Sultan Bin Nasser Al-Suwaidi: The global financial crisis and issues for a regulatory response

Welcoming remarks by H E Sultan Bin Nasser Al-Suwaidi, Governor of the Central Bank of the United Arab Emirates, at the high-level meeting on "Regulatory & Supervisory Policies in Light of the Recent Financial Crisis", organised by the Financial Stability Institute & Arab Monetary Fund, Abu Dhabi, 16 November 2009.

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Good morning,
Excellencies
Ladies & gentlemen
Y.E. Josef Tosovsky,
Y.E. Dr. Jassim Al Mannai,

It gives me great pleasure to welcome you to the UAE, especially those who traveled a long way to be here with us at the outset of this important high level meeting, and I would mention in particular ***the honorable Thomas Hoeing, President of the Federal Reserve Bank of Kansas City***, and the distinguished speakers.

Excellencies
Ladies & gentlemen

In this short speech, I will describe briefly the financial package the UAE had to make available to banks, to help the banking sector stand in the face of ***the global financial crisis last year and Issues being considered now for a regulatory response.***

The financial packages

A) Central Bank of the UAE's package

Central Bank made available to banks in the UAE certain facilities to help them with shortages of liquidity, its first such facility was made towards the end of September 2008, I will summarize as follows:

1) An overdraft facility:

An AED 50 billion O/D facility was made available to banks through their current accounts at the Central Bank.

2) CD swap facility:

Banks were allowed to use 100% of their Central Bank CD holdings to borrow dirham and dollar funds from the Central Bank.

3) Discounting of government bonds:

Banks were allowed to borrow against their holdings of bonds and sukuks issued by Local Governments or Local Governments' Companies, with a reasonable hair-cut.

4) Swap operations (dirham/US dollar):

This facility was provided to all banks regardless of their dirham net position.

5) Support to local governments:

Central Bank discounted, in March 2009, US$ 10 billion of bonds issued by Dubai Government.

B) UAE Federal Government's package

1) Federal Government guarantee of bank deposits:

In October 2008, the Cabinet announced that the Government will guarantee all deposits at banks licensed and operating in the UAE, for 3 years. A plan has been initiated to create a guarantee scheme.

2) Liquidity facility:

An AED 70 billion was injected by Ministry of Finance into National Banks in three stages. This is an exercise aimed at enhancing the capital base of National Banks, to strengthen banks against NPLs, should this arise.

3) Formation of the Ministerial Follow up Committee:

A committee was formed by the Cabinet, its members are the Minister of State for Finance, the Minister of Economy and the Governor of Central Bank, with a mandate to tackle global financial crisis adverse spill-overs on the UAE economy.

We have noticed that these packages put by the Central Bank and the Federal Government improved the liquidity situation at banks, as early as April 2009.

Excellencies,
Ladies & gentlemen

The issues that we are debating now, to formulate our regulatory response are,

1) UAE banks would have had no problem, if they owned sufficient first class and liquid securities among their assets, and here I do not mean "AAA" rated papers. I mean, we have to look at the type of securities that would fit the category of liquid assets at times of crisis and what percentages of these securities would be suitable for our banks to hold.

2) Inter-bank deposits plus MTNs, ECPs and similar instruments issued by UAE banks in international capital markets acted as a two edged sword during the crisis.

   We have to look here at the liabilities percentage of these Instruments, and how they match with first class liquid securities held by our banks.

3) Also, we have to examine what businesses or assets banks are acquiring or selling to their customers. The question that we need to consider; do they understand the risks, and have they explained the inherent risks sufficiently to their customers?

4) Growth of loans and advances per economic sector, and what is the percentage of cross-border loans, as these rates proved to be very important indicators.

   Loans per economic sector should be examined carefully to determine higher liquidity requirements in order to mitigate the extra possible risks created through higher growth rate in a sector or two versus the total economy.

5) In addition, we have to look carefully at off-balance sheet items that are likely to become on-balance sheet in a financial crisis.

The aim of the regulatory response or reform would be to help banks to devise a better risk management framework, to protect our banking system from future financial crises.

With this I come to the end of my short speech, but before I close, I would like to thank the AMF, the FSI of BIS and the IIF, for holding this important high level meeting here in Abu Dhabi.

I wish you all a successful meeting.

Thank you for your attention.