

# NATIONAL DAY OF United Arab Emirates



The Daily Star

SPECIAL SUPPLEMENT

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## Economic development

**T**HE Fifty-eighth Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund, held in Dubai in September 2003, focused the attentions of the world's leading financial experts on the impressive strides taken by the United Arab Emirates in recent years. It was absolutely clear to all of the 20,000 or so people who came to the UAE for the financial meetings that they were visiting a forward looking nation that is seeking to capitalise on the varied assets at its command. Organisation of the IMF/World Bank Meetings, the facilities provided to visiting delegates and the celebrations that accompanied the events were widely commended in the media. It was an occasion that further enhanced the country's reputation on the world stage.

### Financial Markets

Trading in shares of major companies within the UAE and in the Arabian region is carried out at two recently established Financial Markets, the Abu Dhabi Securities Market (ADSM) and the Dubai Financial Market (DFM). Both these markets have shown very significant growth and are now well established. The volume of shares traded in 2002 at ADSM reached Dh 800.98 million while DFM recorded a trading volume of Dh 1.55 billion. Trading at ADSM was valued at Dh 3.69 billion in 2003. The daily average was Dh. 5.4 million, peaking in September with a figure of Dh 636.2 million. The banking sector at Dh 1.63 billion formed 44.3 per cent of the total in terms of contribution to overall value, followed by services (Dh 1.39 billion), industry (Dh 264.7 million), hotels (256.5 million), and insurance (Dh 140.4 million).

Etisalat achieved the highest trading value for the year, with a tally of Dh 953.1 million, nearly 26 per cent of the total. Abu Dhabi Islamic Bank (Dh 592.9 million), First Gulf Bank (Dh 331.2 million), Union National Bank (Dh 274.7 million)

and the Abu Dhabi Commercial Bank (Dh 274.1 million) were next in that order. The number of traded shares in 2003 stood at 235.2 million, the daily average of traded shares reaching nearly 868,000.

By the close of 2003, 30 companies were registered at ADSM, their subscribed shares amounting to 3.1 billion with a total capital of Dh13.8 billion. The Variation in share price was a significant feature in 2003, the market index rising to 1756.9 points at the end of 2003. Market capitalisation of listed companies reached Dh111.5 billion in 2003.

Meanwhile, a record index rise of 21.3 per cent by the end of the second quarter of 2003 compared to the same period in 2002 placed DFM in top position among Arab securities markets. The Kuwaiti Securities Market ranked second, with a rise of 20.9 per cent, followed by the Oman Securities Market and ADSM with 20.5 per cent each.

### Banking Sector

It is the responsibility of the Central Bank, the country's regulatory bank, to formulate and implement the UAE's banking, credit and monetary policy in order to support the UAE's economic policy objectives, including price stability, and to support the UAE dirham, guaranteeing its value, stability and its free convertibility into all currencies.

There are many aspects to the role the Central Bank plays in supporting the national economy of the United Arab Emirates. In addition to acting as banker to other banking institutions operating in the country, it is also the banker and financial advisor to the government.

### Anti-Money Laundering

A key issue occupying the attention of the Central Bank in 2002, and since then, has been to ensure that adequate controls are in place to prevent money laundering. With this in mind, the National Committee for Anti-Money Laundering attended the meetings of the Financial Action Task Force (FATF-GAFI) that were held in Hong Kong from 28

January to 1 February 2002. This international body concluded that the UAE has established a comprehensive Anti-Money Laundering System, comprising legislation, regulations and procedures. As such, the UAE is fully cooperative in the internationally declared fight against money laundering.

In establishing its position with regard to this important issue the UAE team presented a series of facts of FATF-GAFI. These included the observation that the UAE was one of the first countries to adopt Anti-Money Laundering Articles in the provisions of its Federal Law No. 3 of 1987. In addition to other actions to ensure proper identification of customers, the Central Bank established a Financial Information Unit in July 1999 (under the name Anti-Money Laundering and Suspicious Cases Unit). It doubled the staff level of this unit soon after the tragic events of 11 September 2001 in USA. The unit has access to all relevant authorities in the UAE, as well as to those abroad, through the workings and practices of the National Anti-Money Laundering Committee.

In October 2001 the Central Bank reduced the thresholds of official identification of financial customers to Dh2000 from Dh200,000 for moneychangers (Notice No. 1815/2001) and from Dh2000 from Dh200,000 to 40,000 for banks. The Central Bank also issued directions to financial institutions in the UAE to carry out search and freeze operations relating to any accounts, deposits and investments in the names of terrorist leaders, organisations, and those who assisted terrorists. The results have been compiled and provided to the concerned authorities in the UAE.

A new Anti-Money Laundering Law was passed by the Cabinet of Ministers in October 2001, and by the Federal National Council on 25 December 2001, whereupon it was approved by the Supreme Council and signed by the President on 22 January 2002, as Federal Law No. 4 of 2002.



His Highness Sheikh Khalifa bin Zayed  
President of United Arab Emirates

The UAE has earned solid praise from international regulatory watchdogs for its banking system and its efforts to control money laundering. The Paris-based Financial Action Task Force gave a clean bill of health to the country's financial system and the IMF has also expressed confidence in the Central Bank's supervisory role and commended its anti-money laundering measures as a model for other countries to follow.

### The Hawala System

Hawala predates traditional or 'Western' banking in the Middle East and Asia. Prior to establishment of Asia's first 'Western' bank (the Bank of Hindustan established in Calcutta around 1770) *sarafs* and *hawaladars*, primarily moneychangers and essentially predecessors of

present day *hawaladars*, played a vital role in nearly all commercial and financial transactions.

During the Vietnam War many Americans were exposed to *hawala* through the operations of Indian merchants in Saigon. They often took advantage of their *hawala* service to remit money home. Today, both *hawala* and Western style banking system play vital and frequently intertwined roles in the economies of India, Pakistan and Bangladesh. The UAE's large population of migrant workers from these countries has supported a significant growth in the *hawala* business in the Emirates.

At a conference on the sidelines of the IMF/World Bank Annual Meetings in Dubai in September 2003, the Central Bank's Governor, Sultan

Nasser Al Suwaidi, defended *hawala* as a legitimate way of transferring money and asserted that it was recognised as such in 62 countries, including 7 nations whose financial transactions control 80 per cent of the world financial order.

The Central Bank has taken measures to bring the system under control, issuing licences to more than 60 *hawala* operators in the country so that these dealers can carry on their business within a legal framework. Al Suwaidi has stated that the age-old practice has a genuine economic role to play, particularly in third-world countries where banking has only limited reach and that *hawala* is no more prone to abuse than any other banking and financial channel.

By regulating the *hawala* system the Central Bank has placed the onus on *hawala* dealers to report any suspicious transactions to the authorities. It was the previous anonymity and scant documentation that made the *hawala* system vulnerable to abuse by individuals and groups transferring funds to finance illegal activities.

### Reduced Costs of Borrowing

In June 2003 the Central Bank announced that it had reduced interest rates on Certificates of Deposit (CDs), which it issues to banks operating in the country, to the new level of interbank interest rates on US dollar deposits in International Financial Markets. CDs are the mechanism through which interest rates on the UAE dirham are reduced (or raised) in the banking system. Commercial banks use these rates as an indicator for accepting deposits as well as for extending loans to customers.

The reduction in interest rates on CDs was designed to stimulate a lowering of the cost of financing economic activities within the country, particularly investment spending. This is expected to reflect positively on the national economy, and local shares turnover, and to boost share prices.

### Commercial Banks

The aggregate performance of the UAE's commercial banks is summarised in table 11. As the figures for 2002 indicate the sector grew in most areas with retained earnings showing an increase of 5.49 per cent over the figure for 2001. The UAE's top 20 National Banks are listed in table 12, where they are ranked in order of assets. The largest such bank is the National Bank of Abu Dhabi with assets at the end of 2002 of over Dh39 billion.

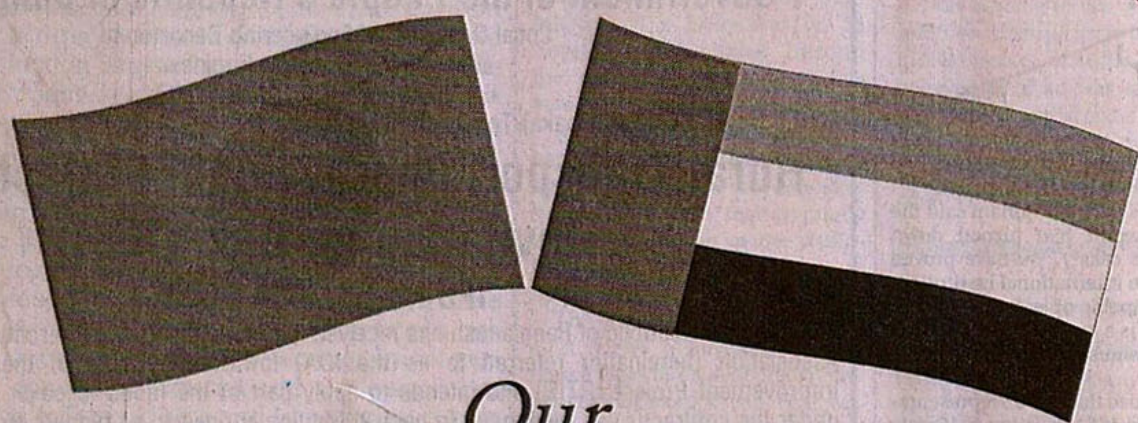
By early 2004, as this book was going to press, results were in from the banking sector for the first three quarters of 2003. These indicated spectacular performances across the sector with combined profits of Dh5.25 billion, up from Dh4.52 billion recorded over the same period in 2002. Given that the aggregate

net profit of banks for the whole of 2002 was Dh5.759 billion, it seems that in the first three quarters of 2003 banks almost reached the total results for 2002! This reflects the innovative efforts of UAE banks to with reduction in earnings from lower interest rates. Diversification has been a key focus, with banks entering new areas of business and packaging their existing products in more attractive ways.

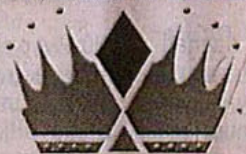
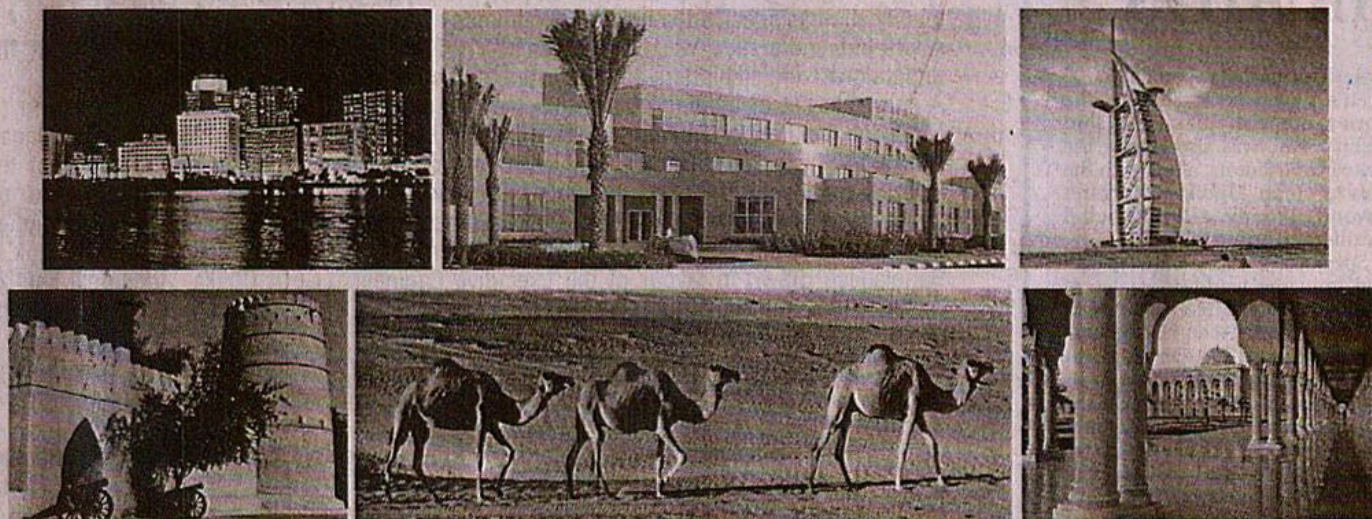
Retail banking was particularly active, with competing banks offering customers a range of irresistible incentives from free air tickets and raffles to dream homes and holidays. Mortgage finance was also a new growth sector as the booming property sector brought in more and more home-buyers. Several banks also took major steps in the leasing business. (Abridged)

## UAE at a glance

Area	83,600 square kilometres
Capital	Abu Dhabi City
Religion	Islam
Language	Arabic
Literacy	90 Per Cent
Life Expectancy	74.4 (at Birth, 2001)
GDP Per Capita	Dh 60,129
Economy	Oil and gas, manufacturing, tourism, IT, agriculture, services
Official Name	United Arab Emirates
Political Structure	Federation of seven emirates established in 1971
National Day	2 December
Population	3.75 million
Abu Dhabi	1.47 million
Dubai	1.11 million
Sharjah	599,000
Ajman	215,000
Ummal-Qaiwain	59,000
Ra's al-Khaimah	187,000
Fujairah	112,000
Dirham Exchange Rate (per US Dollar)	3.6725



Our  
Warmest Felicitations  
to  
United Arab Emirates  
on the occasion of their  
National Day

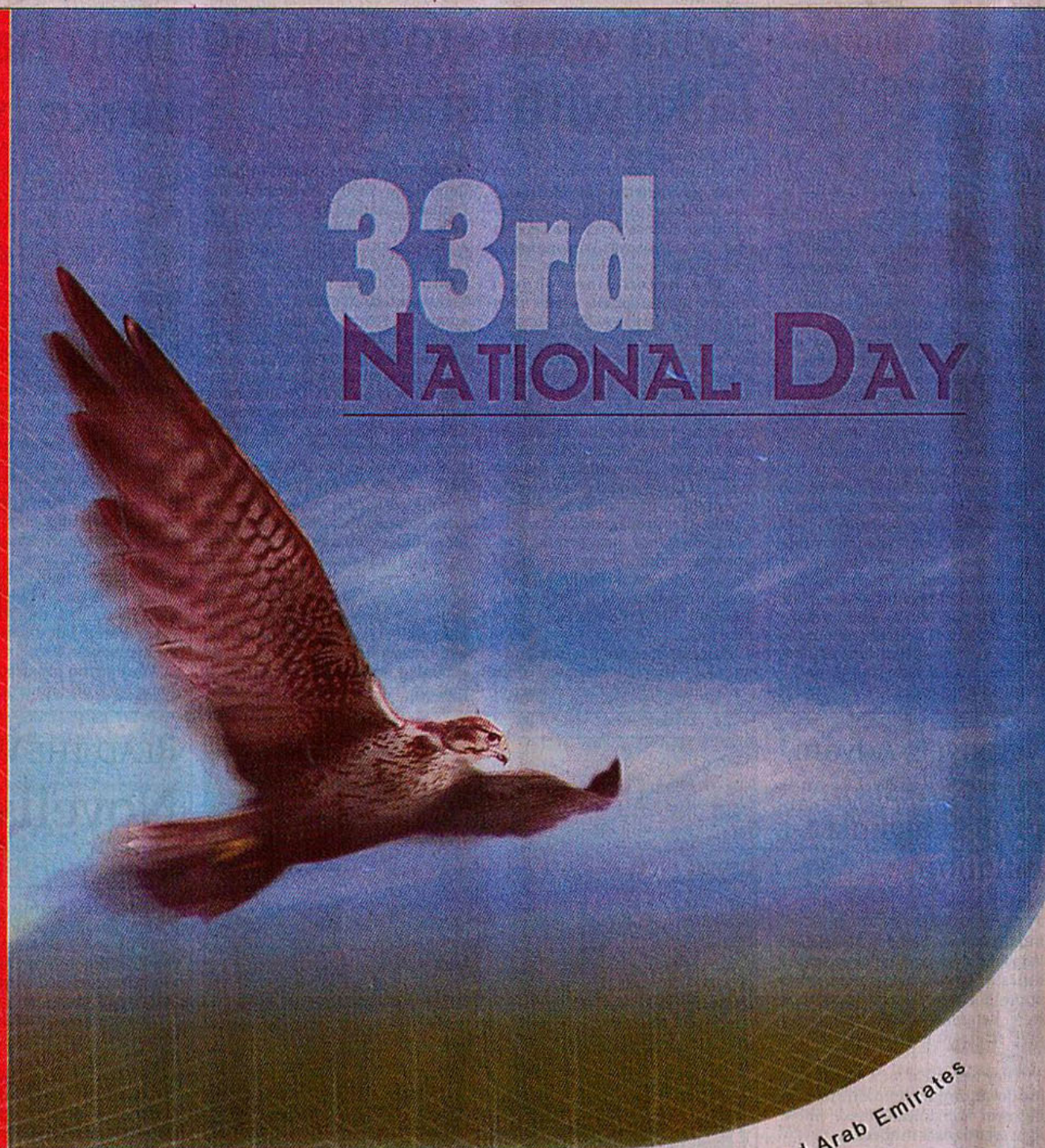


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Wishing continued Friendship and Goodwill between the United Arab Emirates  
and Bangladesh on the occasion of the 33rd National Day of UAE

December 2, 2004

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Beyond the Horizon

Rupsha Tower, Flat # C-1(1st floor), Road # 17, 7 Banani C/A, Dhaka 1213, Bangladesh  
Phone: 880-2-9884604, Fax: 880-2-8852097, e-mail: info@triviaaviation.com, Web Site: www.triviaaviation.com