

Speech

By

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**Good Morning ,,**

**Your Excellencies, Ladies & gentlemen**

It is a great pleasure to be invited to speak at this important conference, and at the outset, I would like to express my deep thanks to **H.H. Shaikh Hamdan Bin Rashid Al Maktoum** for his patronage to this conference

I would also thank **H.E. Ahmed Humaid Al Tayer Chairman of the Emirates Institute for Banking and Financial Studies** for the **Kind invitation**. And I take this opportunity to welcome the distinguished presenters and our guests, to Dubai and the UAE.

**Your Excellencies, Ladies & gentlemen**

The **Global Financial Crisis** started affecting the UAE Banking System during the summer months,

especially during the month of August, when liquidity at UAE Banks became in short supply.

Central Bank of the UAE responded by providing, towards the end of September 08, the following facilities;

- 1. An AED 50 billion, which was made available to banks' through overdrawing their current accounts at the Central Bank,**
- 2. A swap facility against banks' 100% holdings of Central Bank CDs, and**
- 3. A facility to discount Local Governments bonds and sukuk.**

We have noticed that these measures and the Federal Government measures; i.e. guaranteeing deposits at all banks with significant operations in the UAE plus making an AED 70 billion liquidity facility, improved the liquidity situation at banks.

Also Monetary Policy in the UAE was maintained in an expansionary mode and focused at a balanced economic growth.

Liquidity at banks is stable now as no bank in the UAE is overdrawing its current account beyond its Reserve Requirements. Inter-bank interest rates have come down, but still relatively higher than in some GCC countries.

The **banks consolidated balance sheet** for the month of January 2009 showed a slight increase in loans and advances over the figure of December 2008, which means that banks are still lending to the different businesses, even though the rate of lending stayed as a single digit.

As for bank results for the year 2008, I have seen Audited Annual Accounts of more than eight banks so far, and all show good performance levels.

Our banks did not go into structured products or similar innovative investment banking products, therefore their assets and off-balance sheet items are straight forward.

However, even if bank assets are of good quality, in crisis times banks would need to strengthen their capital base and for this reason Central Bank has asked banks to increase their capital adequacy ratio to minimum of 11% by 30<sup>th</sup> June 2009 and to minimum of 12% by 30<sup>th</sup> June 2010.

**As regards the real estate loans,** some adjustments will take place in the real estate sector, but that will depend on levels of rent rates, which are expected to come down gradually. Real estate prices, however, went down slightly due to psychological reasons driven by sellers' and buyers' expectations besides non-availability of bank loans sometimes.

We expect the real estate sector to be affected, but we must understand that this sector is very rigid and behaves some what differently from stock markets, due to the fact that a large part of the sector is owned by single and wealthy landlords who can weather high vacancy rates, as we have seen in previous crises.

Also, to analyze the possible impact of the real estate loans on banks, we have to compare our figures with figures from other countries. All real estate loans at UAE banks that is: mortgage loans, loans to corporations and loans to real estate developers stood at AED 172.74 Billion as on 31 December 2008, which is less than Bank Capitals and Reserves of AED 180 Billion. Also, if we compare financial system real estate loans to GDPs, it is:

- 101% of USA GDP,
- 86.3 % of UK GDP, and
- 17.8 % of UAE GDP

Furthermore, if we analyze things to find-out why UAE Banking System was affected by the crisis, one major reason is that we have taken the Global Financial System for granted, when it has many shortcomings.

At the moment the UAE banking system is localizing liabilities of banks, that is getting-red of foreign inter-bank deposits, also it is repaying syndicated loans, Medium-Term Notes ( MTNs ) & European Commercial Papers ( ECPs ), to reduce the risk of non-renewal of such liabilities at the wrong-time.

## **Conclusion**

In conclusion, the present Global Financial Crisis will reduce the prospects for the UAE economic growth from high single digit to, may be very low single digit growth in 2009.

The monetary Policy in the UAE will continue to be geared to maintain low official interest rates, to help economic growth in the coming few years.

The credit and banking policy will emphasize reasonable but low rate of credit expansion and restricted banking expansion.

The present Global Financial Crisis will also impact Globalization of financial Services and local markets regulations. Globalization of financial services will slow down, as many restrictions will be put in place in many countries.

There will be a move towards establishing single regulatory systems within central banks.

There will be stricter adherence to prudential ratios and higher penalties for excesses against the set prudential ratios.

There will be a tendency to develop banking systems with 100% reliance on local funding, which will give more prominence to conventional commercial banking versus the more innovative investment banking.

**Excellencies, Ladies & Gentlemen,**

At the end of my speech, I would like to thank The management & staff of Emirates Institute for Banking and Financial Studies, for the excellent arrangements.

**Thank you for your attention...**

