

SPEECH

BY

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**Excellences,
Distinguished guests,
Ladies & Gentlemen,**

I am pleased to join you at this important Global Financial Markets Forum, I am grateful for the invitation by National Bank of Abu Dhabi.

As past experiences have shown, the existence of a robust bonds market is necessary for encountering financial crises. During the Asian financial crisis in 1997, countries that had a developed domestic bonds market did better and recovered faster than countries with no or with underdeveloped domestic bonds market.

On the other hand, regulators should always understand the sources of liquidity in their markets and work together with regulated entities to estimate risks relating to liquidity, monitor such risks and put mitigating measures. As part of this process, a domestic bonds market would be an essential element.

I recall, that in the year 2008, we have seen a massive outflow of funds during the month of September, as a result liquidity at UAE Banks became in short supply, then we entered into a liquidity crisis, which made Central Bank of the UAE to respond by providing the needed liquidity to all banks. This worked well immediately due to the small size of the mismatch between domestic deposits and loans and advances at banks.

Also, lack of liquidity at a domestic financial market would normally lead to declining of values and shrinking of financial trade volumes, which would, in turn, create difficulties for all parties dealing in the market.

And since, as it seems, there is a strong link between markets' activity and the real estate sector and other sectors of the economy, one would expect that those sectors will witness difficulties as well, if shortage in liquidity pertains for a period of time. **In other words, the existence of a robust domestic bonds market is likely to provide higher levels of liquidity within the economy,**

which would help to mitigate the negative impact of financial crises.

Moreover, implementation of **Basle 2 and Basle 3** in the coming years, will require banks to maintain higher ratios of liquidity. This would definitely discourage banks from extending sizable corporate loans. Banks are also likely to resort to issuing bonds for financing themselves. However, in the absence of a robust Bonds and Sukuks market, banks will be forced to buy bonds at foreign markets, and if such trend is to develop, we will be exposed to higher risks in times of crises.

For these reasons we must be perfectly aware of the fact that **developing a Bonds and Sukuks market is almost essential for dealing effectively with future financial crises.**

In a seminar we held at the Central Bank in November 2012, we identified the elements of a domestic Bonds and Sukuks market to be:

- 1) The importance of Government issuing of Treasury Bills, Bonds and Sukuks, to create a yield curve in Dirham.

- 2) Encouragement of major corporations in the UAE including GREs to finance themselves and their projects through issuance of Bonds & Sukuks, instead of borrowing from banks.
- 3) Encouragement of the establishment of long term investment funds, like venture capital funds and other specialized funds.
- 4) Enhancement of Governance in the operation of issuance of Bonds & Sukuks and enhancement of Governance within debt market institutions.
- 5) The classification of Bonds & Sukuks based on eligibility for discounting these instruments at the Central Bank. Emphasis on transparency in the financial reports of corporations issuing these instruments is an important part of this process.
- 6) Necessity to establish an independent company for clearing, settlement and safe

custody, and to connect this company to central bank payment systems.

A mechanism for classification of Bonds and Sukuks for the purpose of discounting them at the Central Bank would require issuing companies to have a certain level of disclosure in published financial statements, transparency in managing their affairs and implementation of governance as per best practices.

In addition, establishing of an independent company for clearing, settlement and custody, and linking it to Central Bank's payment systems would be essential for boosting efficiency and accuracy at the domestic Bonds and Sukuks market.

**Excellences,
Ladies & gentlemen,,**

Before I conclude, I would like to thank National Bank of Abu Dhabi, for the excellent arrangements.

Thank you for your attention...
