



## Twilight

Message from H.E. Abdulhamid M. Saeed Alahmadi,  
CBUAE Governor

**Abu Dhabi, 1 April 2021**

As we cross over the 1<sup>st</sup> quarter of 2021 and as I review the economic numbers, I dwell on the title of my article today. I am neither referring to the movie “Twilight” nor the period before the sun sets in the evening but rather to the period that defines the emergence of light as dawn rises and we welcome a new day. I use this metaphor today as I write from a perspective that takes into account the challenges posed by the 2<sup>nd</sup> wave of Covid-19 while still acknowledging the potential 2021 holds for growth and development. I will try to elaborate on certain thoughts through this note and explain why I believe that how we look at this “twilight” situation is important.

The UAE is now inching close to having 75% of its population vaccinated and we can see that the second wave of Covid-19 is subsiding. In many parts of the UAE, life is close to resuming its normal pace while being supported by sensible policies from the government and compliance from members of the public. The UAE has a balanced budget for 2021 and has now embarked on various measures to stimulate demand and ensure the well-being and happiness of its population. The UAE continues to be a place that is open to business and welcomes all nationalities to work and live. The UAE Government has further facilitated this theme with various relaxations in the Visa regime of the country, regulatory relaxations and creation of an environment conducive to foreign Investments. We remain inter-connected with the world and risks, which emanate from parts of the globe that affect us and we need to be both aware and active to address them. The Government has been and will continue to be a supporter of all segments of the economy.

Oil prices around the USD 60 level, trade routes open and active, and a planned EXPO 2020 are all harbingers of good news for 2021. In terms of the data we track, the UAE financial stability trend (internal index tracking 18 economic factors) has improved quarter on quarter from the 1<sup>st</sup> quarter of 2020. The UAE financial cycle (internal Index) as a metric, was also under stress, is now getting close to neutral as we move through the year. I can see the pinkish hue of the twilight and I am optimistic that our positive GDP estimate of 2.5% can be achieved if not surpassed.



The banking system continues its resilience in the 1<sup>st</sup> quarter of 2021 with strong financial ratios. Liquidity levels in the banking system (LCR<140%) are back to pre Covid levels and the UAE banking system remains one of the best-capitalised systems in the world (<18%). The loan growth trajectory (<2%) has continued albeit on a slow basis with asset quality issues and profitability concerns still not washed away for 2021. The TESS programme and relaxation in various regulatory measures has worked well and we are now confident that these can be weaned away gradually during 2021 without any major impact to the system. Our stress tests in 2020 showed that majority of UAE banks could survive an adverse stress event and we are confident that our 2021 stress results will be on similar lines even with hardened parameters. Certain sectors continue to struggle namely Trading, Hospitality, and Contracting to name a few and it will require banks to think out of the box for solutions that keep the customer and kill the problem. Credit Default Swaps for Abu Dhabi and Dubai are at its lowest levels in years and the capital market activities from both banks raising long term AT1 capital and the action in the Share markets where foreign investment picked up has been heartening.

As I write this article, rating agencies are confirming my view with a reaffirmation of ratings for our banks and a revision of outlook to “Stable” from “Negative”.

Do we believe that there are substantive risks out there? The answer is yes and do we believe they can be managed? The answer is an emphatic yes.

The circle starts with the consumer and ends with the consumer and I can see consumer confidence is slowly returning to normal as spends pick up and people go about their normal lives. The pick-up in consumer demand has been one of the most satisfying statistics that I have looked at in recent times. Small pick-ups in Etisalat, Du subscriptions, and Adnoc fuel spends are small but encouraging signs. The growth in mortgage portfolios and the continued increase in wages being distributed through WPS systems are all pointing in the right direction.

Growth in credit to the private sector has been slow and needs to take off. Banks and the private sector need to play their role in a new environment and one that brings many opportunities. I spoke to many colleagues from the banking industry and most have had near normalisation returning to their books and are optimistic for the year 2021. I urge all CEOs to lead by example and stay true to this nation’s building exercise of care, caution, and growth. The Government and the CBUAE has facilitated the banking industry and its time the industry participates vigorously in this new era of nation building.



The one positive outcome of the pandemic has been the rapid pace of digitisation. Today video actions/decisions are the norm and technology has kept us all moving even when lockdowns were in place. I would urge banks to invest and keep abreast with the technology at play. CBUAE has its own Fintech office and is collaborating with other central banks and governments in ensuring we keep up with the rapid change in technology. We have signed an agreement with three other regulators for a “proof of concept” for a central bank digital currency and we will continue with this initiative as we move into 2021. We will continue to invest substantial capital in payment systems, infrastructure and other spends to keep the digital agenda firmly on the radar.

I spoke about Geo-Political stability in my previous article and I am happy to report that the positive trend continues. Economic stability dovetails with Geo-Political stability and the government is quite cognisant of the same and continues its efforts in the arena of international cooperation.

All in all the indicators are all looking up and we now get to work and move the economy forward. I have provided many indicators to prove that optimism is not misplaced in the current scenario. As I finish writing this article twilight is gone, and the sun is up. It is a new day, and together we will move ahead. In the 50<sup>th</sup> year of the UAE as a nation, I am optimistic that we will deliver beyond what is expected.

**Abdulhamid M. Saeed Alahmadi**  
**Governor**