

UAE C.Bank Sets up Emergency Facility as Squeeze Hits

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ABU DHABI/DUBAI - The United Arab Emirates Central Bank launched an emergency funding facility for its banks on Monday as signs grew that a global liquidity crunch was biting in the oil-rich Gulf States.

The central bank of the world's fifth-largest oil exporter said it would set up a 50 billion dirham (\$13.6 billion) funding facility due to bottlenecks in money markets, in a move similar to those made by the Federal Reserve and European Central Bank.

Bankers in neighbouring Kuwait and Saudi Arabia also renewed calls for their central banks to take similar action to ease market tensions that stretch back to the start of this year.

While banks in the Gulf have largely ridden out the global credit crisis, domestic demand for lending has helped dry up interbank liquidity, with three-month UAE lending rates jumping 170 basis points since early June to 3.61 percent.

"Everyone needs money. There is a massive shortfall," said Jason Goff, head of treasury sales at Emirates NBD. "These (central bank) funds are going to help. They are definitely required."

The Gulf has expanded rapidly on a surge in oil prices since 2002, sparking a real estate boom and creating the world's largest sovereign wealth funds, one provider of liquidity during the year-long credit crunch.

But that is little help to markets when lending between commercial banks worldwide has frozen up.

"The central bank expects these funds would meet banks' needs for supporting continued financing of economic growth," the central bank said in a statement, without giving details on how the facility would be structured or operated.

Bankers said the facility would likely involve the central bank buying debt -- such as bonds or certificates of deposits -- from banks in return for funds.

OUTFLOWS

UAE banks have faced a liquidity shortage since authorities opted in April to keep the dirham pegged to the dollar, a move that quashed market bets the currency could be revalued to fight inflation at a 20-year high.

The central bank said last week that 90 percent of foreign speculative money, which started flooding in late last year, had flowed out of the country. As in other Gulf states, the retreat has given banks less cash to lend and prompted calls for central banks to intervene.

"In the last two years, loan growth was faster than deposit growth and essentially what happened was there was greater demand among corporates and banks for external funds," said Giyas Gokkent, head of research at National Bank of Abu Dhabi.

"That has dried up because of the global volatility, and the projects are so large that any decline in funding sources creates a problem."

In Saudi Arabia, economists said one possible move would be to cut the reserve requirement for banks, raised by the central bank four times since last November to the current 13 percent.

They said the need for action was there, if less urgent.

"If SAMA (Saudi Arabian Monetary Agency) injects money it will not be a bad thing," said John Sfakianakis, chief economist at HSBC affiliate SABB bank.

"With the revaluation debate being over, banks have taken their money out, the deposit base is limited, high demand for loans, limitations on money that can be spent because of inflation and we are in a negative interest rate environment."

Bankers in Kuwait said they had not heard of any plans by its central bank to pump more liquidity into the system, despite a public plea by the Kuwaiti banking association.

Interbank rates in Kuwait have almost doubled since the central bank withdrew in August a facility guaranteeing the availability of dinars at a fixed rate on the interbank market. (Additional reporting by Souhail Karam in Riyadh and Ulf Laessing in Kuwait; Editing by Thomas Atkins and Patrick Graham)

Source: Reuters