

## **UAE consumer loans surge 47%**

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Consumer loans in the UAE surged 46 per cent during the past 12 months, according to a data by the UAE Central Bank.

The latest data on bank loans and money supply in the country published on the apex bank's website show that personal loans surged to Dh54.02 billion at the end of June 2008 compared to Dh36.80 billion in June 2007.

The data also show consumer loans have soared more than 73 per cent since the end of 2006 and almost doubled during the past four years.

Under the existing rules, UAE nationals and expatriates can obtain a personal loan of up to Dh250,000 while UAE nationals can obtain loans up to Dh2 million if they own a business.

Besides these, there are a number of retail credit channels such as credit cards, overdraft facilities and short-term cash advances that banks offer in the UAE.

The strong growth in personal loans has been fuelling the inflationary pressures in the country. The UAE's inflation was estimated at around 11 per cent in 2007 while it is expected to remain at the same level this year also.

The UAE keeps its interest rates low because it tracks the US monetary policy due to the dirham's peg to the dollar. While the low interest rates have spurred the demand for retail credit, the surging money supply has kept the inflation high in the country.

"We do not expect the interest rates to go up in the UAE or the US in the immediate future. While the real interest rates continue to be in the negative territory, we expect the credit growth to remain strong for the rest of the year," said Monica Malik, Director of Economics, EFG Hermes, a regional investment bank.

In the absence of monetary policy tools, the central bank is concerned about the surging personal credit and money supply. Privately bankers admit that strong appreciation in real estate prices has encouraged the practice of using personal loans for real estate investments.

Last month there were reports that the central bank is contemplating measures to curb growth in personal loans.

During the second quarter this year total bank assets advanced to Dh1.43 trillion up from Dh1.34 trillion in the first quarter, the central bank report said.

The narrower measures of money supply, such as M1 and M2, also grew 51 per cent and 42 per cent respectively in the first quarter of this year.

While M1 is currency plus overnight (demand) deposits plus vault cash, M2 includes the sum of M1 and savings deposits. M3 is the sum of M2 and repurchase agreements, money market fund shares/units and debt securities up to two years.

With no real way to soak up the excess liquidity, money is rampant in the economy and abetting record-high inflation.

**Source: Gulf News**