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UAE: 8 ways to stay out of debt if you think your job is unstable

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If there's one thing the Covid-19 pandemic has taught us, it's the importance of financial preparedness. Saving more has been high on personal agendas as a lot more people appreciate the relevance of an emergency fund to tide them over in case of unexpected crisis. The latest numbers from the Central Bank of the UAE on savings in bank accounts also somewhat point to a changing attitude towards money.

The central bank data shows savings in bank accounts of UAE residents have increased from Dh10 billion to nearly Dh199 billion during January and April this year. While this might not reflect the reality of all, or perhaps even a large number of residents, it surely points at the need to stash away more cash for emergency use.

If you are looking for ways to save more and stay out of debt, financial experts offer these tips:

1. Get real about needs and wants

Food and housing should be top priorities, beyond that, take a hard look at your expenses and identify needs and wants. Be ruthless with your discretionary expenses and quickly eliminate everything you can live without right now. Pause any recurring subscriptions on, say, music apps, magazines, gaming apps, and make an effort to cut back on online shopping. While such memberships might seem important in normal life, they could go in recessionary times.

2. Revisit your shopping habits

Don’t prefer convenience over extra expenditure. Be Scrooge-like and hunt for deals. Download apps and compare prices before clicking on the buy button. Visit the deal section in grocery stores to ensure extra savings.

3. Make minimum debt payments, if necessary

Cash is still king and if you are too hard pressed on it, build some wriggle room by seeking moratorium from banks or financial firms for a month or two.

4. Build an emergency fund

Start immediately if you don’t have one. “Every month, fixed sum of money should be allocated to this fund/account in order to have a substantial corpus build-up over a medium to long-term scenario. Key to riding this downturn is consistency on both sides — savings as well as expenses,” says Vijay Valecha, Chief Investment Officer, Century Financial.

5. Using a credit card? Invest in credit insurance

Credit card debt is the most expensive debt and often pushes people into a debt spiral following an unexpected loss of job. Historically, credit cards and personal loans have been high in demand in the UAE despite a rather steep rate of interest. In case of credit cards, interest rates range from 2.5 per cent to 3.5 per cent monthly. “Traditionally, interest on credit cards has always been higher because the UAE expat population command higher spending on account of the associated lifestyle. The interest rate turns out to be 42 per cent at the higher slab range on an annualised basis,” says Valecha.

A credit shield covering the entire card's outstanding balance is always a good choice. "It can protect against involuntary loss of employment, accidental death, or critical illness/permanent disability," he adds.

When taking on insurance, the fine print is very important. "Understanding what you are being insured for is essential. Read the terms and conditions carefully. Ask about exceptions. Is there a minimum term you must pay the insurance for before you can make a claim?" advises Stuart Porter, a Chartered Financial Planner based in Dubai.

6. Don't evade the lender, negotiate

What if you lose your job and cannot repay your debt obligations? Financial experts suggest talking to lenders rather than panicking or keeping mum about it.

"To survive the debt burden during recessionary times, the key would be negotiating with financial institutions/banks to chalk out the strategy. This could involve delaying the existing interest payment due on mortgage and credit cards by a fixed number of months," says Valecha.

Certain banks may provide an upfront lump-sum payment of some amount to avail interest waiver or other such schemes. "A majority of the banks require proof of the statement that confirms a borrower's inability to pay for the immediate term. At no point in time should the person try to evade the lender. It is best to directly approach them and make use of the official redressal mechanism," he adds.

The Ministry of Community Development (MoCD) has also launched a free financial consultation service that can help families overcome financial challenges. "The service is being provided to targeted groups through the ministry website, in addition to workshops and rehabilitation courses. The service includes financial consultations, guidance, and advice for all community members who need guidance and consultations," says Valecha.

One should also explore the possibility of reaching out to family and friends for help. "But it is important to have a clear repayment plan in place," says Vishal Dhawan, a certified financial planner and CEO of Plan Ahead.

However, borrowing more money should be avoided, unless it is a gift from a family member, advises Porter, adding, "Unregulated lenders or 'loan sharks' are prey to people in this situation. Under no circumstances should anyone borrow money from one of these lenders."

7. Cash in on your assets

If there are investments you have made in the past, whether in stocks, gold, real estate, etc. it is time to take stock of their value and see if you can exit some of them to pay off debt. "For instance, you may have some money lying in equity that is delivering a high return today or maybe even a loss. Exit it," advises Dhawan. It may not be prudent to try to make higher returns on an asset when you are paying a high interest on debt.

Communicate with family: Opening up to family, especially dependents, is usually tough in times of financial crisis. But communication is key. "If you have been offering support to family members like parents, understand whether they truly need it or are in turn investing it away as they do not actually require it for their expenses," says Dhawan.

You could possibly channel such savings into building an emergency fund for yourself or use it for priortised spending.

8. Upskill yourself

At a time when job uncertainty still looms high in many sectors, it is prudent to tighten the belt and start preparing for a plan B. “If redundancies are expected, you should plan for different scenarios. Think about what you would want to do if you are made redundant. Maybe this is an opportunity for you to assume extra responsibility either within your existing firm or with a new employer. Update your CV and be ready to put your plans in to action,” says Porter.

Dhawan adds: “Be prepared to do some reskilling and keep some monies away for it. Also, explore if a spouse who has not been working can consider going back to work.”

Expatriates do not have any social security and therefore it is important to be financially independent. Make a plan and be mindful of how you spend, save and invest your hard-earned money.

Common financial mistakes that residents make

Not saving enough for a rainy day is the most common mistake investors in the region often make. “From spending through the emergency funds to investing too much in risky assets, the reasons for such regrets are multiple and often related to one’s lifestyle,” says Valecha.

“Currently, economies the world over are going through tough times in the wake of the pandemic outbreak. While the global equity markets and other risk assets have gained significantly over the past few months on the back of central bank stimulus, the situation as far as the real economy is concerned remains pretty much bleak. The record number of job losses seen across multiple sectors has created fear among the working-class population. This has exacerbated previous poor decisions related to spending and investments made by individuals. So it’s important that everyone has an emergency fund,” says Valecha