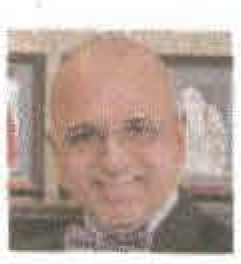

Dubai's budget of 2016 has set aside Dh16.6 billion for infrastructure as it prepares to host Expo 2020. — *Photo by Dhes Handumon*

# Banks are key stakeholders in UAE diversification story

## Non-oil sector's contribution may reach 80% of GDP in 2021



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THE DROP in oil price is expected to impact the economic growth in the UAE economy which is expected to grow at 2.6 per cent in 2016 with a fiscal deficit of 7.5 per cent of GDP. Banks have become more risk-averse. They reduced willingness to extend business financing despite strong demand is evident in the tightening of credit standards around collateralisation and the premiums charged for high-risk borrowing. This is a prudent step which in the short term could cause some pain for a section of borrowers but over the long term will prove to be beneficial.

The contribution of non-oil sectors in the UAE reached 68.6 per cent of GDP at constant prices in 2014. UAE's non-oil sector contribution is expected to reach 80 per cent in 2021 through investment in the industrial and tourism sectors, air and maritime transportation, import and re-export as well. Under Abu Dhabi's Economic Vision 2030, the non-oil sector is expected to contribute 64 per cent of GDP. Dubai's budget of 2016 has set aside Dh16.6 billion for infrastructure, transport as Dubai prepares to host Expo 2020. Dubai is planning to maintain the size of its investments in infrastructure over the next five years. The UAE economy has removed fuel subsidies last year and have liberalised fuel prices from last year. It is also planning to implement value added tax (VAT) and thereby diversify the sources of government revenue. The industrial sector maintains a high contribution rate in the GDP at a share close to 15 per cent, which is expected to increase in the coming years. The industrial sector is expected to double the volume of investment in the state over the next five years with the continuation of infrastructure projects. The UAE's diversification will continue and thereby provide opportunities to Banks.

UAE Vision 2021 has set up a national index that the contribution of the SME sector to the nation's non-oil GDP must reach 70 per cent by 2021. In the UAE, SMEs currently contribute to over 60 per cent of GDP. The number of new businesses in Dubai jumped 18 per cent year-on-year in 2015, which shows that it has a brilliant framework and an ecosystem which allows SMEs to thrive. Despite the current headwinds on account of low oil prices, SMEs are critical for the UAE's diversification. UAE banks have loan restructuring schemes for small and medium-sized enterprises (SMEs) in the current scenario. SME with multiple loans that is experiencing difficulties can opt to enter the scheme, whereby lenders coordinate their position and work to assist the company in restructuring its future repayments.

The UAE also seeks to expand the multilateral global trading system and the strategy of free trade negotiations within the framework of the Gulf Cooperation Council for the Arab States (GCC), with the signing of a free trade agreement between the GCC countries and Singapore, which came into force at the beginning of 2015, and the agreement between the GCC countries and The European Free Trade Association in June 2009. There was also the signing of the free trade agreement between the GCC and New Zealand in October, 2009, and the GCC is still negotiating on free trade agreements with both the European Union and individual agreements with Japan, China, South Korea, Australia, Pakistan, India and Turkey.

The global trade finance gap is about $1.4 trillion, $693 billion of which is in developing Asia, according to the Asian Development Bank. This give the UAE and the GCC region in good standing to take advantage of this gap and increase trade fin-ance transactions. The value of the UAE's non-oil foreign trade reached Dh1.75 trillion in 2015, a growth of up to 10 per cent from 2014.

Trade finance in the UAE and GCC is growing, but it faces challenges relating to the economic slowdown, high cost of compliance, tightening of liquidity and new banking rules. According to the new [Basel III] rules, banks must maintain higher capital reserve against trade finance deals, which is their biggest concern. Despite the current headwinds banks as key stakeholders will continue to participate in UAE's trade and diversification story.

*The writer is the group CEO at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.*