to finance their lending, exacerbating maturity mismatches and creating a refinancing risk on their balance sheets. On the corporate sector side, the boom was associated with a rise in leverage, increasing the sector's vulnerability to funding availability and cost.

The credit and asset price boom came to an abrupt end as the global financial crisis hit the GCC in late 2008. As the global deleveraging process took hold, and oil prices and production fell, the GCC's external and fiscal surpluses declined markedly, stock and real estate markets plunged, credit default swap (CDS) spreads on sovereign debt widened, and external funding for the financial and corporate sectors tightened.

Decisive policy actions by the authorities have helped moderate the effect of the crisis. These actions included the infusion of liquidity into the financial system through repos by central banks, and direct liquidity injections via the placement of long-term deposits by the government, provision of deposit guarantees and capital injections to banks, and, as preemptive measures, tightening of prudential norms for general lending and in particular for lending to real estate and for investment in equity.

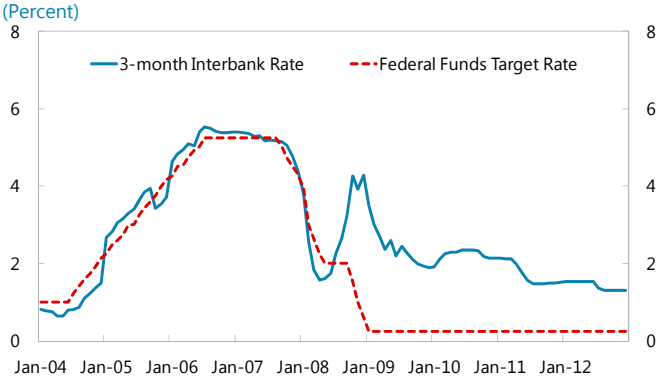
The experience of the GCC countries during the crisis brought home the importance of expanding central banks' traditional mandate to better incorporate financial stability as a complementary objective.

[1] For a detailed account of the impact of the global financial crisis and policy responses in the GCC, see Khamis et al. (2010).

8. The fixed exchange rate and persistent structural liquidity surpluses in upswings add to the difficulties to manage aggregate demand and contain credit expansion. The exchange rate peg, and the open capital account allow limited room to deviate from US interest rates. Monetary policy is further constrained by limited liquidity management capabilities, as liquidity forecasting is in its infancy and central banks' liquidity management relies

United Arab Emirates: Domestic and U.S. Interbank Rates, 2004–12

(Percent)



Sources: Bloomberg, EDSS.

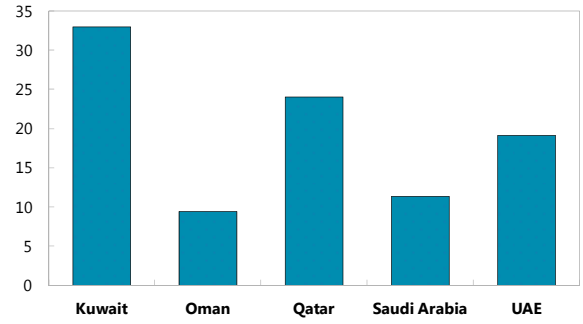
primarily on reserve requirements and standing facilities (Certificate of Deposit) for liquidity absorption. Reserve requirement is an inflexible tool for liquidity management, and a standing facility is a passive instrument where the amount of liquidity absorbed is driven by the banks and not the central bank. In addition, the monetary transmission mechanism is constrained by the shallow nature of money markets in these countries.

9. Domestic fixed income markets are undeveloped, limiting the range of risk management tools and assets for investment. Given the persistent fiscal and external surpluses and accumulated savings, there is no need at the level of consolidated government to issue debt to finance the budget. The lack of liquid local currency money and bond markets, as well as derivative markets limit the interest rate and liquidity risk management tools for the financial sector.

10. The lack of a local currency fixed income market raises the prominence of real estate as an asset class for investment and the exposure of the banking system to the real estate sector. Given the dominance of the hydrocarbon sector, and the relatively small share of some other economic sectors such as manufacturing, real estate lending has a significant share in banks' credit portfolio. As in many other countries where movable collateral is not widespread and creditor rights are relatively weak, real estate serves as the most important form of collateral.[1] Thus, the episodes of real estate boom and bust cycles raise systemic risk in the financial system.

Share of real estate and construction loans in total bank loan portfolio, December 2012

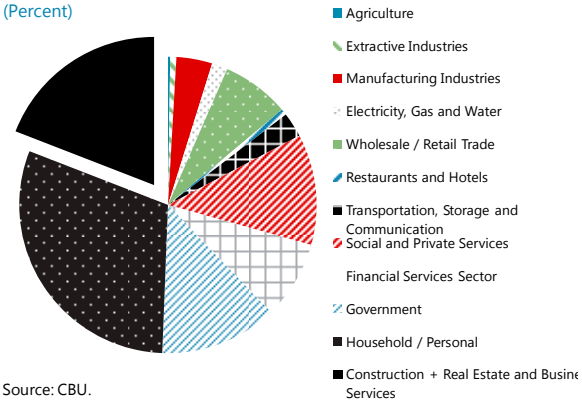
(Percent)



Source: Country authorities and IMF staff calculations.

United Arab Emirates: Domestic credit by sector, 2012

(Percent)



Source: CBU.

11. Weak corporate governance practices in the UAE and the GCC and high credit concentration reduce banks' resiliency.[2] Name lending[3] to large borrowers that are often well-known and considered low-risk is prevalent. Disclosure is often limited to some of a group's entities only, which makes it difficult to identify all group members and monitor their links. In some cases, corporate and personal assets have not been separated. Supervisors also face difficulties in

[1] In addition, enforcement of collateral rights has been weak in the GCC.

[2] See "Financial Access and Stability: A Roadmap for the Middle East and North Africa" (2011). World Bank MENA Development Report, Chapter 7.

[3] Lending to large borrowers that are often considered to be well-known and low risk.

identifying risk from multiple, unconsolidated exposures to private conglomerates. The region's weak corporate governance practices and financial disclosure make it hard to track ultimate beneficiaries of loans on a consolidated basis.

12. Preventing the build-up of systemic risk is all the more important in the absence of effective crisis resolution frameworks and insolvency regimes. The experience of "no banks are allowed to fail" leads to the understanding of an (implicit) full guarantee on deposits, thus undermining market discipline. In the case of insolvency regimes, the main reason for the lack of effectiveness appears to be inefficient enforcement and implementation.[4] Court processes tend to be slow, formalistic and bureaucratic, while procedures are expensive, drawn out and inefficient, and recovery rates are low. Qatar, UAE and Saudi Arabia report very low usage of their bankruptcy systems.

THE INSTITUTIONAL FRAMEWORK FOR MACROPRUDENTIAL POLICY

13. The institutional architecture is a core element of macroprudential policy.[5] **Institutional** arrangements will be shaped in no small part by country-specific circumstances, so that there can be no "one size fits all", and international best practices are yet to emerge. However, there appear to be two (possibly overlapping) key elements in this architecture: an authority with a clear mandate for macroprudential policy; and a formal mechanism of coordination or consultation across policies aimed at financial stability.

14. Mandate. The need to identify an authority that oversees systemic risks and decides or recommends policy actions reflects: (i) the need for clarity of responsibility for containing systemic risk, with appropriate incentives to act; (ii) the need for clarity of responsibility over policy instruments; and (iii) the complexity of identifying and monitoring systemic risk, given the breadth of analyses required and the underlying data needs. Such an authority could be a body (e.g., a committee or council) or institution (e.g., a central bank, supervisory agency); and an existing or a new one.

15. Coordination. The need for coordination arises because macroprudential policy interacts with other policies, as noted above. It may take an institutional form, such as committee or council, or other forms, such as a requirement for the macroprudential authority to be consulted or offer advice on key decisions affecting the financial system. Coordination is especially important when formal authority over tools affecting specific sources of systemic risk rests with bodies other than the macroprudential authority.

[4] See Uttamchandani, M. (2010) "No Way Out: The Lack of Efficient Insolvency Regimes in the MENA Region." World Bank Policy Research Working Paper 5609, World Bank, Washington, DC.

[5] This section draws predominantly on International Monetary Fund, 2011, "Macroprudential Policy: An Organizing Framework." Washington DC.

A. International Experience

16. The results of a recent IMF survey confirm a variety of existing institutional set-ups related to financial stability and macroprudential policy in its member countries.[6] Examples of institutional models that can be observed in practice include the following (Table 2):

- A model where a specific institution (and its *board*) is given a macroprudential mandate; this is often accompanied by a *coordinating committee*, involving the treasury; coordination can also take place through other mechanisms, such as a requirement to consult;
- A model where a single institution is tasked with carrying out macroprudential policy
- (analytical and operational), but the decisions are taken by some attached policy committee; sometimes such a body also plays the role of a coordinating committee;
- A model where an independent *committee* or *council* fulfils the role of macroprudential authority; usually, due to its composition, it plays a coordinating role too; there can be multiple institutions contributing to the decision-making process of such committee, as well as policy implementation.

17. However, there are some general lessons that can translate into basic guidance based on international experience:

- The central bank should play an important role in macroprudential policy.
- Complex and fragmented regulatory and supervisory structures are unlikely to be conducive to effective mitigation of risks to the system as a whole.
- Participation of the treasury is useful, but a dominant role poses important risks.
- Systemic risk prevention and crisis management are different policy functions that should be supported by separate arrangements.

18. In a number of advanced economies, in particular in Europe, countries are integrating prudential functions into the central bank. Some countries have adopted some form of "twin peaks" model, leaving conduct-of-business and securities market supervision as a responsibility of a separate agency (The Netherlands, Belgium, France, the United Kingdom, and the United States). Ireland has opted for a stronger form of integration where all supervision of markets and institutions is conducted by the central bank. Moreover, a number of countries, including the United Kingdom and the United States are creating dedicated policy-making committees, such as the Financial Policy Committee (FPC), chaired by the Governor of the Bank of England, and the Financial Stability Oversight Council (FSOC), chaired by the United States Treasury.

[6] This section draws predominantly on International Monetary Fund, 2011, "Institutional Models for Macroprudential Policy", Staff Discussion Note, Washington DC.

19. In emerging market countries, changes in the institutional setup also typically feature a new macroprudential committee. In Chile, Mexico, and Turkey recently established committees are chaired by the Minister of Finance (Treasury). By contrast in Asia, Malaysia established a financial stability committee in 2009 within the central bank structure, chaired by the central bank Governor—as did Thailand in 2008.

Table I.2. Cross-Country Experience of Institutional Set-up for Macroprudential Policies

Country	Committee	Ownership on Mandate
European Union	European Systemic Risk Board	Under ECB, includes members from national treasuries.
United Kingdom	Financial Policy Committee	Chaired by Bank of England, with a member from Treasury.
Belgium	The Committee for Systemic Risks and System-relevant Financial Institutions	Autonomous body chaired by Governor of National Bank of Belgium with Ministry of Finance as invitee.
Malaysia	Financial Stability Executive Committee	Mandated by central bank law and Chaired by Bank Negara.
United States	Financial Stability Oversight Council	Independent committee mandated by 2010 Dodd-Frank Act, chaired by Treasury.
Mexico	Financial Stability Council	Independent committee set by Presidential Decree, chaired by Ministry of Finance.
Chile	Financial Stability Council	Independent committee chaired Ministry of Finance with Governor of central bank only an invitee.
Uruguay	Financial Stability Committee	Independent committee chaired by Ministry of Finance; includes Governor of the central bank.
Australia	Council of Financial Regulators	Coordinating structure chaired by Governor of Reserve Bank of Australia, includes Treasury.

Source: IMF Staff, IMF 2011b, Jacome at al. (2012).

B. Institutional Setup in the UAE for Macroprudential Policy

20. There are multiple regulators for the financial system in the UAE. The Central Bank of the UAE regulates the banking system. Of the three stock exchanges in the country the Dubai Financial Market (DFM) and the Abu Dhabi Securities Exchange (ADX) are both governed and regulated by the Securities and Commodities Authority (SCA). The third, NASDAQ Dubai, located in Dubai International Financial Centre (DIFC), is governed by an independent regulator called the Dubai Financial Services Authority (DFSA). The insurance sector is regulated by the Insurance Authority established in 2008.

21. While the CBU has established a Banking Stability Committee, currently it has no authority to include financial institutions outside the banking system in its macroprudential surveillance. Responsibility for systemic risk mitigation is divided between the Banking Stability Committee which is ultimately responsible for any action taken, and the Financial Stability Unit which provides the analysis, and proposes regulatory reforms to address identified risks. Currently, the central bank has no powers to access information collected by other regulators. There are no formal arrangements for information sharing among regulators, it is only done on a voluntary basis between the CBU and the SCA.

22. The new UAE federal strategy gives the central bank the responsibility to oversee financial stability. The authorities are considering legislation governing the supervision of the financial sector to meet the demands of UAE's new financial markets and modernize the regulatory framework. The draft law on the Regulation of the Financial Services Sector in the UAE and associated amendments to a number of federal laws could signal a move towards a twin peak model of financial supervision.

THE SELECTION OF MACROPRUDENTIAL INSTRUMENTS

A. The Main Types of Macroprudential Instruments

23. A wide range of instruments and measures have been proposed for use as macroprudential tools in the literature. Without being exhaustive, Table 3 provides a taxonomy of the various tools that can be potentially useful for macroprudential purposes depending on the nature of the risk to financial stability.

24. The macroprudential toolkit encompasses instruments aimed at containing risks ex ante and absorbing shocks ex post. Most instruments, including various risk management methodologies, financial reporting practices, funding liquidity standards, collateral arrangements, risk concentration limits, and compensation schemes, are designed to prevent the build-up of risks to dangerous levels. Some of the instruments such as certain elements of the supervisory review (Pillar 2) and profit redistribution restrictions are aimed at addressing the increased vulnerabilities at an early stage. Finally, there are instruments whose role is to help absorb the shocks ex post and limit the damage to the financial sector and the real economy. These instruments include various insurance mechanisms and policies to manage failure and resolution.

25. Some of the instruments imply sophisticated methodologies whereas others can be introduced in simpler environments and are less data-intensive. For example, risk measures calibrated through the cycle and certain accounting methodologies assume that macroeconomic and financial data are available across several credit cycles which is not the case for GCC countries. Nevertheless, the concept of smoothing through the cycle is useful even in the absence of sufficient data, and more basic rules-of-thumb type instruments can be contemplated.

Table I.3. Macroprudential Instruments	
1. Risk measurement methodologies	Examples
By banks	Risk measures calibrated through the cycle or to the cyclical trough
By supervisors	Cyclical conditionality in supervisory ratings of firms; Develop measures of systemic vulnerability (e.g. commonality of exposures and risk profiles, intensity of inter-firm linkages) as basis for calibration of prudential tools; Communication of official assessments of systemic vulnerability and outcomes of macro stress tests;
2. Financial reporting	
Accounting standards	Use of less procyclical accounting standards; dynamic provisions
Prudential filters	Adjust accounting figures as a basis for calibration of prudential tools; Prudential provisions as add-on to capital; smoothing via moving averages of such measures; time-varying target for provisions or for maximum provision rate
Disclosures	Disclosures of various types of risk (e.g. credit, liquidity), and of uncertainty about risk estimates and valuations in financial reports or disclosures
3. Regulatory capital	
Pillar 1	Systemic capital surcharge; Reduce sensitivity of regulatory capital requirements to current point in the cycle and with respect to movements in measured risk; Introduce cycle-dependent multiplier to the point-in-time capital figure; Increased regulatory capital requirements for particular exposure types (higher risk weights than on the basis of Basel II, for macroprudential reasons)
Pillar 2	Link of supervisory review to state of the cycle
4. Funding liquidity standards	Cyclically-dependent funding liquidity requirements; Concentration limits; FX lending restrictions; FX reserve requirements; currency mismatch limits; open FX position limits
5. Collateral arrangements	Time-varying Loan-to-value (LTV) ratios; Conservative maximum loan-to-value ratios and valuation methodologies for collateral; Limit extension of credit based on increases in asset values; Through-the-cycle margining
6. Risk concentration limits	Quantitative limits to growth of individual types of exposures; (Time-varying) interest rate surcharges to particular types of loans
7. Compensation schemes	Guidelines linking performance-related pay to ex ante longer-horizon measures of risk; back-loading of pay-offs; Use of supervisory review process for enforcement
8. Profit distribution restrictions	Limit dividend payments in good times to help build up capital buffers in bad times
9. Insurance mechanisms	Contingent capital infusions; Pre-funded systemic risk insurance schemes financed by levy related to bank asset growth beyond certain allowance; Pre-funded deposit insurance with premia sensitive to macro (systemic risk) in addition to micro (institution specific) parameters
10. Managing failure and resolution	Exit management policy conditional on systemic strength; Trigger points for supervisory intervention stricter in booms than in periods of systemic distress.
Source: Galati and Moessner (2011).	

B. The Current Macroprudential Toolkit in the UAE

26. Despite the absence of formalized legal and institutional frameworks for financial stability, the CBU has been using several macroprudential instruments. The UAE and the other GCC countries implemented a number of macroprudential tools before the global financial crisis, especially in order to contain retail lending, but these measures often came late in the credit boom. Their toolkit includes instruments that are recommended in recent reform proposals, such as limits on debt service–to–income ratios, loan-to-deposit ratios (LTD), and sectoral concentration. Annex I provides an overview of the major macroprudential instruments currently in use in the GCC.

27. Capital and provisioning. As for capital requirement and provisioning, although most countries have established a fixed ratio for general provisions, similarly to the other GCC countries, the UAE has not introduced dynamic or countercyclical measures. The CBU is increasing the general provisioning requirement gradually to 1.5 percent by 2014.

28. Personal (retail) loan regulation. Personal lending regulation assumes macroprudential significance because of its high share in total lending (30 percent of domestic credit of local banks) and the moral hazard problem related to debt bailout expectations of nationals.[7] In addition to the macroprudential objective, personal lending regulation is also motivated by consumer protection. CBU Regulation "Regarding Bank Loans & Services Offered to Individual Customers" came into effect as of 1 May, 2011. It is aimed at protecting banks by regulating lending and encouraging banks to carry out proper due diligence on their potential borrowers. The regulation allows individual customers to borrow only up to 20 times their salary or monthly income with a maximum period of loan repayment at 48 months, and requires that repayment installments not exceed 50 percent of the borrower's gross salary or any regular income. As the federal credit bureau becomes operational, banks will have a better grasp of the full extent of an individual exposure to enforce cap on monthly installments.

29. Liquidity regulation. Currently, the Advances to Stable Resources Ratio (ASRR) is the only regulatory ratio related to liquidity.[8] The ratio is capped at 100 percent. New liquidity regulation will be introduced in line with Basel III liquidity requirements and timeline.

30. Real estate exposure. There is a limit on banks' lending for the purpose of constructing commercial or residential buildings to 20 percent of their deposits. This is a narrow definition of exposure, and does not cover all exposures to real estate, e.g., loans for the purchase of existing buildings, and equity investments in real estate development companies. Nevertheless, the CBU monitors banks' real estate exposure in a comprehensive way for macroprudential purposes.

[7] The UAE set up an AED10bn (USD2.7bn) debt settlement fund to clear defaulted debts of its citizens in 2011, but to date there has only been limited utilization.

[8] The ASRR is similar to loan-to-deposit ratios which are common in the region. The range of ratios varies from 60 percent in Bahrain to 90 percent in Qatar.

31. New LTV regulation. Following consultations with the banking sector, the CBU is preparing regulation related to mortgage lending, including caps on loan-to-value and debt-service-to-income ratios. The new regulation is expected to come into force in 2013.

32. Loan concentration limits on GREs and emirate governments. The CBU has also proposed regulation on loan concentration limits on GREs and emirate governments after extensive consultation with the banks. The regulation is envisaged to impose limits on GREs and emirate governments on both individual and aggregate basis as a percentage of the bank's capital. The regulation is yet to come into force.

POLICY RECOMMENDATIONS

33. There is scope to better understand, identify and mitigate spillovers through the financial sector, and in particular to build up appropriate buffers and to limit excessive leveraging and credit booms in good times. The CBU has, over the years, taken a large number of measures of macroprudential nature. However, these instruments have been used as microprudential instruments and they have not been applied from a systemic point of view.

A. Putting in Place the Institutional and Legal Framework

34. The existing macroprudential policies have so far been implemented by the CBU without a formal framework and adequate legal backing. Drawing on work in international fora, it would be desirable to develop a more formal and transparent macroprudential institutional and policy framework, notably with respect to the mandate for financial stability, coordination framework, definition of objectives, the elaboration of analytical methods, and the policy toolkit.

35. The forthcoming federal financial services law should appropriately assign the formal mandate to oversee financial stability to the CBU. The central bank can bring the expertise and incentives to the task of mitigating systemic risks. Alongside, a formal coordination framework with the different regulatory agencies in the UAE is essential to identify systemic risks, reduce regulatory overlaps and gaps and mitigate risks. As a way to institutionalize macroprudential policy, the establishment of the Financial Stability Committee within the CBU is an important step. Going forward, it would be important to design an institutional structure, preferably with legal backing, that incorporates members from the CBU, the Ministry of Finance, and other regulatory agencies. Furthermore, it has to be ensured that the Financial Stability Unit responsible for macroprudential analysis and the preparation of regulatory proposals has adequate resources.

B. Strengthening the Macroprudential Analysis

36. The macroprudential framework should be supported by an effective early warning system (EWS) to identify and monitor systemic risks. The EWS involves consolidating quantitative work with qualitative insight, informed by the views of policymakers, market participants, analysts and academics. Quantitatively, the EWS should be based on timely, disaggregated, and high

frequency indicators. A comprehensive set of quantitative indicators typically include (i) macro aggregates and forecasts (domestic, external, and sectoral imbalances), as natural indicators of the state of business and financial cycles; (ii) leverage ratios in the financial, corporate, and household sectors; (iii) foreign borrowing by financial and nonfinancial entities by maturity and instrument; (iv) indicators of real estate and equity markets; (v) indicators of domestic credit growth; (vi) indicators of sectoral exposures of banks; and, (vii) indicators of liquidity and funding practices.[9] Qualitative aspects could involve assessments of credit underwriting standards and risks arising from linkages in the financial sector. The EWS should be under regular review to incorporate lessons from new crisis situations, either domestically or abroad.

37. The CBU has made substantial progress in strengthening its systemic risk analysis. The first Financial Stability Review was published in September 2012. The report helps improve the transparency of risk recognition in the financial system and facilitate broad communication with the public. The CBU conducts macro stress testing semiannually for credit risk and liquidity risk, and intends to make stress testing an integral part of systemic surveillance. The Financial Stability Unit (FSU) is also developing a stress index and working on formalizing its EWS dashboard. Further diagnostic tools employed include monthly reports for trends in major banking soundness indicators, granular analysis of the real estate sector exposure of banks, capital flow monitoring, and analysis of linkages between macroeconomic developments and the financial sector. Other diagnostic tools, such as scenario analysis are currently under development.

38. Building on the recent progress, systemic risk analysis could be further improved by linking it to macroeconomic analysis and forecasting. Of the major elements of an effective early warning system, the most important missing component is the integration of macroeconomic analysis and forecasting with systemic risk analysis. The CBU is encouraged to develop further expertise in this area, joining efforts between the FSU and other regulators. The CBU is also encouraged to build on the good start of the first Financial Stability Review and deepen and widen the analysis further.

C. Choosing the Appropriate Macroprudential Instruments

39. There is scope to expand the range of macroprudential instruments in the UAE. The choice of instruments to be included in the macroprudential toolkit should be based on a set of desirable features.[10] Generally, such features should include: (i) effectiveness in limiting the build-up of systemic risk and creating buffers to be used in periods of stress; (ii) limited opportunity for arbitrage (regulatory, cross-border); (iii) aiming at the roots, not the symptoms of systemic risk (notably by inducing private sector agents to internalize the systemic consequences of their decisions); and (iv) characteristics that are least distortionary to the financial system and the economy.

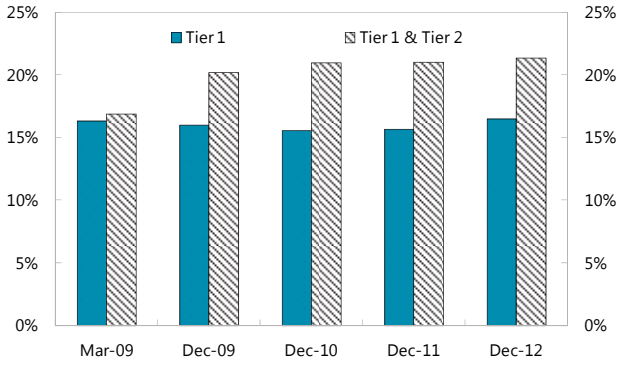
[9] See IMF 2011a for a useful summary on systemic risk assessment and monitoring.

[10] See IMF 2011a Section IV on general considerations for the choice of instruments.

Capital and provisioning

40. It is important to continue to ensure that banks maintain competitive ratings by having higher capital than required by international standards. UAE banks are currently highly capitalized, as over the past few years they aimed at capital levels between 15–20 percent, well above the existing regulatory of 12 percent. The additional capital serves to compensate for macroeconomic volatility due to dependence on hydrocarbon revenues, insufficient economic diversification, lack of transparency in the financial and nonfinancial sectors, high credit concentration, as well as concerns about asset quality in the aftermath of the crisis. Since well-run banks in advanced countries are expected to operate at higher capital levels than before the crisis, UAE banks will likely need to maintain a high capital to compensate for the above risks. One mitigating factor in the UAE is the high share of Tier 1 capital compared to advanced and many emerging country banking systems. Banks could to some extent reduce the need for the extra capital through improved corporate governance and disclosure, including helping their large borrowers get rated to improve the overall operating environment.

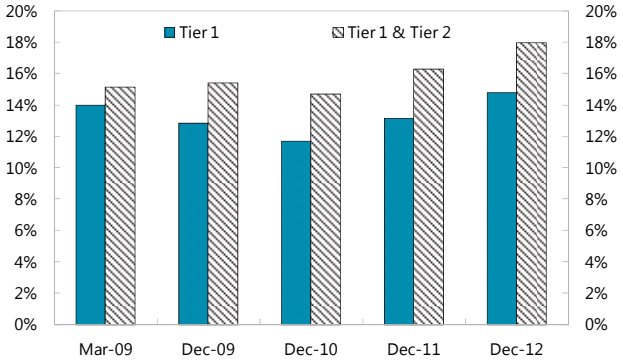
Capital Adequacy Ratio: Local Banks, 2009–12
(Percent)



Source: CBU.

41. The more pronounced cycle makes calibrating cyclical buffers more challenging. The countercyclical capital buffer, a new component of the Basel III framework, is a pre-emptive measure that requires banks to build-up capital gradually as imbalances in the credit market develop.[11] The CBU will need to develop a set of indicators relevant to the UAE to guide the activation and deactivation of this buffer either on a broad basis or to target specific segments of the credit market.

Capital Adequacy Ratio: Foreign Banks, 2009–12
(Percent)



Source: CBU.

[11] The countercyclical capital buffer has two main objectives: (i) it aims to protect the banking sector from the consequences of excessive credit growth by increasing its loss-absorbing capacity; and (ii) it increases the cost of providing credit thereby helping to lean against the build-up of excesses. The buffer will only be activated when imbalances appear to be building up, and key role will be given to national authorities to exercise supervisory judgment. The countercyclical buffer regime is planned to be phased in parallel with the capital conservation buffer between 2016 and end-2018, becoming fully effective on 1 January 2019.

42. Certain provisioning rules can also serve macroprudential purposes. Designing a dynamic provisioning framework, another tool aimed at alleviating procyclicality, tailored to the UAE banking system faces similar calibration challenges given the relatively short historical data and the nature of the cycle in hydrocarbon economies. While general provisions are a more rudimentary tool, they can be useful in building buffers to absorb shocks in bad times. The UAE is raising general provisions to 1.5 percent in 2014 aimed at increasing banks' resiliency against the possibility of losses not yet identified.

43. Moving further towards risk-based supervision, enhancing the role of the Pillar II framework, and linking the supervisory review process to the cycle would also help risk mitigation. In the upswing, this would help ensure that certain practices such as credit evaluation, collateral valuation, or compensation practices are not getting relaxed. In the downturn, it would help ensure that NPL classification and provisioning practices are strong enough.

44. Regarding domestic systemically important banks (D-SIB), the CBU is expected to follow Basel III guidelines. National authorities are encouraged to impose capital surcharge on banks identified as D-SIBs. The proposal requires banks identified as D-SIBs by their national authorities to comply with the principles from January 2016. The Basel Committee plans to introduce a strong peer review process for the implementation of the principles to help ensure that appropriate and effective frameworks for D-SIBs are in place across different jurisdictions.

Profit redistribution schemes

45. Rules on limiting dividend payments in good times to help build up capital buffers in bad times can also be a useful element of macroprudential policy. Restrictions on dividend distribution by supervisory authorities in effect force banks to gradually build up capital in cases where they would not voluntarily do so. Although GCC regulators did not impose dividend restrictions in the pre-crisis boom period, dividend distribution is subject to approval by the CBU. The aim is to build buffers in an environment where the recognition of NPLs has been gradual. In the current context where banks generate healthy operational profits but face the legacy of high NPLs, restricting dividend distribution is a useful tool build resiliency in the banking sector.

Liquidity

46. Although the Advances to Stable Resources Ratio (a form of LTD) has been in place, it has not been effective in preventing credit boom and bust cycles. It nonetheless contributed to limiting the risks in the banking system during the last crisis. While LTDs are important instruments, the rise in deposits in upswings due to procyclical fiscal policies and inadequate sterilization of liquidity allowed UAE banks to rapidly expand their credit portfolios. Time-varying LTDs could help alleviate the problem of procyclicality to some extent, but as with the countercyclical buffers, defining the cycle can be challenging. Even in the case of a simple LTD, the indicator has to be designed carefully to avoid giving banks the wrong incentives in their funding structures, and consistency with other regulators should be ensured. For example, excluding or limiting debt securities—that often have longer maturities than customer deposits—in the denominator could

discourage banks to extend the maturities of their liabilities. One approach is to design a loan-to-deposit ratio using varying weights for deposits of different maturities.

47. While the CBU is expected to follow the new Basel III liquidity requirements, there will likely be challenges in developing market liquidity. The Basel III criteria for high quality liquid assets are ill-suited to GCC countries where domestic debt markets are underdeveloped. Moreover, the net stable funding requirement means that banks need to match the stability of their funding and the maturity of their assets more closely. In the UAE context, this could mean more retail deposits, issuing long-term liabilities or cutting back on long duration assets. This creates a tension given the absence of domestic term funding markets, and the demand for longer-term lending, e.g., mortgages, infrastructure, SME investment.

48. The Basel III liquidity requirements should give an impetus to domestic debt market development. It has to be noted, however, that developing liquid debt markets in emerging economies with fiscal surplus has been challenging. In the GCC, Qatar and Kuwait have been making efforts to develop their domestic government securities market, but it will take time before they reach sufficient depth and liquidity. The UAE has yet to make concerted efforts at domestic debt market development, including passing the long-awaited Public Debt Law, and designing a strategy for market development in the context of the federal structure. In the meantime, however, the CBU is putting in place the necessary infrastructure, including a central securities depository.

49. Funding risks related to capital inflows need to be contained. While foreign exchange risk has traditionally not been a major concern in the GCC given their strong external positions, funding risk can become a concern in countries experiencing a rapid build-up of foreign liabilities that may involve significant maturity mismatches, as it indeed was the case in the UAE in the run-up to the crisis. There is a need to limit the build-up of liquidity risk related to short-term foreign borrowings channeled into funding medium- and long-term domestic lending. Potential measures to limit foreign funding risks include higher reserves required for short-term foreign liabilities and limits on foreign currency lending. Liquidity requirements aimed at matching the maturity of liabilities with the maturity of their assets more closely can be calibrated specifically to target foreign liabilities.

Collateral arrangements

50. Appropriately calibrated and time-varying loan-to-value ratios for real estate lending and debt-service-to-income ratios for lending to individuals could be a useful part of the macroprudential toolkit in the UAE. As the recent high credit growth and asset price boom-bust episode shows, containing personal and real estate lending is crucial to protect the financial system and can help prevent overheating.

51. The recent experience of Hong Kong SAR and Singapore illustrates the use of LTVs and debt-to-income ratios (DTI) as macroprudential instruments to contain property lending and price growth (see Box 2.). In the case of Hong Kong SAR, faced with the onset of a credit-asset price cycle centered on the property sector, the authorities have introduced several measures since 2009 tightening the LTV and DTI ratios, raising the Special Stamp Duty (SSD) on properties resold within a

certain timeframe, as well as increasing public land supply to the market.[12] Similarly, Singapore used an escalating series of macroprudential measures, primarily tightening the LTV and DTI ratios and SSD requirements to combat property lending and price increases. These measures seem to have been effective such that price growth slowed sharply in late 2011, although exogenous factors also likely contributed.

Box I.2. Property Market Regulatory Measures in Selected Countries

A number of economies have used macroprudential policies in recent years to protect their financial systems from stress induced by volatile asset prices, particularly in the property market.

Empirical Studies. There is some international evidence that the use of loan-to-value (LTV) caps decelerates property price growth, and both LTV and debt-to-income (DTI) caps slow property lending growth. Ahuja and Nabar (2011) find that the use of LTVs appears to strengthen bank capital buffers and bank performance in economies with pegged exchange rates and currency boards, while lowering NPLs in the broader sample. Comparing the subset of fixed exchange rates and currency boards against the broader sample, they find that such instruments are used more frequently in the first group. In the broader sample, interest rate tools can also be deployed to control credit aggregates which could explain why the reliance on LTV and DTI instruments appears to be smaller.

Hong Kong. With the currency board ruling out an independent monetary policy, the Hong Kong authorities have to rely on macroprudential measures to contain the property market boom. Faced with a credit-asset price cycle since 2009, the authorities have introduced several changes to policies, concerning LTV and DTI cap. The aggressive tightening of LTV ceilings has caused average new residential mortgage LTV ratio to decline steadily in 2011. Another important strategy has been to increase public land sales for ensuring adequate supply and managing house price inflation expectation. In addition, the authorities have also imposed transactions taxes, a Special Stamp Duty (SSD), to discourage speculative short term trading of residential properties. Although past measures have reduced transaction volumes and created significant buffers in the financial system, house prices have continued to rise. A continued run-up in house prices has led to another round of tightening measures for the local property market in February 2013, including (i) a further rise in SSD for all transactions, (ii) a further tightening of mortgage underwriting standards, and (iii) a lower LTV cap on commercial properties, and so forth. The empirical analysis for the Hong Kong suggests that the residential property price inflation appears to fall only around 2 years after the change in the LTV ratios and a tightening of LTV limits appears to have little effect on total mortgage lending. The challenge is to calibrate their macroprudential tools in combination with land sale policy.

Singapore. While the objective of monetary policy framework in Singapore is to maintain price stability by managing the nominal exchange rate, Singapore authorities consider that capital flow and asset prices considerations are best managed with macroprudential tools. An escalating series of macroprudential measures was introduced during 2009–12, focusing on both domestic and foreign buyers of real estate. Since 2009, LTV cap has been lowered from 90 percent to 40 percent in some cases, and SSD has been repeatedly extended and increased. These measures were effective such that price growth slowed sharply in late 2011, although exogenous factors also likely contributed.

[12]Ahuja and Nabar (2011).

52. The CBU should stand ready to adjust the parameters of personal lending regulation and loan-to-value ratios in response to the state of the cycle. Although mortgage lending is currently nascent in the UAE and the residential real estate market is largely a cash market, setting appropriate limits on LTVs and adjusting them to property market conditions becomes important as mortgage lending picks up. The CBU should carefully monitor the interaction of mortgage lending and the real estate sector, and tighten the LTV regulation or introduce new measures as needed.

53. Caps on LTVs for commercial properties are equally important in the UAE context. Commercial properties suffered a larger price decline in the UAE countries after 2008 compared to residential real estate, reflecting the overinvestment in this segment. Of the GCC countries only Qatar imposed a limit on LTV for real estate finance other than to individuals. Other countries such as Hong Kong have also imposed and tightened LTV caps on commercial properties.

Risk concentration limits

54. Well-calibrated and strictly enforced risk concentration limits can help contain the build-up of excessive exposure to certain sectors or borrower groups. Early warning systems developed for macroprudential purposes should be used to help identify potential sectors where limits can help prevent the build-up of excessive exposure.

55. A risk concentration limit on real estate exposure is an important tool to contain excessive lending to the sector. While internationally the focus has been mainly to cap LTVs for individual mortgages to contain banks' risk exposure to the real estate sector, this approach is not sufficient in the UAE. The low share of residential real estate transactions financed by mortgages, and the importance of lending to developers for both residential and commercial purposes raises the importance of caps on real estate exposure. Limits on real estate exposure have been employed by all GCC countries other than Kuwait. Nevertheless, several GCC countries experienced episodes of real estate boom-bust cycles in recent years indicating that the existing regulations were insufficient or not enforced strictly. Real estate exposure and property price increase were high in the run-up to the global financial crisis in the UAE, Qatar and Kuwait in particular. The subsequent sharp decline in real estate prices indicates that there is scope to improve the calibration of real estate exposure limits and to strengthen enforcement.

56. Special consideration is needed to define real estate exposure appropriately. To prevent excessive lending to the sector, the definition should encompass all finance activities related to the purchase and construction of buildings in which the bank depends on real estate or real estate collateral as a source of repayment. E.g., Qatar has prudently broadened the definition of real estate exposure in 2011 to include all real estate-related activities. The definition also includes finance granted for purposes other than real estate, where the bank depends on real estate or real estate collaterals as source of repayments. While this conservative definition helps contain real estate exposure, it restricts banks' ability to expand lending to certain sectors such as SMEs where real estate is overwhelmingly used as collateral. Developing movable collateral frameworks could help mitigate this problem. Real estate regulation should ensure a level playing field between

Shariah-compliant and conventional banks, taking into account the special characteristics of the former group.[13]

57. Large exposure limits to individual borrowers and borrower groups also need to be redefined and more strictly enforced in some cases. High credit concentration, a common phenomenon in GCC banking systems, is partly due to the importance of large government-related entities (GRE) in the development model of some GCC countries, the UAE in particular. Lending by UAE banks to GREs contributed to asset quality problems and a wave of loan restructuring deals in the aftermath of the global financial crisis, and the ensuing debt overhang and high NPLs are weighing on the banking sector's ability to resume healthy lending activity. The proposed regulation on loan concentration limits on GREs and emirate governments is aimed at preventing the build-up of undue exposure of banks to these entities.

Compensation schemes

58. While ill-designed compensation schemes do not seem to have been among the chief causes of systemic risk in the GCC, the international experience suggests that the design of remuneration packages requires attention. Guidelines linking performance-related pay to ex ante longer-horizon measures of risk and back-loading of pay-offs can help reduce incentives to focus on short-term profits. In countries like the UAE where expatriate employees dominate the workforce, high staff fluctuation may give rise to excessive risk taking that could be curtailed by appropriately designed compensation packages.

Structural issues supporting macroprudential policy

59. Finally, the effectiveness of macroprudential policies can be greatly enhanced by strengthening the supporting environment for mitigating systemic risk and reducing moral hazard. Credit reporting systems with positive information that allow assessing the indebtedness and creditworthiness of individual and corporate borrowers are essential. Although there has been considerable progress in establishing the federal credit bureau in the UAE, it is yet to be made operational. The insolvency regime needs to be modernized, and passing the pending Insolvency Law would be key in this respect. A well-designed crisis management and resolution framework would be essential. International experience suggests that key elements include explicit but limited amount deposit guarantee or insurance,[14] well-defined coordination and information sharing framework between various supervisory authorities, and clear mechanisms for funding resolution. As a final point, improving corporate governance and disclosure standards, as well as risk management practices in the financial sector is of utmost importance to mitigate systemic risk in the GCC.

[13] The exposure of Shariah-compliant banks in the GCC to real estate has been high, and unlike conventional banks, they are allowed to hold equity-like real estate exposures in their balance sheet.

[14] See Al-Jafari, M. and Walker, D. (2011) "Deposit Insurance in the MENA Region" World Bank MENA Financial Flagship Paper.

CONCLUSION

60. Macroprudential policy can play an important role in the UAE to mitigate systemic risk in the financial sector. The special characteristics of the economy, the reliance on volatile hydrocarbon revenues, limited monetary policy independence in light of the peg to the US dollar, the risk of procyclical fiscal policy, and an open capital account pose challenges to the central bank to maintain financial stability. Furthermore, banks are strongly interconnected with GREs through ownership and financial linkages. This interconnectedness, coupled with non-transparent corporate governance structures and practices, makes managing the evolution of interconnected leverage challenging, and could give rise to systemic risks.

61. The CBU has already taken several measures in its quest for strengthening the macroprudential framework. Publishing its first Financial Stability Review in 2012 was an important step highlighting the importance of macroprudential policy. The analytical toolkit is being upgraded, and several regulatory measures, including on credit concentration limits on emirate governments and GREs, as well as on mortgage lending, are awaiting implementation. To build on this progress, the development of a more formal and transparent macroprudential institutional and policy framework would be desirable: it should entail assigning the mandate for financial stability, and defining a coordination framework, objectives, analytical methods, and the policy toolkit. The adoption of the draft Financial Services Law would provide an opportunity to establish the legal base for an improved macroprudential policy framework.

62. While the CBU already has many of the tools that can help address vulnerabilities at an early stage, as well as help build buffers to absorb shocks ex post, there is scope for refining them. In the area of building and maintaining buffers, the UAE has been relying strongly on high capitalization of banks. This would be usefully complemented by an enhanced role for Pillar II, a further move towards risk-based supervision, and linking the supervisory review process to the cycle. The CBU's practice of restricting dividend distribution has also been helpful in building buffers, and should continue to be part of the toolkit. The CBU is also appropriately focusing on the instruments to reduce liquidity risks, and has been proactively developing the regulation to comply with Basel III requirements. For macroprudential purposes, designing time-varying LTDs could be given consideration to alleviate procyclicality. To help with liquidity management, the development of the domestic debt market would be essential, and efforts need to be stepped up in this area.

63. The proposed new mortgage and loan concentration limits on GREs and emirate governments would be welcome additions to the macroprudential toolkit. As international experience shows, appropriately calibrated and time-varying loan-to-value ratios for real estate lending and debt-service-to-income ratios for lending to individuals, possibly in conjunction with some other measures such as transaction levies, can help mitigate the risk of property market booms. Similarly, concentration limits on activities and/or borrowers where excessive risk build-up is a potential problem, such as the real estate sector or GREs in the UAE context, can help reduce the exposure and vulnerability of the banking system.

Annex I. Current Macroprudential Instruments in the GCC

	BAHRAIN	KUWAIT	OMAN	QATAR	SAUDI ARABIA	U.A.E
Countercyclical capital requirements	No	No	No	No	SAMA has encouraged Saudi banks to increase their capital on a countercyclical basis. During the period 2003-2007, capital of the banking system increased 2.5 times; between 1992 to 1997 the capital of banks rose by 100%	No
General provisions	Discretionary provision requirement.	Fixed level: 1% of cash items & 0.5% of non cash items	Fixed level: 2% of the outstanding performing 'personal loans' and 1% of outstanding performing 'other loans.'	Yes. 1.5%	Fixed level: 1%	Gradually being raised to 1.5% of of credit risk weighted assets that do not have a specific provision against them.
Dynamic provisioning	No	No	No	No	No	No
Leverage ratios (capital to assets)	Yes. 5% for retail banks and 10% for wholesale banks	No	No	No	Yes. [Deposit /(Capital +Reserve)] Not to exceed 15 times.	No
Reserve requirements on bank deposits	Yes. 5% of total deposits.	No	Yes. 5% of deposits.	Yes. 4.75%.	Yes. 7% on demand deposits. 4% on time and saving deposits.	Yes. 14% for demand deposits; 1% for time deposits
Limits on real estate exposure	Yes. 30% cap on real estate lending of banks as share of total bank lending.	No	Yes. 60% of the bank net worth or 60% of all time and savings deposits other than government and inter-bank deposits, whichever is higher.	Yes. For conventional banks, real estate lending not to exceed 150% of bank's capital and reserves (Tier 1). For Islamic banks, investment in real estates should not exceed 25% of the bank's capital and reserves.	Yes	Yes. 20% of deposits. Current definition of real estate exposure: loans for the construction of commercial and residential buildings.
Limits on other sectoral exposure	No	No	Yes. Limits on personal loans: 35% of total credit effective June 2014. Housing Loans: 15% of total credit Non Residents: 2.5% of bank's local net worth, Aggregate Non-resident exposure: 20% of bank's local net worth	Banks may not provide customers with any finance for the purposes of trading in securities	Yes. SAMA, at its own discretion, may place a limit on individual banks whereby their retail loan portfolio may not exceed a specified percentage of its total loans.	Regulation pending on large exposure limits for aggregate exposure to local governments and government-related entities.
Loan-to-value (LTVs) ratios	No limit (business practice is around 80%)	Residential housing loans are eligible for the preferential risk weight of 75% if LTV is lower than 90%.	No limit (business practice is around 80%)	70% for individuals, 60% for commercial companies	Yes. For mortgage and real estate finance companies the regulations impose an LTV of 70%.	Regulation on differentiated LTVs for nationals and expatriates, as well as for first and second properties is pending.
Debt/Loan-to-income (DTI/LTIs) ratios	Yes. Maximum debt service ratio of 50% of monthly salary.	Yes. Total monthly repayments should not exceed 40% of borrower salary and 30% of income for pensioners.	Yes.Maximum 50% of individuals's net salary with a maximum tenor of 10 years for non-housing personal loans, and 60% of net salary upto a tenor of 25 years for housing loans.	Yes. Credit to individuals capped at 50% of monthly salary and allowances, not to exceed QR 2.5 million per person.	Yes. Total monthly repayments (for both personal loans and credit cards) should not exceed 33% of a borrower's salary.	Yes. Borrowing limits for personal loans: (i) 20 times of salary or monthly income; (ii) loan tenor of 48 months (iii) debt-service ratio of 50 percent of the borrower's monthly salary.
Limits on loan-to-deposit ratios	Yes. A voluntary 60-65% for most banks and 70-75% for those without large investments outside loans.	Yes. 80%, but relaxed to 85% in response to liquidity pressures during global financial crisis.	Yes. 87.5%	Yes. 90% for credit ratio (loan-to-deposit ratio).	Yes. 85%.	Yes. Max 100% for the Advances to Stable Resources Ratio.
Ceiling on credit or credit growth	No	Yes, temporary credit growth limits as of 2011	No	No	No, but credit growth is an important indicator followed by SAMA on a monthly basis; especially credit to the private sector.	No
Liquidity requirements	Yes. 25%, Liquid assets/total assets	Yes. 18%, Liquid assets /domestic currency customer deposits.	Yes. Limit of 15% for negative mismatches in one year time bands.	Yes. 100%, Current assets / liabilities weighted by liquidity characteristics	Yes. 20%, Liquid assets/deposits.	Basel III-type regulation is pending.
Caps on foreign currency lending	No	No	Yes. Lending to non-residents in foreign currency abroad is limited to 5% of net worth.	FX loans can only be extended to borrowers with foreign currency cash flows.	No	No
Limits on foreign exchange positions	No	No	Yes	Foreign currency liabilities cannot exceed foreign currency assets.	No	Up to banks' internal risk management systems
Limits on exposure concentration (individual large exposure, % of total capital)	Yes. 15% of regulatory capital.	Yes. 15%.	Yes 15% of bank's net worth for a single borrower.	Yes. Max limit of credit facilities to a single borrowing group is 20% of bank capital and reserves. Total credit facilities granted to all customers and their borrower groups, at 10% or more of bank's capital and reserves, must not exceed 600% of bank's capital and reserves. Total credit facilities granted to related parties must not exceed 100% of bank's capital and reserves.	Yes, the legal limit is 25%. In practice the limit is 15%.	Yes. 25% for commercial public sector entities, 7% for private sector and individuals

Sources: Country authorites and IMF staff

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II. CONTAINING RISKS IN THE GOVERNMENT RELATED ENTERPRISE SECTOR

A. Introduction

1. Government-related entities (GREs) have contributed substantially to economic diversification. The economy is dominated by a web of commercial corporations, financial institutions, and investment arms, related to the Government of Dubai (GD) and the Government of Abu Dhabi (GAD).[1] These companies have been instrumental in the economic development and diversification strategies of Dubai and Abu Dhabi.

2. GREs have also been a source of vulnerability for the UAE economy. GREs were substantially involved in the boom-and-bust cycle of the mid-2000s, and the resolution of the 2009 crisis has illustrated the risk that large-scale GRE debt, even where not explicitly guaranteed, may end up on the government balance sheet.

3. The 2009 Dubai World debt standstill announcement prompted a wave of debt restructurings in the UAE. The combination of substantial short-term borrowing by highly leveraged GREs in Dubai, the price correction in the real estate market, and maturity mismatches forced Dubai World (DW), a major Dubai GRE, to seek a debt standstill in November 2009. The DW debt restructuring led to an increase in Dubai sovereign debt, with spillovers to the banking sector and financial markets. Several other GREs have completed debt restructuring in Dubai and Abu Dhabi since then, while others have still not completed the process.

4. Despite the progress in debt restructuring and more proactive management of debt rollovers in recent years, GREs continue to pose significant risk to the economy. Staff analysis has highlighted that persistently high GRE debt and weaknesses in GRE transparency and corporate governance in Dubai pose risk to financial stability, act as a drag on lending to the private sector, and contribute to substantial contingent liability to the Government of Dubai. The UAE's GREs are also strongly interconnected with banks through ownership and financial linkages. The interconnectedness coupled with nontransparent corporate governance structures and practices makes managing the evolution of interconnected leverage challenging, which could raise systemic risks.

5. Past staff advice emphasized that mitigating GRE risks should be a key policy priority. Staff stressed the desirability of a comprehensive strategy aimed at completing the restructuring of GRE debt, and communicating the authorities' strategy on GRE debt refinancing. Containing GRE risks going forward calls for limits on overall GRE borrowing by emirate, developing a GRE risk management framework, and reporting contingent liabilities arising from GREs in the fiscal accounts.

[1] See "Risks posed by Government-related entities in the United Arab Emirates," Selected Issues Paper Chapter (2011).

GRE governance also needs to be improved, including by clarifying ownership, government support strategy, and delineating commercial and noncommercial operations carried by the GREs. Finally, better information disclosure about GRE financial accounts would improve investor confidence and ultimately translate into lower funding costs.

6. The remainder of the chapter is organized as follows. Section B briefly describes the recent progress with GRE debt restructuring. Section C presents trends in GRE debt in Abu Dhabi and Dubai, and selected financial indicators for Dubai's GREs. Section D focuses on measures to safeguard the financial system from GRE risk. Section E takes stock of the current state of the debt management framework and the corporate governance of GREs. Finally, Section F provides recommendations for improving corporate governance.

B. Progress with GRE Debt Restructuring Since 2011

7. Following the debt standstill announcement in November 2009, completing the Dubai World restructuring took nearly a year, and was finalized in October 2010. The restructuring plan covered US$24.9 billion of debt, of which US$14.4 billion was owed to some 90 domestic and foreign banks and the remaining US$10.5 billion to the government of Dubai.[2] Banks provided maturity extensions and interest reductions, and the government of Dubai converted its claim into equity acting through the Dubai Financial Support Fund (DFSF). Moreover, the government (again, through the DFSF) provided US$8 billion new equity to Nakheel (DW's real estate development subsidiary), and converted its existing US$1.2 billion debt into equity.

8. While Abu Dhabi also underwent a major real estate price correction, its impact on the emirate's GREs has been limited. The most important impact has been on Aldar, the emirate's flagship property developer. The company received substantial support from the Government of Abu Dhabi in several steps. In early 2011, Aldar sold some of its major assets, including the Formula One circuit on Yas Island, and the Ferrari World theme park to the government, and received a $5.2 billion rescue package through the Government of Abu Dhabi. In late 2011, Aldar received further support through a Dh16.8 billion ($4.6 billion) transaction. This agreement involved a package of property sales, transfers and reimbursements between Aldar and the Government of Abu Dhabi. These transactions lowered Aldar's debt burden and improved its liquidity profile. Aldar merged with Sorouh, another Abu Dhabi GRE in the property development sector in June 2013.

[2] See Box 1 on the Dubai Debt Restructuring in the 2011 IMF Article IV report.

Box II.1. Major GRE Restructuring Deals

Several other GREs have also completed debt restructuring in the last three years following the Dubai World debt restructuring. These finalized debt restructuring transactions of nonfinancial GREs amounted to about $8.5 billion. The most important restructuring deals are as follows:[1]

Nonfinancial GREs:

- Dubai Holding Commercial Operations Group (hospitality, retail and development arm of Dubai Holding): $555 million loan extension by five years. The restructuring was finalized in December 2010.
- Dubai Aerospace (aircraft leasing, services, and maintenance): $800 million loan extension by four years. Deal finalized in March 2011.
- Dubai Holding (one of Dubai's main holding companies, owned by the Ruler of Dubai): $1.16 billion loan extension by five years. Deal finalized in August 2011.
- Dubai International Capital (private equity firm with an international portfolio of diverse assets, parent company is Dubai Holding): $2.5 billion loan extended by three and five years. Restructuring period ended in April 2012.
- Dubai Drydocks (ship-building and repair firm, parent company is Dubai World): $2.2 billion restructuring by five-year loan extension and longer-term profit participation notes. Restructuring finalized in August 2012 under Decree 57 of the Dubai World Tribunal that was set up in 2009 to deal with disputes related to Dubai World restructuring.
- Limitless (property developer with local and international projects, parent company originally Dubai World, following the restructuring owned by Dubai government): $1.2 billion loan extension. Restructuring finalized in October 2012.

Financial sector:

- Insolvent Dubai Bank (originally owned by Dubai Holding) was merged into Emirates National Bank of Dubai in October 2011.
- Tamweel (Islamic mortgage company) was taken over by Dubai Islamic Bank, its majority shareholder, in the first quarter of 2013.

Major remaining problem companies:

- Dubai Group (private equity company with financial services focus and a portfolio of regional and international assets, owned by Dubai Holding): $6 billion bank debt is in the final stages of restructuring.
- Zabeel Investments (private equity company owned by Dubai's ruling family): $1.2 billion bank debt restructuring still under negotiation.
- Amlak (Islamic mortgage provider, partly owned by Emaar properties): Over $2 billion loan restructuring is under negotiation.

[1] See Exotix Credit Research Snap: Dubai Inc's bank debt restructurings: some indigestion, but 2/3 complete (April 19, 2012) for more details and a summary assessment of restructurings up to April 2012.

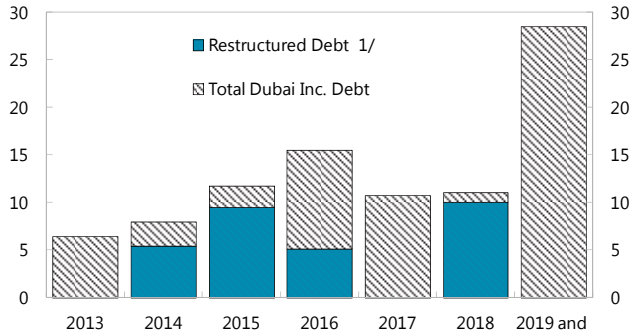
9. Some common themes can be gleaned from the Dubai debt restructuring deals of the past few years. Most importantly, bondholders have been paid off in full so far, and all debt restructurings involved debt owed to domestic and foreign banks. Second, there have been no principal haircuts so far.[3] However, the maturity extensions and the reductions in interest rates according to the new terms translate into net present value (NPV) losses. Third, the debt restructurings proceeded directly between the creditors and the borrower over protracted period, largely without lawsuits. Finally, some restructurings included capital injections by the government.

10. While Dubai's GREs have made considerable progress in restructuring their bank debt, the success of these deals will become clear when restructured maturities will begin to fall due. Key maturities on restructured debt will fall due between 2014 and 2018. Repayments at these maturities are predicated on asset sales, which have largely yet to occur and could imply the realization of significant losses unless asset prices recover quickly from the 2009 crisis.

C. Trends in GRE Debt and Select Financial Indicators

11. Dubai GREs' indebtedness and rollover needs continue to be substantial. Dubai's total debt increased by about $13 billion between March 2012 and April 2013, reaching $142 billion or 102 percent of GDP of Dubai and the Northern Emirates (Table 1).[4] The debt burden of Dubai Inc. increased by $4.3 billion, primarily on account of borrowing by Investment Corporation of Dubai (ICD) and its subsidiaries. Another $4.5 billion increase was registered by the sovereign, as the loans extended by Emirates National Bank of Dubai (ENBD)—a systemically important bank, majority-owned by the Government of Dubai through ICD—rose substantially. ENBD's loan concentration to the government is high, raising corporate governance and risk management concerns. The remainder of the increase is due to entities with government ownership below 50 percent. Bonds and loans by banks accounted for $12 billion (8.2 percent of total Dubai debt) in 2013.

Maturity Profile of Dubai Inc. Debt
(Billions of U.S. dollars)



Sources: Dealogic; Bloomberg; country authorities; and IMF staff estimates.
[1] Preliminary estimates based on public information about Dubai Holding and other GRE ongoing debt restructurings, as well as Dubai World's completed restructuring; including debt guaranteed by the Dubai government.

12. Rollover maturities due to earlier restructurings are drawing closer. There is significant bunching of maturities in 2014 ($20 billion facility for the Government of Dubai) and 2015 (as the loans related to the Dubai World restructuring start to mature). Dubai Holding also has large debt

[3]Some of the still ongoing debt restructuring negotiations may result in principal haircuts according to news reports.

[4]Tables 1 and 2 show bond, syndicated and bilateral loan maturities which are predominantly in foreign currency, but also include local currency loans if available.

repayments coming up in 2014 and 2016. Although Dubai's operating environment improved markedly, these large rollovers, particularly for the GREs, could still prove challenging.

13. Abu Dhabi's sovereign and GRE debt is moderate as a percentage of GDP and has declined since last year. Abu Dhabi's total debt declined by about $3.6 billion to $104.7 billion or 43 percent of Abu Dhabi's estimated 2012 GDP (Table 2). Abu Dhabi sovereign's share in total debt declined to 7 percent from 10 percent last year. Abu Dhabi Water and Electricity Authority (ADWEA) and International Petroleum Investment Company (IPIC) account for the lion's share of GRE debt with 22 percent and 32 percent of total, respectively. Abu Dhabi banks' debt represents about 9 percent of total Abu Dhabi debt.

14. Selected financial indicators for those Dubai GREs for which information is available generally show improvement (Table 3).[5] While a number of entities were reporting losses in 2010, as of end-2012 all entities are profitable, most of them with increased returns relative to previous years. The recovery is most pronounced in real estate where profits have returned after some significant losses in recent years. Dubai Holding Commercial Operations Group that showed deep losses in 2010, in particular, improved its profitability ratios significantly. While profitability has increased for most GREs, it has come down in some cases where it had been relatively high previously (e.g. Emirates Airline). Debt ratios are mostly stable or falling, while debt-to-equity ratios are more mixed but also slightly down in the aggregate. Real estate companies' ratios indicate deleveraging, whereas companies in the transport and financial services show a more mixed trend. However, for many key GREs, financial reports are not publically available, rendering an assessment of the overall financial performance of Dubai's GREs impossible (Table 4).

[5]The table includes the main Dubai GREs for which financial ratios were publicly available.

Table II.1. Dubai: Maturing Bonds and Syndicated Loans 1/ 2/

(In millions of U.S. dollars)

As of April, 2013	Debt Type	2013	2014	2015	2016	2017	Beyond	Unallocated	Total
Government of Dubai[3]									
	Bonds	0	21,931	500	1,000	600	1,900		25,931
	Loans	100	103	56	293	1,250	32		1,834
	Total	100	22,034	556	1,293	1,850	1,932		27,765
Dubai, other sovereign[4]	Loans domestic							21,464	21,464
	Total							21,464	21,464
Investment Corporation of Dubai and subsidiaries									
	Bonds	1,327	608	164	3,717	1,573	4,217		11,607
	Loans	1,497	93	510	2,862	150	5,649		10,761
	Total	2,824	701	674	6,579	1,723	9,867		22,368
Dubai World and subsidiaries, Nakheel									
	Bonds	0	350	3,200	0	1,500	3,522		8,572
	Loans	1,046	350	6,516	1,614	3,698	11,808		25,031
	Total	1,046	700	9,716	1,614	5,198	15,329		33,603
Dubai Holding and subsidiaries									
	Bonds	93	973	0	0	984	0		2,050
	Loans	44	3,600	0	5,955	0	0		9,599
	Total	136	4,573	0	5,955	984	0		11,648
Other Dubai Inc.[5]									
	Bonds	871	200	1,325	500	0	1,500		4,396
	Loans	1,528	1,800	0	855	2,816	2,782		9,781
	Total	2,399	2,000	1,325	1,355	2,816	4,282		14,177
Total Dubai Inc.		6,405	7,974	11,715	15,503	10,722	29,478		81,796
Total Dubai Debt		6,505	30,008	12,271	16,796	12,572	31,410	21,464	131,026
Dubai Inc. (less than 50% government ownership)[6]									
	Bonds	599	0	500	500	800	1,720		4,119
	Loans	699	450	0	3,642	0	2,550		7,340
	Total	1,298	450	500	4,142	800	4,270		11,460
Total, including GREs with minortity ownership		7,804	30,458	12,771	20,938	13,372	35,680	21,464	142,486
In percent of Dubai and NE 2012 GDP		5.6	21.7	9.1	14.9	9.5	25.4	15.3	101.5
Memorandum items:									
Restructured debt		0	5,400	9,450	5,100	0	10,000		29,950
Government guaranteed[7]		1,366	581	606	642	955	2,606		6,756
Total Government of Dubai including guarantees		1,466	22,615	1,162	1,935	2,805	4,538		34,521
Of total debt: bonds and loans by banks		1,427	608	614	2,500	3,715	2,805		11,668

Sources: Dealogic, Zawya, Bloomberg, Dubai authorities, and IMF staff estimates.

[1] Excluding bilateral bank loans and accounts payable, except for the sovereign.
[2] Regardless of residency of debt holders.
[3] Includes syndicated and bilateral loans.
[4] Emirates National Bank of Dubai related party lending.
[5] Includes DEWA, DIFC, DAE, Borse Dubai, ICD and others.
[6] Dubai GREs with government ownership below 50% (Emaar, DIB, CBD).
[7] Mainly ICD holding level and DEWA debt, in addition to the government's.

Table II.2. Abu Dhabi: Maturing Bonds, Syndicated and Bilateral Loans

(In millions of U.S. dollars)

As of June 30, 2012	Debt Type	2013	2014	2015	2016	Beyond	Total
Government of Abu Dhabi							
	Bonds	0	1,500	0	0	1,500	3,000
	Loans	396	385	388	390	1,838	3,397
	Guarantees	150	150	150	150	600	1,200
	Total	546	2,035	538	540	3,938	7,597
Abu Dhabi Investment Council[1]							
	Bonds	365	1,933	1,303	1,225	1,702	6,528
	Loans	2,046	0	0	881	0	2,927
	Total	2,411	1,933	1,303	2,106	1,702	9,455
Abu Dhabi Water & Electricity Authority[2]							
	Bonds	1,950	1,200	0	1,000	4,117	8,267
	Loans	1,169	1,106	1,081	1,171	10,046	14,573
	Total	3,119	2,306	1,081	2,171	14,163	22,840
Etihad							
	Bonds	0	0	0	0	0	0
	Loans	314	325	337	349	1,991	3,316
	Total	314	325	337	349	1,991	3,316
International Petroleum Investment Company							
	Bonds	400	0	1,000	3,512	8,392	13,304
	Loans	9,429	4,578	2,834	925	1,596	19,362
	Total	9,829	4,578	3,834	4,437	9,988	32,666
Mubadala Development Company[3]							
	Bonds	0	1,243	0	743	1,528	3,514
	Loans	1,325	488	1,033	370	3,517	6,733
	Total	1,325	1,731	1,033	1,113	5,045	10,247
Tourism and Development Investment Company							
	Bonds	0	2,000	0	0	0	2,000
	Loans	600	80	0	0	0	680
	Total	600	2,080	0	0	0	2,680
Other Abu Dhabi Inc.[4]							
	Bonds	0	0	0	0	0	0
	Loans	1,935	945	481	467	673	4,501
	Total	1,935	945	481	467	673	4,501
Total Abu Dhabi Inc.		19,533	13,898	8,069	10,643	33,562	85,705
Total Abu Dhabi debt		20,079	15,933	8,607	11,183	37,500	93,302
Abu Dhabi Inc. (less than 50% government ownership)[5]							
	Bonds	1,021	1,250	0	1,357	500	4,128
	Loans	0	3,394	2,261	1,228	383	7,267
	Total	1,021	4,644	2,261	2,585	883	11,394
Total, including GREs with minortity ownership		21,100	20,577	10,868	13,768	38,383	104,696
In percent of Abu Dhabi 2012 GDP		8.6	8.4	4.5	5.6	15.7	42.9
Memorandum items:							
Of total debt: bonds and loans by banks		2,412	1,933	1,302	2,106	1,702	9,455

Sources: Dealogic, Zawya, Bloomberg, Abu Dhabi authorities, and Fund staff estimates.

[1] Includes ADCB, NBAD, UNB.
[2] Includes TAQA & US$6.6 billion non-recourse debt for IWPP.
[3] Includes Dolphin, EMAL.
[4] Includes ADPC, GHC, ADNEC.
[5] Below 50 percent government-owned entities; includes Aldar, FGB, NCCC, Sorouh, ADIB.

Table II.3. Dubai GREs: Selected Financial Indicators

	Sector	Government Ownership	Select Financial Ratios as of Q4 2012 (or latest availible)									
			Debt Ratio		Debt-Equity Ratio		Profit Margins		ROA		ROE	
			Q4 2012	Q4 2010	Q4 2012	Q4 2010	Q4 2012	Q4 2010	Q4 2012	Q4 2010	Q4 2012	Q4 2010
Dubai Holding Commercial Operations Group[1]	Financial Services	100%	0.83	0.84	6.09	6.69	0.04	0.02	0.3%	0.2%	2.5%	1.9%
DP World	Transport	80%	0.38	0.49	0.77	1.23	0.19	0.13	3.6%	2.1%	7.2%	5.4%
Emirates Airline[2]	Transport	100%	0.68	0.64	2.47	2.06	0.03	0.08	2.0%	6.5%	7.3%	20.8%
Emirates NBD	Financial Services	56%	0.88	0.88	7.46	7.50	0.28	0.21	0.8%	0.8%	7.0%	7.0%
Emirates Islamic Bank	Financial Services	100%	0.93	0.91	13.43	10.51	0.11	0.07	0.2%	0.2%	3.1%	2.2%
Union Properties	Real Estate	48%	0.64	0.73	2.26	2.73	0.11	-0.53	1.9%	-10.3%	6.9%	-38.7%
Emaar Properties	Real Estate	31%	0.46	0.50	0.87	1.00	0.26	0.20	3.5%	3.9%	6.5%	7.9%
Dubai Islamic Bank	Financial Services	30%	0.89	0.89	8.84	8.54	0.29	0.15	1.2%	0.6%	12.1%	6.0%
Tamweel	Financial Services	57%	0.79	0.79	3.76	3.60	0.13	0.05	0.7%	0.3%	3.2%	1.2%
Deyaar Development Company	Real Estate	43%	0.40	0.49	0.68	0.96	0.07	-1.03	0.6%	-38.0%	1.0%	-74.6%
Commercial Bank of Dubai	Financial Services	20%	0.83	0.85	4.78	5.55	0.51	0.42	2.2%	2.1%	12.5%	14.0%
Dubai Investments	Financial Services	12%	0.31	0.35	0.48	0.59	0.13	0.29	2.5%	5.7%	3.8%	9.5%
Dubai Financial Market[3]	Financial Services	80%	0.03	0.06	0.03	0.06	1.11	1.37	0.5%	1.0%	0.5%	1.0%
Total			**0.79**	**0.79**	**3.95**	**4.00**	**0.10**	**0.07**	**1.3%**	**0.9%**	**6.4%**	**4.8%**
Total excluding-DHCOG			0.78	0.78	3.75	3.73	0.10	0.08	1.4%	1.1%	6.7%	5.1%
Real Estate			0.48	0.54	0.94	1.17	0.22	-0.11	3.0%	-2.3%	6.0%	-5.0%

[1] latest available is Q4 2011
[2] latest available is Q1 2012 compared to Q1 2010
[3] latest available is Q3 2012 compared to Q3 2010

D. Safeguarding the Financial System from GRE Risk

15. The CBU has implemented several measures since the 2009 crisis to better assess and contain GRE risk in the financial system:

- **The CBU issued new regulations to harmonize loan classification and provisioning practices across banks, and to move toward forward-looking provisioning.**[6] Before the crisis it was difficult to compare the adequacy of provisioning under the International Financial Reporting Standard (IFRS). To complement IFRS, the central bank issued in 2010 new loan classification and provisioning guidelines to help ensure greater uniformity across banks and increase the banks' forward looking general provisions. In addition, general provisions are being raised to 1.5 percent by 2014.

- **The central bank has limited dividend distribution in recent years to ensure that banks are amply capitalized**. The aim is to build buffers in an environment where the recognition of NPLs has been gradual. In the current context where banks generate healthy operational profits but face the legacy of high NPLs, restricting dividend distribution continues to be a useful tool to build resiliency in the banking sector.

- **The CBU has made substantial progress in strengthening its systemic risk analysis, including related to GRE risk.** The CBU conducts macro stress testing semiannually for credit risk, predominantly based on GRE credit risk scenarios, and intends to make stress testing an integral part of systemic surveillance.

16. Swift implementation of the planned new concentration limits on GRE lending would further strengthen the banking system. The CBU postponed the implementation of new prudential norms for aggregate limits on bank lending to Emirati governments and GREs. The planned regulations should be issued as soon as possible, including with a view to safeguarding banks from taking undue additional exposure to GREs. Regulation should include transition paths for banks that will not be realistically able to meet the new concentration limits immediately. In addition, imposing higher capital charges and introducing forward provisioning on exposures to risky GREs would further mitigate risks to the banking system.

17. An in-depth diagnostic of bank governance would help improve corporate governance practices in the banking sector. The prevalence of government control of local banks that are heavily involved in lending to GREs, as well as concentration risk in some banks, highlights the potential for governance issues. Good governance complements effective supervision and is integral to the implementation of the risk-based approach to oversight.

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[6] See "Ensuring Financial Sector Stability in the United Arab Emirates," Selected Issues Paper Chapter (2011).

E. Improving the Overall GRE Framework

Debt Management Framework

18. The framework for the management of sovereign debt has improved markedly in Abu Dhabi. Abu Dhabi set up an office for debt management in 2009, and the Debt Management Office (DMO) received final approval from the Cabinet in 2012. Debt management decisions follow the public debt policy guidelines developed by the office. The current guidelines indicate a total debt/GDP ceiling of approx. 40-45 percent, encompassing public debt, explicit sovereign guarantees, and implicit guarantees to strategically important state-owned enterprises (SOE) as announced by the government. The policy also stipulates a ceiling on the annual increase in net debt of five percent. Abu Dhabi's current sovereign credit rating is AA by Standard and Poor's and Fitch, and Aa2 by Moody's. Abu Dhabi is considering issuing local currency debt to establish a dirham yield curve. A benchmark dirham yield curve would facilitate domestic debt market development, and thus help reduce UAE firms' reliance on foreign funding and provide an alternative to borrowing from the domestic banking sector, especially for long-term funds.

19. Abu Dhabi has publicly announced its full support for the emirate's most important SOEs. Currently, four Abu Dhabi SOEs have been announced to enjoy government support due to their strategic importance to Abu Dhabi's economy: Tourism Development and Investment Company (TDIC), Mubadala Development Company, International Petroleum Investment Company (IPIC) and Abu Dhabi National Energy Company (TAQA).[7] The government controls the activities of these companies through the Board of Directors appointed by the government, each of which includes key members of Abu Dhabi's Executive Council.

20. While in a less formalized manner, Dubai's sovereign debt management framework has also improved. Dubai Department of Finance (DoF) created a dedicated team for managing sovereign debt issuance and guarantees. The DoF makes public sovereign debt data along with specific details about all explicit guarantees issued by the government. While Dubai regularly issues sovereign bonds, its debt issues remain unrated by credit rating agencies. Dubai does not currently have plans to establish a local currency yield curve.

21. The progress in the GRE debt management framework has been more uneven, with Abu Dhabi achieving more transparency than Dubai. Abu Dhabi has made notable progress in monitoring and disseminating GRE debt and other financial data through its debt management office. The DMO centralizes decisions regarding GRE borrowing if any entity requires a government guarantee. GREs have to develop sound projections and a deleveraging plan to qualify for support for debt issuance. Currently, only the four major state-owned enterprises—Mubadala, TDIC, IPIC and Taqa—borrow internationally. Abu Dhabi's GREs are required to operate on a commercial basis, and

[7] The announcement is available at www.tdic.ae.

report their financial information according to International Financial Reporting Standards. Abu Dhabi aims at achieving investment grade for its GREs on a standalone basis.

22. The transparency of financial conditions, debt stocks and maturity profiles of Dubai's GREs continues to be inadequate for an assessment of the sector's financial health and associated macroeconomic risks. While the Supreme Fiscal Committee plays a major role in monitoring GRE debt and approving new borrowing, there is no official information on either the aggregate amount or the maturity profile of the indebtedness of Dubai's GREs. Thus, the overall financial position and potential future financing requirements of Dubai's GREs may not be fully identified. The financial accounts of publicly listed GREs are available individually, but information on unlisted GREs is selective, and in the case of several major GREs it is scarce or not available.

23. The Dubai government has pointed out that Dubai GREs are not backed by a sovereign guarantee, but it may provide support to strategic GREs on a case-by-case basis. Other than the contingent liabilities under the guarantees declared by the government (Table 1), Dubai does not publish a list of GREs to be supported by the government. The government highlighted that certain strategic GREs have significant borrowings which are not direct obligations of the Government. If any of these entities are unable to, or are potentially unable to, fulfill their debt obligations, the Government, although not legally obliged to do so and without any obligation whatsoever, may at its sole discretion decide to extend such support as it may deem suitable, and based on such terms as it may deem suitable, to any such entities in order to allow them to meet their debt obligations.[8]

24. Building on this, Dubai should establish a full debt management office. Once the federal public debt law is enacted, the Dubai government also intends to pass its own law in compliance with the federal debt law and formally set up a debt management office. This office should be tasked with implementing a proper risk management framework entailing effective identification, assessment, monitoring, and reporting of contingent liabilities arising from GREs.

Current State of Corporate Governance in the UAE

25. GREs face distinct challenges in terms of corporate governance given their dominant role in the UAE economy. GREs have been major drivers of growth and development in the last couple of decades and their business model supported the rapid expansion of the economy. This business model, however, has been put to the test by the recent debt restructuring operations, which highlighted a need for change in GREs' corporate governance practices. A move towards better corporate governance, particularly for well established mature GREs, including in real estate, hospitality and finance, involves better corporate disclosure, structured decision making, and improved internal control mechanisms.

[8] See the base prospectus for Dubai Department of Finance Sukuk issued in January 17, 2013.

26. The UAE's recent corporate governance reforms mostly focused on listed private sector enterprises and did not apply to many GREs. In the wake of 2009 crisis, the authorities introduced a new corporate governance code which applied to all joint stock companies and institutions listed on the Abu Dhabi Securities Exchange and the Dubai Financial Market.[9] The companies were required to comply with the new code by April 2010, which set high standards of corporate governance based on best international practice. The new code entails changes in the board structure with introduction of independent board members, requires formation of different committees including an audit committee, brings in strict internal control systems and an annual report on corporate governance practices to the regulatory body. The new corporate governance code, however, does not apply to companies that are wholly owned by the federal or local governments. The companies partly owned by the federal and local governments could also be exempted by the regulatory agency from the application of certain parts of the code. Moreover, the code does not apply to financial institutions regulated by the central bank, which had its own corporate governance regulation for banks. Other important steps for strengthening corporate governance were the introduction of corporate governance guidelines for small and medium-sized enterprises in Dubai and drafting of a corporate governance code for the real estate sector, the first of its kind, in 2011 by the Dubai Real Estate Regulatory Agency.

27. Recognizing the need for moving towards better corporate governance practices in GREs, the authorities have taken some initial steps. Hawkamah, the Institute for Corporate Governance, a regional initiative of the Dubai International Financial Centre (DIFC), the Organisation for Economic Co-operation and Development (OECD) and World Bank's International Financial Corporation (IFC), launched a project to improve corporate governance of state-owned enterprises in Middle East and North Africa in 2008.[10] In 2010, the government of Abu Dhabi established a governance committee to supervise development and adoption of governance concepts and frameworks in the public sector.[11] Abu Dhabi also set up the Office of State Owned Enterprises in 2012 to coordinate and monitor activities of its GREs and upgrade their corporate governance. Dubai overhauled the executive boards of many GREs in the wake of 2009 crisis, and installed a new set of board of directors with key government officials' representation on the board (DW, Nakheel, Dubai Drydocks, JAFZA, DIFC, Limitless, ENBD, NIB, DREC). Dubai also strengthened the role of the Supreme Fiscal Committee in GREs' decision making process. In addition, the federal government adopted a decree in 2011 to raise corporate governance standards in federal government related enterprises.

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[9] Linklaters (2010).

[10] Hertog (2012)

[11] Norton Rose (2011)

28. Corporate governance practices are generally more advanced in listed nonfinancial GREs. These GREs publish their externally audited financial accounts regularly and some of them have internal audit units (Tables 4 and 5).[12] While many of them publish corporate governance reports, adoption of other good corporate governance practices like audit and risk management committees and non-executive board members seem to be uneven, particularly in large real estate developers. Moreover, related party disclosure in many of the GREs remains limited by international standards.[13]

29. Better corporate governance practices are needed in unlisted GREs to limit the risks to the sovereign balance sheet. In the UAE, particularly in Dubai, most unlisted GRE annual reports are not published, including audited balance sheets and income statements even though many of these enterprises are externally audited and have good financial reporting systems. Information on off-balance sheet liabilities is often unavailable and so are data about overall activity, employment and investment. Some of these GREs, however, started to share more information after 2009 crisis as their large financing needs pushed them to issue corporate bonds, requiring release of key financial information to investors. Overseas expansion of GREs also played a role in more information disclosure and progress in adoption of good corporate governance practices. Looking ahead, a better framework including improved transparency and disclosure, better regulation and a revamped board structure could help limit risks taken by these enterprises.

[12] Momany and Pillai (2012) p. 16 found that all UAE companies listed on Abu Dhabi Securities Exchange in investment and finance, real estate, energy and telecommunication sectors present their financial information on their websites. Their study also suggests that companies' corporate governance mechanisms also play an important role in internet financial reporting.

[13] Alkafaji (2012), p 12, suggest that top 10 UAE public companies by market capitalization do not have sufficient disclosure to fully meet international accounting standards.

Table II.4. Dubai Selected Corporate Governance Practice Indicators

	Listed	Financial Report	Externally Audited	Internal Audit Function	Chair Separate from CEO	Non-Executive Board Members	Specialized Committees	Corporate Governance Code	Corporate Governance Report
Dubai Holding	--	--	Yes	--	No	--	--	--	--
Dubai Holding Commercial Operations Group	Yes	Quarterly	Yes	Yes	No	--	--	--	--
Dubai Properties Group	--	--	--	Yes	Yes	Yes	Audit, Risk	--	--
Jumeirah Group	--	--	--	--	No	--	--	--	--
Tatweer	--	--	--	--	No	--	--	--	--
TECOM Investments	--	--	--	Yes	Yes	Yes	Audit, Risk	--	--
Dubai Holding Investment Group	--	--	--	--	No	--	--	--	--
Dubai Group	--	--	--	Yes	No	--	Audit, Risk	--	--
Dubai International Capital	--	--	--	--	Yes	--	--	--	--
Dubai World	--	--	--	--	Yes	Yes	Audit, Risk	--	--
Drydocks World	--	--	--	--	No	--	--	--	--
Economic Zones World	--	--	--	--	Yes	--	--	--	--
Jebel Ali Free Zone	--	--	--	--	Yes	--	--	--	--
Istithmar World	--	--	--	--	Yes	Yes	--	--	--
Limitless	--	--	--	--	Yes	--	--	--	--
Nakheel	Yes	No[1]	--	--	Yes	--	--	--	--
Ports and Free Zone World	--	--	--	--	No	--	--	--	--
Dubai Maritime City	--	--	--	--	Yes	--	--	--	--
DP World	Yes	Semi-Annualy	Yes	Yes	Yes	Yes	Audit	Yes	Yes
Investment Corporation of Dubai	--	--	--	--	Yes	--		--	--
Dnata	--	--	Yes	--	No	--		--	--
Dubai Aluminum Company	--	--	--	--	Yes	--	Audit & Risk	--	--
Dubai Duty Free	--	--	--	--	Yes	--		--	--
Dubai Electricity and Water Authority (DEWA)	--	--	--	--	Yes	--		--	--
Dubai World Trade Centre	--	--	--	--	Yes	--		--	--
Emirates Airline	--	Quarterly	Yes	--	No	--		--	--
Emirates National Oil Company	--	--		--	Yes	--	Audit	--	--
Emirates NBD	Yes	Quarterly	Yes	Yes	Yes	Yes	Audit & Risk	--	--
Emirates Islamic Bank	Yes	Quarterly	Yes	--	Yes	--	--	--	--
Union Properties	Yes	Quarterly	Yes	--	Yes	--	--	--	Yes (Arabic only)
Cleveland Bridge and Engeneering Middle East	--	--	--	--	Yes	--	--	--	--
Dubai Cable Company	--	--	--	--	Yes	--	--	--	--
National Bonds Corporation	--	--	Yes	Yes	Yes	--	--	--	--
Emaar Properties	Yes	Quarterly	Yes	--	Yes	--	--	Yes	Yes
Amlak Finance	Yes	No[2]	Yes	--	Yes	--	--		--
Dubai Islamic Bank	Yes	Quarterly	Yes	Yes	Yes	Yes	Audit	Yes	--
Tamweel	Yes	Quarterly	Yes	--	Yes	--	--	--	--
Deyaar Development Company	Yes	Quarterly	Yes	--	Yes	--	--	Yes	Yes
Noor Investment Group	--	--	--	--	Yes	--	--	--	--
Commercial Bank of Dubai	Yes	Quarterly	Yes	--	Yes	--	--	--	--
Dubai Investments	Yes	Quarterly	Yes	Yes	Yes	Yes	Audit	--	Yes
Borse Dubai	--	--	Yes	--	No	--	--	--	--
Dubai Financial Market	Yes	Quarterly	Yes	--	Yes	--	--	--	--
Dubai Aerospace Entreprise	--	--	--	--	Yes	--	--	--	--
Emirates Investment and Development Company	--	--	Yes	--	Yes	--	--	--	--
Dubai International Finance Centre	--	--	--	--	Yes	--	--	--	--

Sources: Zawya, company websites.

[1] No published financial statements since June 2010.

[2] No published financial statements since September 2011.

Table II.5. Abu Dhabi: Selected Corporate Governance Practice Indicators

	Listed	Financial Report	Externally Audited	Internal Audit Function	Chair Separate from CEO	Non-Executive Board Members	Specialized Committees	Corporate Governance Code	Corporate Governance Report
Abu Dhabi Airports Company (ADAC)	--	--	--	--	Yes	--	--	--	--
Abu Dhabi Investment Council (ADIC)	--	--	Yes	Yes	Yes	--	Audit, Due Diligence	Yes	Yes
Al Hilal Bank	--	Annually	Yes	Yes	Yes	Yes	Audit, Risk, Corporate Governance	Yes	Yes
Abu Dhabi Investment Company	--	--	Yes	Yes	Yes	--	Audit	--	--
National Bank of Abu Dhabi	Yes	Quarterly	Yes		Yes	--	--	--	--
Abu Dhabi Commercial Bank	Yes	Quarterly	Yes	Yes	Yes	Yes	Audit, Risk, Governance	Yes	Yes
Union National Bank	Yes	Quarterly	Yes	--	Yes	--	--	--	--
Abu Dhabi National Chemicals Company	--		--	--	Yes	--	--	--	--
Abu Dhabi Aviation	Yes	Quarterly	Yes	Yes	No	Yes	Risk and Audit	Yes	Yes
Abu Dhabi National Insurance Company	Yes	Quarterly	Yes	--	Yes	--	--	--	Yes (Arabic only)
Al Ain Ahlia Insurance Company	Yes	Quarterly	Yes	--	Yes	--	--	--	Yes (Arabic only)
Abu Dhabi National Hotels	Yes	Quarterly	Yes	--	Yes	--	--	--	Yes (Arabic only)
Emirates Insurance Company	Yes	Quarterly	Yes	Yes	Yes	Yes	Audit, Risk Management	Yes	Yes
Abu Dhabi Islamic Bank	Yes	Quarterly	Yes	--	Yes	--	--	--	--
Sorouh Real Estate Company	Yes	Quarterly	Yes	Yes	Yes	--	Audit	--	Yes (Arabic only)
National Corporation for Tourism and Hotels	Yes	Quarterly	Yes	--	Yes	--	--	--	Yes (Arabic only)
Abu Dhabi National Exhibition Company (ADNEC)	--	--	--	--	Yes	--	--	--	--
Abu Dhabi Ports Company (ADPC)	--	--	--	--	Yes	--	Audit	--	--
Abu Dhabi Water and Electricity Authority (ADWEA)	--	--	--	--	Yes	--		--	--
Abu Dhabi National Energy Company (TAQA)	Yes	Quarterly	Yes	Yes	Yes	--	Audit	--	--
Etihad Airways	--	--	--	Yes	Yes	Yes	Audit	--	--
Senaat General Holding Corporation	--	--	Yes	--	Yes	--	--	--	--
International Petroleum Investment Company (IPIC)	--	Annually	Yes	--	Yes	--	--	--	--
Mubadala Development Company	--	Annually	Yes	--	Yes	--	--	Yes	--
Abu Dhabi Aircraft Technology	--	--	--	--	Yes	--	--	--	--
Abu Dhabi Future Energy Company	--	--	--	--	Yes	--	--	--	--
Advance Technology Investment Company	--	--	--	--	Yes	--	--	--	--
Al Taif Technical Services	--	--	--	--	Yes	--	--	--	--
Al Yah Satellite Communications Company	--	--	--	--	Yes	--	--	--	--
Injazat Data Systems	--	--	--	--	Yes	--	--	--	--
Abu Dhabi Finance	--	--	--	--	Yes	--	--	--	--
Dolphin Energy Limited	--	--	--	Yes	Yes	--	--	--	--
LeasePlan Emirates	--	--	--	--	Yes	Yes	--	--	--
Emirates Aluminum Company	--	--	--	--	Yes	Yes	--	--	--
Emirates Ship Investment Company	--	--	--	--	Yes	--	--	--	--
Abu Dhabi Ship Building Company	Yes	Quarterly	Yes	Yes	Yes	Yes	Audit	Yes	Yes
Agility Abu Dhabi Company	--	--	--	--	Yes	--	--	--	--
Dunia Finance	--	--	Yes	Yes	Yes	--	Audit, Risk	--	--
Abu Dhabi Terminals	--	--	--	--	Yes	--	--	--	--
Al Maabar International Investments	--	--	--	--	Yes	--	--	--	--
Emirates Integrated Telecommunications Company	Yes	Quarterly	Yes	Yes	Yes	Yes	Audit	Yes	Yes
Aldar Properties	Yes	Qarterly	Yes	Yes	Yes	--	Audit	Yes	Yes (Arabic only)
Waha Capital	Yes	Qarterly	Yes	Yes	Yes	--	Audit	--	--
National Central Cooling Company (TABREED)	Yes	Qarterly	Yes	--	Yes	Yes	Audit	--	Yes
First Gulf Bank	Yes	--	--	--	Yes	--	Audit, Risk	--	--
Tourism Development and Investment Company (TDIC)	--	Annually	--	--	Yes	--	--	--	--

Sources: Zawya, company websites.

F. The Way Forward for Improving Corporate Governance

30. The OECD Guidelines in Corporate Governance of State-owned Enterprises (the Guidelines) could help design a better corporate governance framework in GREs.[14]Some principles in the Guidelines such as having clear mandates have long been practiced by GREs and underpinned their success in the past. Implementation of other principles of the Guidelines, where applicable, can improve GREs' performance, decision-making process and risk management practices by their emphasis on strengthened board structures, transparency and disclosure and effective regulatory framework. Some of these issues were also identified as priorities for the GCC state-owned enterprises in a recent study by the OECD.[15]

31. Strengthening the role and structure of boards as a collective decision making body is a key priority. The Guidelines stipulate that boards should be strong, have the necessary authority, competencies and objectivity to carry out their function of strategic guidance and monitoring of management, and be held accountable for their actions to owners. The Guidelines also emphasize that the boards should be composed so that they can exercise objective and independent judgment. Against this backdrop, GRE boards appear more passive than boards in other advanced countries.[16] At the same time, they have few independent directors, and board members are from a small circle representing both political leadership and senior technocrats closely related to them. In such a setting, the chairman of the board who is often from the political leadership, becomes the de facto decision maker in the board, weakening the collective decision making function of the board. Also, in many cases, board members have several other responsibilities in other GREs or in government in different capacities, preventing them from fully focusing on their work in a particular GRE.

32. Another important priority is to increase transparency and disclosure of GREs, including reporting of risks. GREs already implement several recommendations of the Guidelines regarding disclosure and transparency. Many GREs have high-quality accounting standards, their internal audit functions are in place, and their accounts are externally audited. However, much of this information is kept within the enterprise and not shared with public. The disclosure, if required, is often kept at a statutory minimum and not comprehensive. The Guidelines recommend the disclosure of financial and non-financial information, as well as material information on all matters, highlighting significant room for improvement for the GREs. Reporting of material risks is particularly important in the GRE context. The Guidelines recognize that inadequate reporting of material risk factors could lead to inappropriate strategic decisions and unexpected financial losses

[14] OECD (2005), The OECD Guidelines in Corporate Governance of State-owned Enterprises Guidelines cover the following areas: (i) Ensuring an Effective Legal and Regulatory Framework for State-owned Enterprises; (ii) the State Acting as an Owner; (iii) Equitable Treatment of Shareholders; (iv) Relations with Stakeholders; (v) Transparency and Disclosure; (vi) The Responsibilities for the Boards of State-owned Enterprises.

[15] Hertog (2012), The study cites "improving transparency and accountability, preparing listings of minority stakes in some state-owned enterprises, consolidating state-owned enterprises ownership under professional management, reproducing successful ownership experiences under state-owned enterprises" as priorities for the GCC countries.

[16] Hertog (2012), p. 81.

when enterprises undertake ambitious strategies without clearly identifying related risks. Likewise, GREs should report on any financial assistance, including guarantees, received from state and any material transaction with related entities.

33. Competition policy and market regulation are other challenges for improving corporate governance. The Guidelines emphasize the creation of a level playing field for private sector companies competing with state-owned enterprises in terms of regulation and access to finance, and separation of the state's role as owner and market regulator. The UAE has a well developed regulatory capacity in mature industries like telecom and banking which could effectively address competition and market access issues. In other industries, the regulatory capacity needs to be developed to ensure a level playing field for private sector companies, including equal level of access to inputs, finance and infrastructure.[17] In addition, GREs continue to enjoy privileged access to finance because of a perception of implicit sovereign guarantees (which persists despite the sovereigns' repeated "no further bailouts" messages). Against this background, efforts should focus on ensuring equal access to finance for GREs and private sector companies, particularly through the public sector related resources.[18]

CONCLUSION

34. The UAE's GREs have contributed substantially to economic diversification, but they have also been a source of vulnerability for the economy. Dubai's GREs have been instrumental in the emirate becoming a hub for retail and wholesale trade, as well as a major tourism and real estate investment destination for the wider region. Likewise, Abu Dhabi's GREs are crucial to the emirate's economic diversification strategy, focusing primarily on petrochemicals, financial services, aviation, renewable energy, and cultural tourism. At the same time, many GREs, particularly in Dubai, were deeply involved in the boom-and-bust cycle of the mid-2000s, and their debt, even when not explicitly guaranteed, ended up on the government balance sheet. Dubai's GREs have made considerable progress in restructuring their bank debt, nevertheless, the success of these deals will become clear only when restructured maturities will begin to fall due.

35. While the framework for the management of sovereign debt has improved markedly in both emirates, more progress is needed in GRE debt management, particularly in Dubai. Abu Dhabi set up an office for debt management in 2009, and the Dubai Department of Finance (DoF) created a dedicated team for managing sovereign debt issuance and guarantees. While the Supreme Fiscal Committee now plays a major role in monitoring Dubai's GRE debt and approving new borrowing, official information on their financial conditions and debt is lacking.

[17] Hertog (2012), p. 77

[18] Hertog (2012), p. 86

36. Recognizing that GREs face distinct challenges in terms of corporate governance, the authorities have taken some initial steps, but better practices are needed in unlisted GREs in particular, to limit the risks on the sovereign balance sheet. Abu Dhabi established a governance committee to supervise development and adoption of governance frameworks in the public sector, and also set up the Office of State Owned Enterprises. Dubai overhauled the executive boards of many GREs in the wake of 2009 crisis, and strengthened the role of the Supreme Fiscal Committee in GREs' decision making process. However, for most unlisted GREs, particularly in Dubai, annual reports are not published, including audited balance sheets and income statements. Looking ahead, a better framework including improved transparency and disclosure, better regulation, and a revamped board structure could help limit risks taken by these enterprises.

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Statistical Appendix

Table 1. United Arab Emirates: Oil and Gas Production, Exports, and Prices, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
				(In million barrels per day)					
Oil production									
Crude oil, incld condensates	2.66	2.68	2.89	2.80	2.84	2.52	2.57	2.81	2.90
Crude oil	2.33	2.38	2.60	2.53	2.57	2.32	2.31	2.55	2.64
Abu Dhabi	2.17	2.24	2.46	2.42	2.49	2.24	2.23	2.47	2.56
Dubai, Sharjah, and Ras Al Khaimah	0.16	0.14	0.14	0.11	0.08	0.08	0.08	0.08	0.08
Condensates	0.33	0.30	0.29	0.27	0.27	0.20	0.26	0.26	0.26
Refinery output	0.56	0.54	0.59	0.57	0.56	0.57	0.57	0.48	0.57
Oil and product exports	2.47	2.46	2.65	2.53	2.58	2.19	2.25	2.38	2.42
Crude oil & condensates	2.19	2.21	2.43	2.36	2.42	2.09	2.15	2.28	2.31
Abu Dhabi	2.01	2.05	2.27	2.23	2.33	2.00	2.06	2.19	2.22
Dubai, Sharjah, and Ras Al Khaimah	0.16	0.14	0.14	0.11	0.08	0.08	0.08	0.08	0.08
Condensates	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01
Refined products	0.28	0.25	0.22	0.17	0.16	0.10	0.10	0.10	0.11
				(In billion cubic meters)					
Natural gas production	46.30	47.80	49.00	50.40	50.20	48.80	51.30	51.70	58.21
LNG exports	7.41	7.50	7.77	7.72	7.57	7.70	7.98	7.55	7.74
NGL exports	12.86	13.24	13.57	12.50	12.41	12.80	18.90	25.50	26.59
Domestic gas consumption	40.20	42.10	43.40	49.20	59.50	59.10	60.80	62.90	67.32
				(In millions of U.S. dollars)					
Oil and product exports	34,027	49,307	62,935	65,682	91,446	59,571	66,769	99,572	103,593
Crude oil & condensates	29,875	43,867	57,230	60,819	85,428	54,125	60,089	90,641	93,971
Abu Dhabi	27,602	40,845	53,574	57,679	82,210	51,819	57,344	87,880	91,149
Dubai and others	2,046	2,619	3,191	2,727	2,736	2,032	2,493	2,493	2,548
Condensates	227	403	465	413	482	274	252	268	274
Refined products	4,152	5,440	5,705	4,863	6,018	5,446	6,680	8,930	9,622
				(In millions of U.S. dollars)					
LNG and NGL exports	4,773	5,771	7,165	8,145	11,546	8,577	7,870	12,030	14,487
LNG exports	1,506	1,601	2,047	2,511	4,567	3,395	3,309	4,539	4,965
NGL exports	3,267	4,170	5,118	5,634	6,979	5,182	4,561	7,492	9,522
Total hydrocarbon exports	38,800	55,078	70,100	73,827	102,992	68,148	74,639	111,602	118,080
				(In U.S. dollars per barrel)					
Memorandum item:									
Average UAE oil export prices	36.3	53.6	63.5	70.4	96.3	62.8	77.0	109.6	112.0

Sources: ADNOC; and Fund staff estimates.

Table 2. United Arab Emirates: Consolidated Government Finances, 2004–12*

(Millions of U.A.E. dirhams)

	2004	2005	2006	2007	2008	2009	2010	2011	Est. 2012
Total revenue	128,926	205,263	283,046	320,118	451,382	253,479	312,817	439,574	494,867
Hydrocarbon[1]	98,947	153,689	216,457	231,925	360,487	172,315	233,621	361,652	395,873
Nonhydrocarbon	29,980	51,574	66,589	88,193	90,895	81,164	79,196	77,922	98,994
Customs	3,040	3,852	4,687	8,101	8,686	8,546	8,062	9,920	11,106
Profit transfers	3,322	4,624	5,660	12,701	5,228	4,033	5,089	7,339	7,549
Income tax[2]	320	420	1,093	842	1,190	1,340	1,113	1,093	1,347
Fees and charges	7,044	14,998	13,566	9,719	24,051	24,803	26,157	23,293	25,289
Investment income[3]	8,550	19,046	31,208	39,230	28,433	19,730	15,738	12,181	25,165
Other	7,703	8,634	10,374	17,600	23,307	22,712	23,037	24,096	28,538
Total expenditure and grants	97,331	105,631	128,675	168,130	255,014	375,929	331,724	387,608	373,104
Current expenditure	82,482	85,694	107,744	127,813	168,176	209,146	225,471	253,676	274,473
Wages and salaries[4]	15,990	15,915	18,138	21,003	29,001	33,248	31,136	32,092	34,822
Goods and services	28,326	25,453	25,330	36,455	49,179	68,216	36,614	40,597	38,970
Abu Dhabi "federal services"[5]	23,760	22,784	25,349	31,285	45,552	55,924	72,739	80,413	79,679
Subsidies and transfers	12,335	19,353	37,035	36,425	41,154	46,034	41,004	55,474	75,567
Interest payments	298	238	1	0	347	1,596	2,087	2,239	2,292
Other	1,773	1,951	1,891	2,646	2,943	4,129	41,891	42,861	43,143
Development expenditure	15,064	14,042	11,606	17,271	31,485	45,548	35,446	38,959	30,283
Loans and equity (net)	-812	4,880	8,953	20,793	51,794	117,948	68,193	89,388	66,312
Foreign grants[6]	597	1,015	372	2,252	3,559	3,287	2,613	5,585	2,036
Abu Dhabi	597	1,015	372	2,129	3,485	3,096	2,603	5,538	1,992
Federal	0	0	0	123	74	191	10	47	44
Overall balance (consolidated)*	31,596	99,632	154,371	151,988	196,367	-122,450	-18,907	51,966	121,763
(In percent of GDP)	5.8	15.0	18.9	16.0	16.9	-13.1	-1.8	4.1	8.8
Nonhydrocarbon balance	-67,351	-54,057	-62,086	-79,937	-164,120	-294,765	-252,528	-309,686	-274,110
(In percent of GDP)	-12.4	-8.1	-7.6	-8.4	-14.2	-31.5	-23.9	-24.2	-19.8
(In percent of nonhydrocarbon GDP)	-17.5	-12.4	-12.2	-12.8	-22.5	-43.1	-34.9	-39.9	-32.5
Nonhydrocarbon balance (excluding investment income)	-75,901	-73,104	-93,294	-119,167	-192,553	-314,495	-268,266	-321,867	-299,275
(In percent of GDP)	-14.0	-11.0	-11.4	-12.6	-16.7	-33.6	-25.4	-25.1	-21.6
(In percent of nonhydrocarbon GDP)	-19.7	-16.8	-18.3	-19.0	-26.3	-46.0	-37.1	-41.4	-35.5
Memorandum items:									
Hydrocarbon share of revenue (percent)	76.7	74.9	76.5	72.4	79.9	68.0	74.7	82.3	80.0

Sources: Federal government; Emirate finance departments; and Fund staff estimates.

* Consolidated accounts of the federal government, Abu Dhabi, Dubai and Sharjah: GFSM 1986 classification.

[1] Includes Fund estimates of revenues from other government entities operating in the oil and gas sector.

[2] Taxes on profit of foreign banks. Income taxes on gas companies are included under hydrocarbon revenues.

[3] Fund staff estimates.

[4] Excludes military wages and salaries.

[5] Largely military and internal security expenditures paid by Abu Dhabi but not in the federal accounts.

[6] Intragovernmental grants are netted out in the consolidated fiscal accounts.

Table 3. United Arab Emirates: Federal Government Financial Operations, 2004–12*

(Millions of U.A.E. dirhams)

	2004	2005	2006	2007	2008	2009	2010	2011	Est. 2012
Total revenue and grants	22,016	24,939	30,387	34,541	42,802	42,280	39,799	40,864	41,633
Revenues	9,018	11,426	16,286	20,146	26,610	26,780	27,728	27,427	25,574
Enterprise profits[1]	2,011	2,687	2,853	11,231	3,409	3,263	3,204	5,964	6,235
Other fees and charges	7,007	8,740	13,433	8,915	23,201	23,517	24,524	21,463	19,339
Grants from Emirates	12,998	13,512	14,101	14,395	16,192	15,500	12,071	13,437	16,059
Abu Dhabi	11,798	12,312	12,901	13,195	14,992	14,300	11,471	11,937	14,559
Cash contributions	5,619	6,171	6,779	7,119	9,857	9,743	7,398	7,398	10,861
Federal services[2]	6,179	6,141	6,122	6,076	5,135	4,557	4,073	4,539	3,698
Foreign grants on federal account[2]	0	0	0	0	0	0	0	0	0
Dubai	1,200	1,200	1,200	1,200	1,200	1,200	600	1,500	1,500
Total expenditure and grants	22,533	23,289	28,551	27,800	39,781	41,338	39,592	43,787	42,297
Current expenditures	21,693	22,082	25,605	25,461	36,572	38,563	37,178	37,873	39,937
Wages and salaries	7,998	8,158	8,997	9,387	13,854	15,253	13,187	13,355	14,460
Goods and services (by ministries)	9,902	9,997	9,184	9,448	11,730	11,722	14,530	11,093	11,936
Subsidies and transfers	3,793	3,928	7,424	6,626	10,988	11,587	9,460	13,425	13,541
Development expenditures	715	533	466	920	1,041	1,139	1,159	1,467	1,196
Equity positions	125	674	2,480	1,296	2,094	1,446	1,245	4,400	1,120
Domestic	125	674	2,480	1,296	2,094	1,446	945	4,400	1,120
Foreign grants	0	0	0	123	74	191	10	47	44
Overall balance	-516	1,649	1,836	6,740	3,021	943	207	-2,923	-664
Memorandum items:									
Abu Dhabi federal services[3]	23,760	22,784	25,349	31,285	45,552	55,924	72,739	80,413	76,488

Sources: Ministry of Finance; Abu Dhabi Department of Finance.

* GFSM 1986 classification.

[1] Dividends and payouts by Etisalat and other enterprises, including the Central Bank.

[2] Amount budgeted by federal government, but outlays are made by Abu Dhabi.

[3] Mainly military and internal security expenditures not included in the federal accounts.

Table 4. United Arab Emirates: Abu Dhabi Fiscal Operations, 2004–12*

(Millions of U.A.E. dirhams)

	2004	2005	2006	2007	2008	2009	2010	2011	Est. 2012
Total revenue	80,238	132,206	191,833	213,237	305,680	147,117	192,164	281,432	324,150
Hydrocarbon revenue	67,978	104,279	157,125	168,274	269,586	121,775	169,128	261,490	288,713
Crude oil royalties and taxes	64,345	99,699	151,118	162,557	259,227	116,817	162,089	251,220	278,219
Income taxes[1]	3,633	4,580	6,007	5,717	10,359	4,958	7,038	10,270	10,494
Nonhydrocarbon	12,260	27,927	34,708	44,963	36,094	25,342	23,036	19,942	35,437
Customs	710	635	748	1,427	1,817	1,954	1,392	2,261	3,250
Investment income[2]	8,550	19,046	31,208	39,230	28,433	19,730	15,738	12,181	25,165
Other	3,000	2,039	2,752	4,306	5,844	3,658	5,906	5,500	7,022
Total expenditure and grants	74,015	79,828	92,310	121,737	187,313	263,804	260,174	318,351	295,867
Current expenditures	50,659	52,503	65,243	81,581	105,431	138,996	159,053	183,920	196,926
Wages and salaries	3,169	3,169	3,236	4,813	5,861	6,006	5,446	5,793	6,051
Goods and services	12,822	12,396	13,591	22,387	32,027	48,929	14,729	21,580	15,599
Federal services[3]	23,760	22,784	25,349	31,285	45,552	55,924	72,739	80,413	79,679
Water and electricity	3,636	318	0	0	0	0	0	0	0
Subsidies and transfers	7,272	13,836	23,066	23,096	21,784	27,597	25,658	35,276	54,018
Interest payments	0	0	1	0	207	540	877	890	877
Unallocated expenditures							40,481	39,968	40,702
Development expenditures	11,898	9,792	7,321	5,041	13,211	27,635	23,763	29,030	20,136
Water and electricity	2,147	3,002	2,428	1,902	2,300	4,154	3,274	3,018	101
Other	9,751	6,790	4,893	3,139	10,911	23,481	20,489	26,012	20,035
Loans and equity (net)	-937	4,206	6,473	19,497	49,700	79,777	63,276	87,926	62,254
Domestic	3,025	4,813	8,798	19,218	50,410	80,686	63,418	88,055	63,666
Loans (net)	1,527	1,607	2,759	10,377	38,070	44,835	18,185	62,096	44,566
Transfers to Dubai	0	0	0	0	0	12,129	11,000	9,923	0
Equity (net)	1,498	3,206	6,039	8,841	12,340	23,722	34,233	16,036	19,100
Foreign loans	-3,962	-607	-2,325	279	-710	-909	-142	-129	-1,412
Grants	12,395	13,327	13,273	15,618	18,971	17,396	14,082	17,475	16,551
Cash contributions to federal government	5,619	6,171	6,779	7,119	9,857	9,743	7,406	7,398	10,861
Federal services[4]	6,179	6,141	6,122	6,076	5,135	4,557	4,073	4,539	3,698
Foreign grants on federal account[4]	0	0	0	294	494	0	0	0	0
Foreign grants[5]	597	1,015	372	2,129	3,485	3,096	2,603	5,538	1,992
Overall balance	6,223	52,378	99,523	91,500	118,367	-116,687	-68,010	-36,919	28,283

Source: Abu Dhabi Department of Finance.

* GFSM 1986 classification.

[1] Income taxes are entirely from ADGAS and GASCO.

[2] Fund staff estimates; not included in finance department accounts.

[3] Mainly defense and security outlays; not included in the federal accounts.

[4] Outlays made by Abu Dhabi, but included in the federal accounts.

[5] Foreign grants on Abu Dhabi account.

Table 5. United Arab Emirates: Abu Dhabi Development Expenditures, 2004–12

(Millions of U.A.E. dirhams)

	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Agriculture	1,095	943	331	289	430	506	265	358	345
Electricity and water	2,147	3,002	2,428	1,902	2,300	4,154	3,275	3,018	101
Industry & commerce	1,579	916	288	239	280	333	27	100	3
Transport and communications	2,340	2,357	2,715	1,310	6,708	14,371	7,374	6,686	3,676
Housing & community centers	2,066	1,189	414	216	1,571	1,465	5,142	7,859	5,435
Urban development (reclamation and dredging)	320	56	48	126	370	2,341	…	…	…
Health	11	7	55	163	136	563	1,648	2,388	1,463
Sewerage/sanitation	656	773	541	333	542	1,155	1,183	2,492	3,582
Sports and recreation	1,470	393	395	233	394	1,084	361	387	162
General administration and contingency fund	214	156	106	194	241	933	1,298	1,301	2,663
Education [1]	0	0	0	36	205	655	382	2,285	1,719
Religious affairs	0	0	0	0	30	23	…	…	…
Police and civil defence	0	0	0	0	4	36	168	820	500
Others (including unallocated reserves)	0	0	0	0	0	16	2,639	1,942	487
Total	11,909	9,792	7,321	5,041	13,211	27,635	23,762	29,636	20,136

Source: Abu Dhabi Department of Finance.

* Preliminary, subject to audit/change.

[1] Since 2007, education services in Abu Dhabi, previously managed by the federal government, are managed by Abu Dhabi Education Council.

Table 6. United Arab Emirates: Abu Dhabi Government Domestic Aid, Grants, Subsidies and other Transfers, 2007–12

(Millions of U.A.E. dirhams)

	2007	2008	2009	2010	2011	2012*
Agriculture and livestock support	3,398	3,116	3,713	494	537	661
Housing support	49	127	456	2,015	2,334	4396
Food subsidies	9	198	386	40	432	449
Water and electricity tariff support	6,950	9,793	9,667	10,871	12,391	16237
Support to industry	2	366	594	419	1,477	1471
Support to Northern Emirates	3,636	3,806	2,459	2,082	1,675	1915
Marriage support and social allowance	654	907	1,157	1,517	1,481	11875
Other grants and transfers	9,047	4,731	8,951	6,789	14,949	14580
Total	23,745	23,044	27,383	24,227	35,276	51,584

Source: Abu Dhabi Department of Finance.

* Preliminary, subject to audit/change.

Table 7. United Arab Emirates: Dubai Government Operations, 2004–12*

(Millions of U.A.E. dirhams)

	2004	2005	2006	2007	2008	2009	2010	2011	Est. 2012
Total revenue	11,978	16,900	19,831	25,605	32,618	40,554	40,868	42,614	34,349
Tax revenue	2,415	3,317	4,630	6,838	7,604	7,132	7,057	7,987	8,385
Customs	2,095	2,897	3,537	5,996	6,414	5,792	5,944	6,894	7,038
Income tax[1]	320	420	1,093	842	1,190	1,340	1,113	1,093	1,347
Nontax revenue	9,563	13,583	15,201	18,767	25,014	33,422	33,811	34,627	25,964
Oil and gas	4,213	5,902	6,259	6,770	8,495	4,703	5,014	5,477	5,586
Enterprise profits[2]	1,311	1,937	2,807	1,470	1,819	770	1,885	1,375	1,314
Transfers from Abu Dhabi	0	0	0	0	0	12,129	11,000	9,923	0
Other	4,039	5,744	6,135	10,527	14,700	15,820	15,912	17,852	19,064
Total expenditure	10,543	12,426	17,324	26,501	38,138	90,218	49,093	42,046	38,103
Current	7,836	8,510	14,024	16,384	22,607	26,665	24,968	26,426	27,930
Wages and salaries	3,390	3,933	5,137	5,906	8,168	10,369	10,886	11,200	11,658
Goods and services[3]	2,413	2,178	1,926	3,983	5,073	6,748	6,555	7,197	7,881
Subsidies and transfers[4]	1,207	1,469	6,411	5,168	7,582	5,753	5,357	5,730	6,379
Interest payments	298	238	0	0	141	1,056	1,210	1,349	1,415
Other	528	692	550	1,327	1,643	2,739	960	950	597
Development	1,507	2,716	2,100	8,917	14,331	13,499	8,852	7,135	5,735
Loans and equity (net)	0	0	0	0	0	48,854	14,673	6,985	2,938
Dubai Financial Support Fund						48,854	14,673	6,985	2,938
Grants									
Contribution to federal government	1,200	1,200	1,200	1,200	1,200	1,200	600	1,500	1,500
Overall balance	1,435	4,474	2,507	-896	-5,520	-49,664	-8,225	568	-3,754

Source: Dubai Department of Finance.

* GFSM 1986 classification.

[1] Taxes on foreign banks.

[2] Includes DUBAL, DUGAS, Emirates Airlines, Jebel Ali, and other public enterprises.

[3] Includes interest and amortization on some bank loans.

[4] Excludes Water and Electricity, which is settled in an off-budget account.

Table 8. United Arab Emirates: Summary Accounts of the Central Bank, 2004–12

(Millions of U.A.E. dirhams)

End of Period	2004	2005	2006	2007	2008	2009	2010	2011	2012
Foreign assets	68,566	78,184	102,721	285,974	113,546	93,672	120,501	136,624	172,916
Claims on banks	37,309	39,727	57,739	184,368	83,307	89,768	48,169	59,487	66,731
Loans and investments	29,564	36,909	43,299	98,857	29,576	37	68,418	72,301	94,986
Other [1]	516	1,021	1,295	2,467	156	70	115	507	6,746
SDR holdings	20	35	45	50	63	3,115	3,061	3,055	3,060
IMF reserve position	1,157	492	343	232	444	682	738	1,274	1,393
Net claims on government	-1,157	1,933	282	-232	54,573	106,051	105,992	97,448	88,800
Claims	0	2,425	625	0	55,000	106,725	106,725	98,725	90,193
Less: IMF reserve position	1,157	492	343	232	427	674	733	1,277	1,393
Claims on private nonbanks [2]	68	64	59	53	49	56	46	42	42
Claims on commercial banks	0	0	0	0	23,794	6,725	1,421	1,620	513
Unclassified assets	182	190	216	204	1,865	556	4,043	1,585	2,942
Total assets/liabilities	67,659	80,371	103,278	285,999	193,827	207,060	232,003	237,319	265,213
Foreign liabilities[3]	568	1,177	1,313	1,404	1,235	3,794	3,691	3,190	3,230
Reserve money	38,789	44,314	54,177	92,077	121,728	113,795	112,360	131,900	143,845
Currency outside banks	15,778	17,522	21,837	25,942	36,967	37,217	38,560	41,591	45,615
Cash held by banks	2,714	3,511	4,995	5,730	8,360	8,363	9,215	10,496	12,158
Banks' deposits	20,297	23,281	27,345	60,405	76,401	68,215	64,585	79,813	86,072
Certificates of deposit	15,977	21,033	32,322	173,577	47,183	71,453	94,002	80,407	95,400
Government deposits [4]	10,620	12,124	13,651	15,932	20,863	15,935	15,331	599	273
Capital and reserves	1,560	1,560	1,560	1,560	1,500	1,500	1,500	17,152	18,077
Unclassified liabilities	145	163	255	1,449	1,318	583	5,119	4,071	4,388

Source: Central Bank of the United Arab Emirates.

* Preliminary.
[1] Mainly gold, valued at cost.
[2] Staff loans.
[3] Includes SDR allocations.
[4] Mainly foreign currency deposits.

Table 9. United Arab Emirates: Balance Sheets of Commercial Banks, 2004–12[1]

(Millions of U.A.E. dirhams)

End of Period	2004	2005	2006	2007	2008	2009	2010	2011	2012
Reserves	23,011	26,791	32,340	66,135	84,761	76,578	73,800	90,309	97,652
Cash	2,714	3,511	4,995	5,730	8,360	8,363	9,215	10,496	12,158
Deposits with central bank	20,297	23,280	27,345	60,405	76,401	68,215	64,585	79,813	85,494
Foreign assets	126,108	175,028	231,938	196,897	203,386	208,157	233,513	248,876	306,555
Claims on government	31,776	42,055	55,183	69,379	85,181	112,530	121,868	122,931	143,425
Claims on public sector enterprises [2]	13,884	24,797	33,002	45,385	56,064	77,259	87,581	119,852	132,954
Claims on private nonbanks	204,727	290,239	385,730	530,737	777,141	786,495	792,030	819,112	832,535
Claims on nonbank financial institutions	6,612	15,243	32,362	55,208	97,940	94,350	99,708	92,716	100,109
Central bank certificates of deposit	15,977	21,033	32,322	173,577	47,183	71,453	94,002	80,407	95,400
Unclassified assets	10,451	13,317	21,677	40,080	44,293	67,475	76,646	78,966	83,871
Total assets/liabilities	432,546	608,503	824,554	1,177,398	1,395,949	1,494,297	1,579,148	1,653,169	1,792,501
Monetary deposits	65,040	86,927	98,183	155,723	171,171	186,265	194,401	222,505	253,558
Quasi-monetary deposits	161,424	219,615	279,274	384,038	466,172	517,136	553,427	561,662	563,201
Foreign currency	62,496	73,804	96,307	91,007	120,210	123,001	130,264	144,094	139,278
Local currency	98,928	145,811	182,967	293,031	345,962	394,135	423,163	417,568	423,923
Foreign liabilities [3]	48,793	85,215	177,688	320,970	282,599	251,086	271,699	289,808	315,379
Government deposits	51,274	79,179	93,680	114,579	198,298	192,614	183,162	174,809	219,541
Government lending funds	18	17	16	16	5,622	13	13	13	13
Credit from central bank	25	26	8	2	25,260	6,776	4,314	1,484	2,567
Capital and reserves	52,463	78,132	104,089	130,882	165,569	244,031	273,038	280,791	298,814
Provision	29,768	30,964	33,183	20,788	25,269	41,454	53,121	68,517	82,564
Unclassified liabilities	23,741	28,428	38,433	50,400	55,989	96,376	99,094	122,097	139,428

Source: Central Bank of the United Arab Emirates.

[1] Excluding accounts of the restricted license bank.

[2] Commercial enterprises with significant government ownership, including Dubai Aluminum Company, Dubai Gas Company, Abu Dhabi National. Oil Company, other oil and gas companies owned by Abu Dhabi, and cement companies established by several Emirate governments.

[3] Includes commercial prepayments.

Table 10. United Arab Emirates: Banking System Structure, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of:									
Banks	46	46	46	48	52	52	53	52	54
Private	31	31	31	33	35	36	37	37	38
Local	6	6	6	7	7	7	7	7	7
Foreign	25	25	25	26	28	29	30	30	31
State-owned	15	15	15	15	17	16	16	16	16
Banks									
Islamic	4	4	4	6	8	8	8	8	8
Non-Islamic	42	42	42	42	44	44	45	45	46
Branches of foreign banks	111	111	111	111	117	125	133	133	137
Concentration									
Banks[1]	13	11	11	11	11	10	10	10	10
Assets share					(Percent)				
Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private commercial	36.1	35.8	36.4	38.2	36.8	35.5	34.6	35.9	34.1
Local	12.6	14.1	14.5	15.6	16.3	16.6	15.9	15.6	14.9
Foreign	23.5	21.8	21.9	22.6	20.6	18.9	18.6	20.3	19.2
State-owned	63.9	64.2	63.6	61.8	63.2	64.5	65.4	64.1	65.9
Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Islamic	9.9	11.9	14.0	14.2	15.7	16.0	16.8	15.6	16.0
Non-Islamic	90.1	88.1	86.0	85.8	84.3	84.0	83.2	84.4	84.0
Deposits share					(Percent)				
Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private commercial	38.8	38.5	40.1	39.9	37.7	37.2	35.0	36.2	33.1
Local	13.8	14.9	15.6	16.7	16.6	17.2	16.2	16.0	15.2
Foreign	25.0	23.7	24.5	23.2	21.1	20.0	18.7	20.2	17.9
State-owned	61.2	61.5	59.9	60.1	62.3	62.8	65.0	63.8	66.9
Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Islamic	13.3	13.8	16.0	17.1	18.1	18.7	18.8	18.0	18.0
Non-Islamic	86.7	86.2	84.0	82.9	81.9	81.3	81.2	82.0	82.0

Source: Central Bank of the United Arab Emirates.

[1] Number of institutions with 75 percent of total assets.

Table 11. United Arab Emirates: Sectoral Loan Concentration, 2004–12[1]

(Percent of total credit)

	2004	2005	2006	2007	2008	2008	2009	2010	2011	2012
Agriculture	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.2
Mining and quarrying	1.2	1.1	1.2	1.2	1.1	1.3	0.7	0.7	2.8	2.1
Manufacturing	5.5	5.0	5.1	5.4	5.1	4.9	4.6	4.7	4.6	4.5
Electricity, gas, and water	3.7	3.0	2.3	1.9	2	2.2	2.6	2.5	2.2	1.9
Construction (excluding mortgages)	8.5	6.9	4.8	3.4	3.9	6.8	6.6	6.1	5.4	7.9
Trade	28.1	24.1	19.6	16.4	15.6	13.4	10.5	10.0	10.6	10.3
Transportation, storage, and communication	2.8	3.0	4.1	3.4	2.5	2.7	2.9	2.7	2.6	3.2
Financial institutions (excluding banks)[2]	1.4	2.1	3.9	5.7	6.3	7.9	9.0	8.5	7.3	7.2
Government	11.8	11.1	10.1	9.0	8.6	7.8	9.6	9.8	10.3	11.8
Services	7.3	9.0	11.8	14.4	14.6	15.9	14.2	14.1	14.9	13.4
Real estate mortgage loans	4.4	5.0	6.6	7.1	6.6	6.1	6.5	6.6	6.3	4.7
Personal loans										
Business	14.8	19.9	18.6	17.0	18.2	17.3	17.9	18.8	18.9	17.5
Consumption	9.3	7.7	6.6	6.7	6.7	7.3	6.9	6.8	6.5	7.9
Others	1.0	1.8	5.0	8.1	8.5	6.1	7.9	8.6	7.5	7.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of the United Arab Emirates.

[1]Excludes overseas branches.

[2] Includes Abu Dhabi Investment Council (ADIC) and Abu Dhabi Investment Authority (ADIA).

Table 12. United Arab Emirates: Financial Sector Indicators, 2004–12

(Percent, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Core indicators									
Deposit-taking institutions									
Total regulatory capital to risk-weighted assets[1]	16.9	17.4	17.3	14.4	13.2	19.9	20.7	20.0	20.6
Regulatory Tier I capital to risk-weighted assets	16.3	16.9	15.0	12.4	12.3	15.4	16.1	15.2	16.7
Nonperforming loans net of provisions to capital	3.5	1.8	0.6	0.0	0.0	3.1	4.2	4.9	6.7
Nonperforming loans to total gross loans	12.5	8.3	6.4	2.6	2.3	4.3	5.6	7.2	8.7
Return on assets	2.1	2.7	1.4	1.5	1.4	1.4	1.3	1.5	1.5
Return on equity	18.6	22.5	11.7	14.1	13.0	10.9	10.4	11.4	9.6
Interest margin to gross income	64.6	49.3	29.3	32.4	40.2	43.8	47.3	49.5	52.5
Noninterest expenses to gross income	40.3	26.9	20.9	21.4	26.3	25.0	26.8	36.7	29.2
Liquid assets to total assets	23.2	26.9	16.4	13.2	6.3	13.2	17.2	16.2	19.4
Encouraged indicators									
Deposit-taking institutions									
Capital to assets	11.1	11.9	12.9	11.6	11.8	16.0	17.7	17.2	17.0
Personnel expenses to noninterest expenses	38.6	41.8	54.6	55.1	54.4	53.3	54.4	52.4	53.3
Customer deposits to total (non-interbank) loans	113.6	112.4	96.5	99.7	90.6	92.6	96.5	93.6	98.6
Households									
Household debt to GDP	6.1	6.9	5.2	6.0	7.4	7.6	6.3	6.5	…
Real estate loans to total loans	4.7	5.0	5.9	8.3	13.1	14.4	16.4	21.1	15.3
Other indicators									
Loan loss reserves/nonperforming loans	94.6	95.7	94.7	90.1	77.7	64.4	68.0	67.8	64.9
Deposits as percent of M2	119.9	126.4	130.0	127.3	136.9	132.7	133.5	129.5	135.4
Commercial banks loans to private sector as percent of total deposits	70.5	70.8	60.4	61.5	71.3	66.7	63.0	63.7	58.4
Number of commercial banks (end-of-period)	46	46	46	48	52	52	53	52	54
Number of banks with C.A.R. above 10 percent	46	46	46	48	52	52	53	51	52
Foreign currency deposits as percent of M2	39.6	44.5	47.0	34.3	37.4	33.7	32.2	25.3	35.4
Foreign currency denominated lending/total lending	20.7	19.7	22.8	20.8	…	14.8	14.2	15.4	16.0
Earning per employee (in millions of AED)	0.5	0.7	0.7	0.8	0.7	0.5	0.6	0.7	0.7

Source: Central Bank of the United Arab Emirates.

[1]Tier 2 plus tier 2 capital items (net of deductions).

Table 13. United Arab Emirates: Banking System Profitability, 2004–12[1]

(Percent of total assets)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total income	**5.2**	**6.4**	**7.1**	**6.7**	**6.2**	**6.3**	**5.8**	**6.0**	**5.3**
Interest income	3.4	4.2	5.2	5.2	4.8	4.9	4.5	4.6	4.1
Fees	0.7	0.9	0.8	0.6	0.7	0.8	0.7	0.7	0.7
Foreign exchange income	0.3	0.3	0.4	0.3	0.3	0.2	0.2	0.3	0.2
Other income	0.9	1.0	0.7	0.6	0.3	0.4	0.3	0.4	0.3
Total expenses	**3.2**	**3.7**	**4.8**	**4.7**	**4.3**	**5.0**	**4.4**	**4.4**	**3.8**
Interest expense	1.1	2.0	3.1	3.0	2.3	2.1	1.8	1.6	1.4
Provisions	0.5	0.4	0.3	0.4	0.6	1.4	1.1	1.1	0.9
Wages	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Other expenses	0.8	0.6	0.6	0.6	0.7	0.7	0.7	0.9	0.7
Net profit/loss	**2.1**	**2.7**	**2.3**	**2.0**	**1.8**	**1.3**	**1.4**	**1.6**	**1.5**

Source: Central Bank of the United Arab Emirates.

[1] Includes overseas branches.