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Industry Update

The Steady Hand of Support: The Central Bank of the UAE's Financial Institution Resilience Package

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Market uncertainty has dominated international economic headlines since the commencement of regional hostilities in the Arabian Gulf in late February. In [our previous article](#), we highlighted the current legal considerations business face across various sectors.

In an update welcomed by the UAE banking and financial sectors, the Central Bank of the UAE (CBUAE) reaffirmed the current strength in the UAE's financial sector and approved a "comprehensive Financial Institution Resilience Package" (FIRP) in response to the conflict. Taken in its entirety, the FIRP demonstrates the CBUAE's willingness to give proactive and considered support and intervention, reflecting the importance of the UAE banking sector and the central bank's confidence in the wider financial sector.

Overview of the FIRP

In [a statement released by the CBUAE](#) on 17 March, it noted that the Board of the CBUAE designed the FIRP to "reinforce the stability and resilience of the UAE banking sector in light of exceptional global and regional circumstances".

The FIRP covers five key economic pillars, designed together to allow banks to "utilise excess liquidity and capital buffers" in order to support the wider UAE economy. The five pillars, along with their intended impact as stated by the CBUAE, are set out below:

Pillar	CBUAE Description of the Pillar
Pillar I: Monetary Policy Measures	<i>“Enhanced access to reserve balances up to 30% of the cash reserve requirement and availability of term liquidity facilities in both AED and USD”.</i>
Pillar II: Liquidity and Funding Relief	<i>“Temporary relief in liquidity and stable funding ratios to provide banks with greater flexibility to support the UAE economy”.</i>
Pillar III: Capital Buffer Relief	<i>“Temporary release of the Countercyclical Capital Buffer (CCyB) and Capital Conservation Buffer (CCB) to support the UAE economy”.</i>
Pillar IV: Credit Risk Management	<i>“Providing flexibility to banks to postpone classification of individual and corporate loans for customers affected by the extraordinary circumstances”.</i>
Pillar V: Additional Support	<i>“In view of the extraordinary circumstances, and considering the aforementioned support, the CBUAE affirms that banks should continue to provide the required financing services to support their customers and the national economy”.</i>

Familiar, but Not Quite Déjà Vu All Over Again

It is notable that a number of the sectors that have been impacted the most economically by the current hostilities (tourism, hospitality, leisure and aviation) are the same sectors that faced the strongest economic headwinds during the COVID-19 pandemic. These same market participants should be able to take comfort that, while the cause of market uncertainty is vastly different to that during the prolonged pandemic, the CBUAE has a strong track record of taking meaningful action to shore up the banking market during times of economic uncertainty.

Indeed, the CBUAE's response under the FIRP should be cause for optimism on its view of the conflict's potential economic impact, especially compared to its approach during COVID-19. While the CBUAE has reiterated the importance of the banking market to the UAE's economy, under the FIRP it has not pulled all of the same levers as they did during the COVID-19 pandemic. Most notably, under the CBUAE's Targeted Economic Support Scheme (TESS) adopted in response to the economic impact of COVID-19, the CBUAE took the unprecedented step of permitting loan payment deferrals (by establishing an AED 50 billion zero-interest facility line for UAE banks to be use to provide temporary payment relief for eligible customers), loosening capital buffers and halving reserve requirements.

While the initial response from the CBUAE under the FIRP differs from what was enacted under TESS, it should be noted that the specific details of each of the pillars of the FIRP are not yet published and the CBUAE has stated that it remains ready “to deploy necessary policy tools to safeguard the stability of the financial system”.

What the FIRP Means for Those on the Ground in the UAE

Market participants can take comfort from the steps taken by the central bank in approving the FIRP, with specific initial takeaways for both creditors and borrowers:

- **Creditors:** The message from the CBUAE to creditors seems clear — the UAE's AED 5.4 trillion banking sector remains resilient and banks may expect greater flexibility from the central bank to support the UAE economy. Banks are currently eagerly anticipating the specific detail of each of the pillars, but from our discussions we note that the most positive initial reactions have been to the inclusion of Pillar IV, which will likely provide key flexibility on banks' need to reclassify loans following payment defaults.

- **Borrowers:** Borrowers should take comfort that the CBUAE is taking proactive steps to manage the economic impact of the current crisis. As soon as specific details relating to FIRP are announced, borrowers should actively engage with their legal advisers (and creditors) to navigate the best path forward. In the meantime, borrowers should continue to look to the lessons that were learned during COVID-19 and navigate previous facility payment stresses.

Where to From Here?

While it remains to be seen how long the current hostilities will continue, the wider UAE can take comfort in the CBUAE's (and the UAE government's) previous response to market turbulence during the COVID-19 pandemic and the proactive steps they have taken in announcing the FIRP.

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