

Gulf Economies proving resilient

15 March 2009

There is growing agreement among observers that economic growth in the UAE and the wider Gulf region will continue at a faster pace in 2009 compared to the more developed economies.

Maintaining high government spending levels despite the significantly lower revenues due to falling oil prices also places the Gulf region in a good position for a gradual economic recovery, analysts say.

"A key feature of recent economic growth for emerging economies has been the development of stable political systems together with the adoption of market-friendly economic policies in Asia, Latin America, Eastern Europe and in the Gulf Region," said Tom Elliott, vice president at JPMorgan investment bank.

"This has attracted foreign investment, which has in turn stimulated both exports and the growth of domestic spending," Elliott said.

The UAE economy is still expected to record positive growth this year, albeit at lower levels than in previous years.

At a recent roundtable organized by the Dubai Chamber of Commerce and Industry, Director-General Hamad Bu Amin said that the GCC is anticipating gross domestic product growth of three to five percent this year, down from six to eight percent last year.

In contrast, well-developed economies are predicted to contract in 2009. JPMorgan estimates a contraction in developed markets of 3.4 percent year on year.

GCC governments have gradually begun to implement measures to stimulate growth and maintain an attractive environment for business.

In the UAE, federal government has committed funds to the banking sector to bolster lending operations.

Last week, Dubai's Director-General for Finance Nasser Al Shaikh said that companies looking to draw on funds raised from a \$10 billion bond issue (Dh36.7 billion) would be able to do so within a couple of weeks.

The Dubai government has proposed a 42 percent increase in spending over last year, and other GCC governments have presented similarly expansionary budgets for 2009.

According to the International Monetary Fund (IMF), falling oil prices and production cuts demanded by the Organisation of Petroleum Producing Countries (OPEC) will reduce export revenues by almost 50 percent this year, resulting in a loss of approximately \$300 billion.

"By continue to spend, oil-exporting countries are contributing substantially to supporting global demand and are acting as stabilisers during the Global downturn," said Masoud Ahmad, IMF Middle East and Central Asia Department Director, last month.

Experts agree that the regional governments should continue spending to develop their economies and remain attractive business destinations.

"The GCC countries should focus on infrastructure (development), education, regulated openness," said Fahad Abdullah Al Mubarak, Chairman and managing director at Morgan Stanley Saudi Arabia.

He added that Gulf economies should focus on diversification and enter into a "well studied" merger with the global economy