



: Dec :

4

## UAE economy seen suffering next year

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DUBAI – Economic growth in the United Arab Emirates is set to disappoint next year, with Dubai debt woes expected to boost credit costs as investors can no longer count on implicit government support for indebted state companies.

The global credit crunch sent the top Gulf Arab economies – Saudi Arabia and the UAE – into downturn this year, but high state spending and a turnaround in oil prices were seen helping the worlds top-oil producing region to get back on its feet.

The UAEs prospects have dimmed, however, now that Dubai, which had once enjoyed stellar property-fuelled growth, has asked for a repayment freeze on billions of dollars worth of debt issued by its key state-owned construction firms.

“Although Abu Dhabi may take the growth lead going forward, it is unlikely that (the UAE) will be able to replicate the impressive growth performance it generated over the past 10 years,” said Ahmet Akarli, senior economist for Turkey and the Middle East at Goldman Sachs in London.

“I am currently inclined to think that it (UAE growth) will keep very close to zero,” he said of the outlook for 2010.

Before the debt crisis unfolded on November 25, Akarli said he had forecast growth of 3.5 percent.

The UAE economy was seen rising 2.9 percent next year, after a 1.1 percent contraction in 2009, well below a nearly 8 percent average expansion in the previous three years, a Reuters poll showed ahead of Dubais debt announcement.

On Wednesday, a senior official at the International Monetary Fund said it might revise its growth forecast for the UAEs non-oil gross domestic product to “significantly lower” than the 3 percent it had projected in October.

UAE officials are still expressing confidence that the economy would weather all difficulties. “The economy of the UAE is solid and is based on proper foundations and is able to face crises and challenges no matter how difficult they might be,”

Economy Minister Sultan bin Saeed Al-Mansouri said on Wednesday, the federations national day.

Mansouri said last month the UAEs Gross Domestic Product should rise by up to 3 percent next year after 1.3 percent growth this year.

Economists say the UAE's troubles are unlikely to damage growth elsewhere in the Gulf Arab region because countries such as Saudi Arabia was much less leveraged than Dubai, even though many lenders in the region were exposed. Dubai's economy accounts for only 8 percent of the total GDP of the six-member Gulf Cooperation Council bloc, which includes Saudi Arabia, the UAE, Kuwait, Qatar, Oman and Bahrain, Silk Invest Limited said in a note.

"I do not see the macro-economy in other GCC countries impacted because their investment criteria, infrastructure needs and debt are completely different from Dubai," said Elyas Al-Gaseer, head of fixed income at Calyon Credit Agricole in Bahrain.

State-owned Dubai World said this week it had started negotiations with its lenders over \$26 billion of debt owned by its main property firms, and analysts said the main drag on UAE growth will come from potential heavy losses for banks and higher lending costs.

"Credit availability will be an issue now. Credit is a lifeline of economic activity," said a UAE-based economist, who asked not to be named because of the sensitivity of the issue.

The Dubai governments refusal to guarantee debts of its developers will help keep credit costs high as lenders had previously assumed the state would bail out its troubled firms.

"I believe that listed and financially sound Middle Eastern companies will be in a better position to claim access to global financial markets in the future. But the rest will face challenges," Akarli said. "I think transparency, or rather the lack of it, is the big issue here."

Interbank lending rates eased on Tuesday following the central bank move to set up a new emergency liquidity facility. Costs of insuring Dubai debt also fell from last weeks peaks but stayed well above pre-crisis levels.- Agencies



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