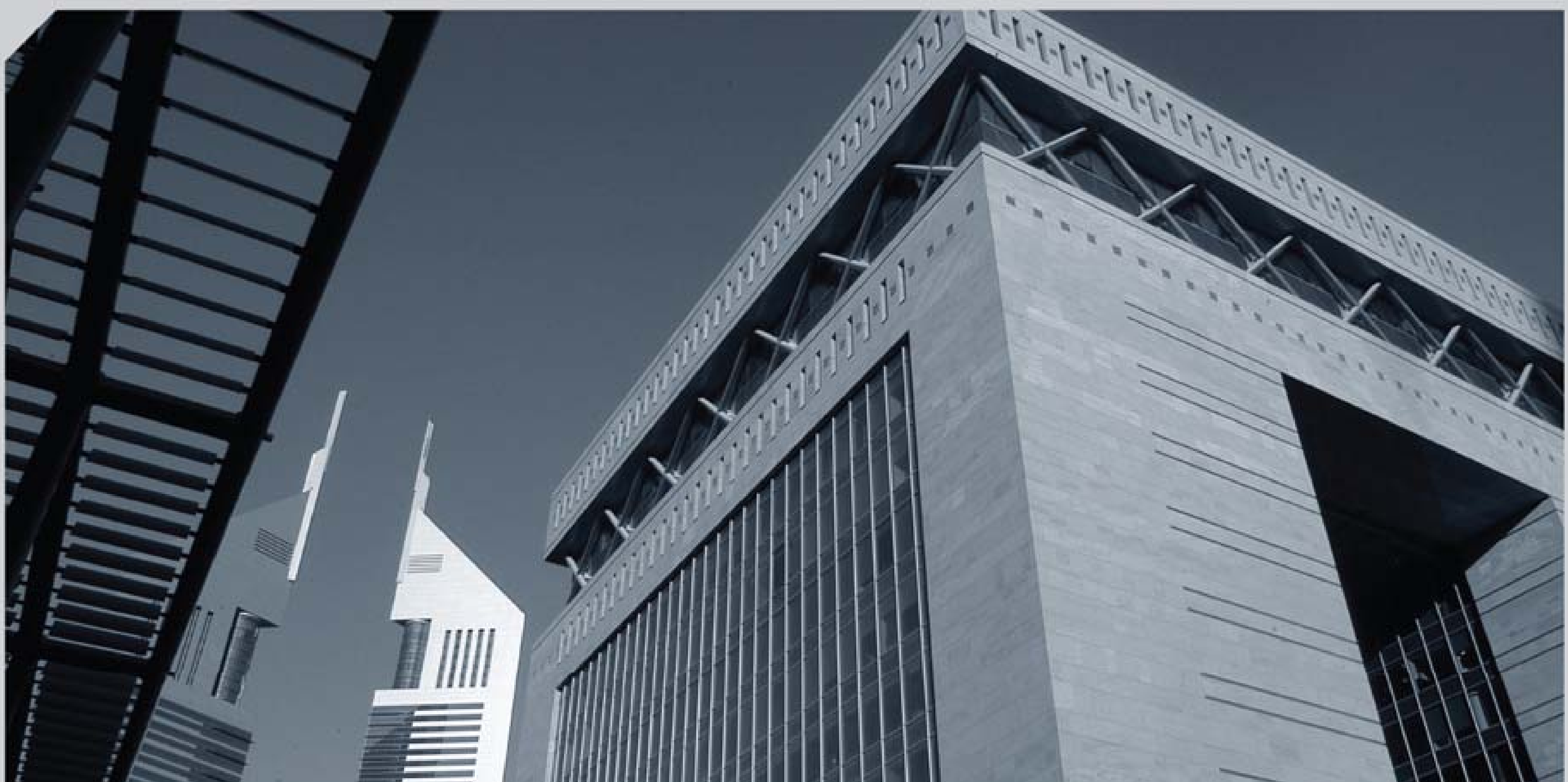


Whither the MENASA Region? Contagion & Recovery?

IAASB & Ethics CAGs Seminar

Dr. Nasser Saidi, Chief Economist, DIFC Authority

12th March 2009

DIFC Dubai International Financial Centre

Agenda

Analysis of Global Situation

- Despite a historic coordinated intervention of all major central banks and a series of unprecedented, wide ranging and extensive government intervention, the financial sector remains fragile and a return to normality is slow. Damage assessment is still underway and new heavy losses are revealed every quarter.
- Authorities, financial intermediaries and corporations are bracing for at least three quarters of deep recession and widespread weakness until end 2009 as the credit crunch spreads to the real economy. Almost every month forecasts have been corrected sharply downwards. World growth output will, at best , stagnate in 2009.
- Lower consumption, cuts in investment projects and corporate downsizing and bankruptcies in the wake of sharply reduced credit availability will in all likelihood prevail until the deleveraging comes to an end and trust in financial markets is restored.
- At present nobody can be sure for how long markets will remain dysfunctional, what results the stimulus packages will produce, over what time frame, and what future imbalances might cause.
- There is now a probability of 20% that the US current recession will develop into a depression with a 10% macroeconomic decline of output and consumption. (Barro & Ursua, NBER, Feb. 2009)

Emerging Markets & the MENASA/GCC region

- Emerging markets and the GCC have been so far more resilient, but the shocks have been too strong to be offset by economic fundamentals and purely domestic factors.
- Slower growth in GCC will spill over to labour exporting countries through lower remittances, FDI and capital flows
- Oil prices will remain depressed with negative effects on public finances and infrastructure projects
- The Gulf countries and DIFC could be among the long term gainers in the adjustment process, if economic governance and transparency are improved and a more coherent set of policy responses and structural reforms is framed over the next weeks and months.

Global Recession

- The **world economy** is coping with the most severe shock to mature financial markets since the 1930s.
- On an annual basis, **global growth** is expected to moderate from 5.0% in 2007 to 3.4% in 2008 and 0.5% in 2009.
- **Advanced economies** will suffer a deep recession, -2.0% in 2009 (a downward revision of 1.7% compared to a month ago).
- **Emerging economies** have thus far been able to hold on, but global trade, on which most of them rely, has suffered one of the most severe quarterly blows in history. Their real GDP growth is expected to slow from around 8% in 2007 to 3.0% in 2009 (revised down from 6.1% in the October WEO) on the optimistic assumption that export push will be replaced by domestic demand.
- These figures essentially indicate that the world is facing a **simultaneous recession never experienced in peace time**

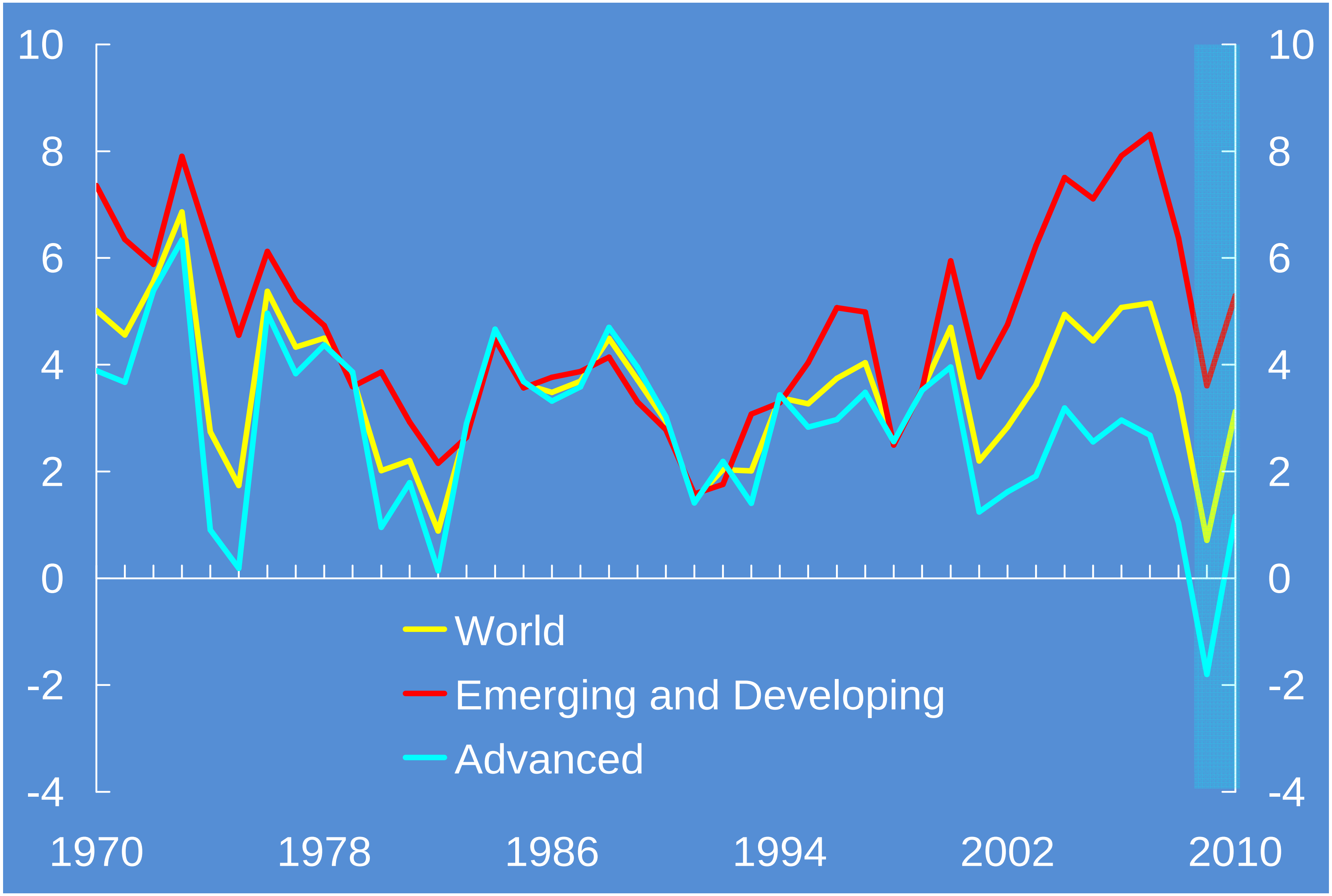
A Severe Global Recession…

Overview of IMF World Economic Outlook Projections (YoY)

			Projections		Difference from Nov. 2008 WEO Projections	
	2007	2008	2009	2010	2009	2010
World output	5.2	3.4	0.5	3.0	-1.7	-0.8
Advanced Economies	2.7	1.0	-2.0	1.1	-1.7	-0.5
United States	2.0	1.1	-1.6	1.6	-0.9	0.1
Euro Area	2.6	1.0	-2.0	0.2	-1.5	-0.7
Emerging and Developing economies	8.3	6.3	3.3	5.0	-1.8	-1.2

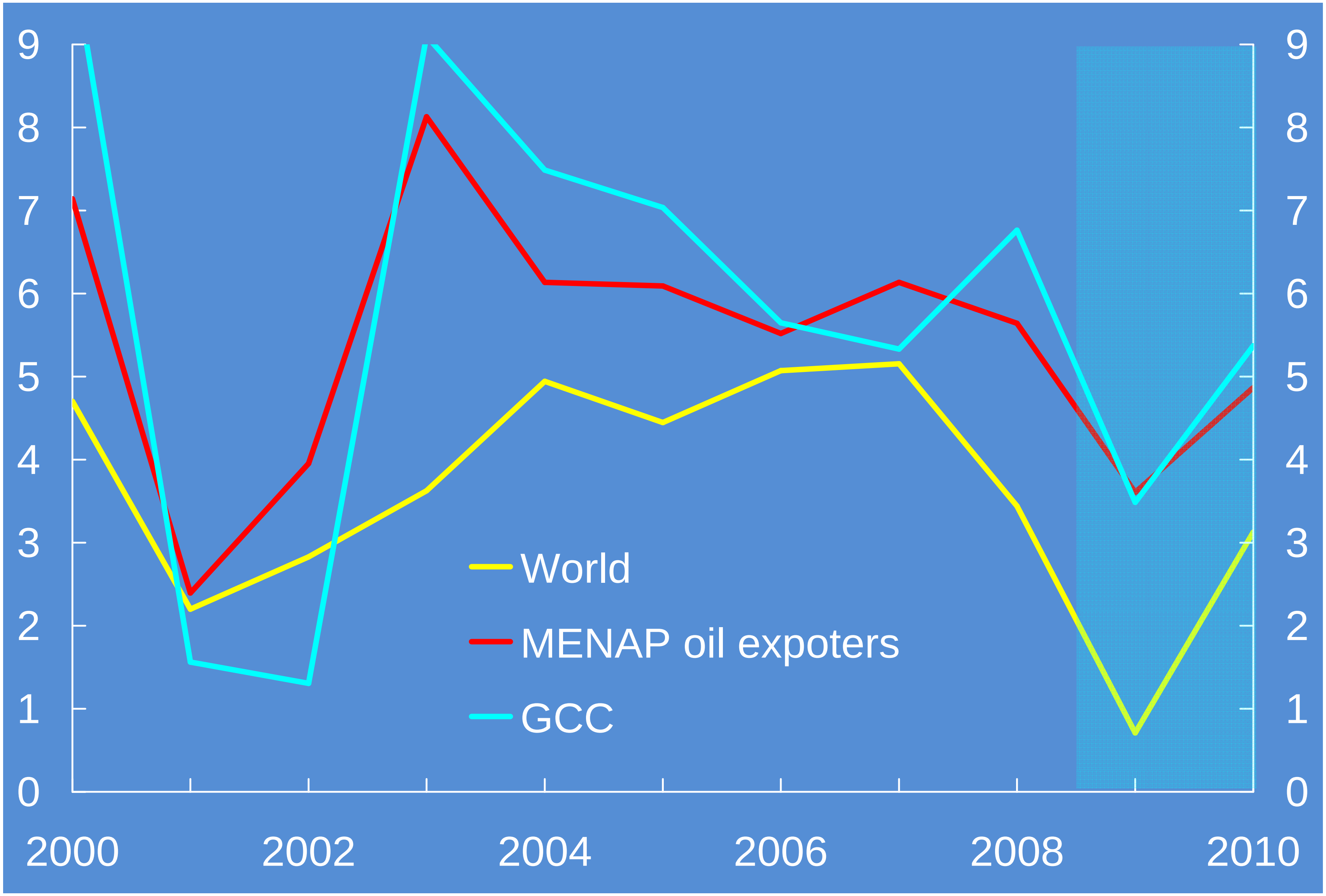
Global economy heading for major recession

Real GDP Growth (Annual percent change) **(IMF, WEO 2009)**

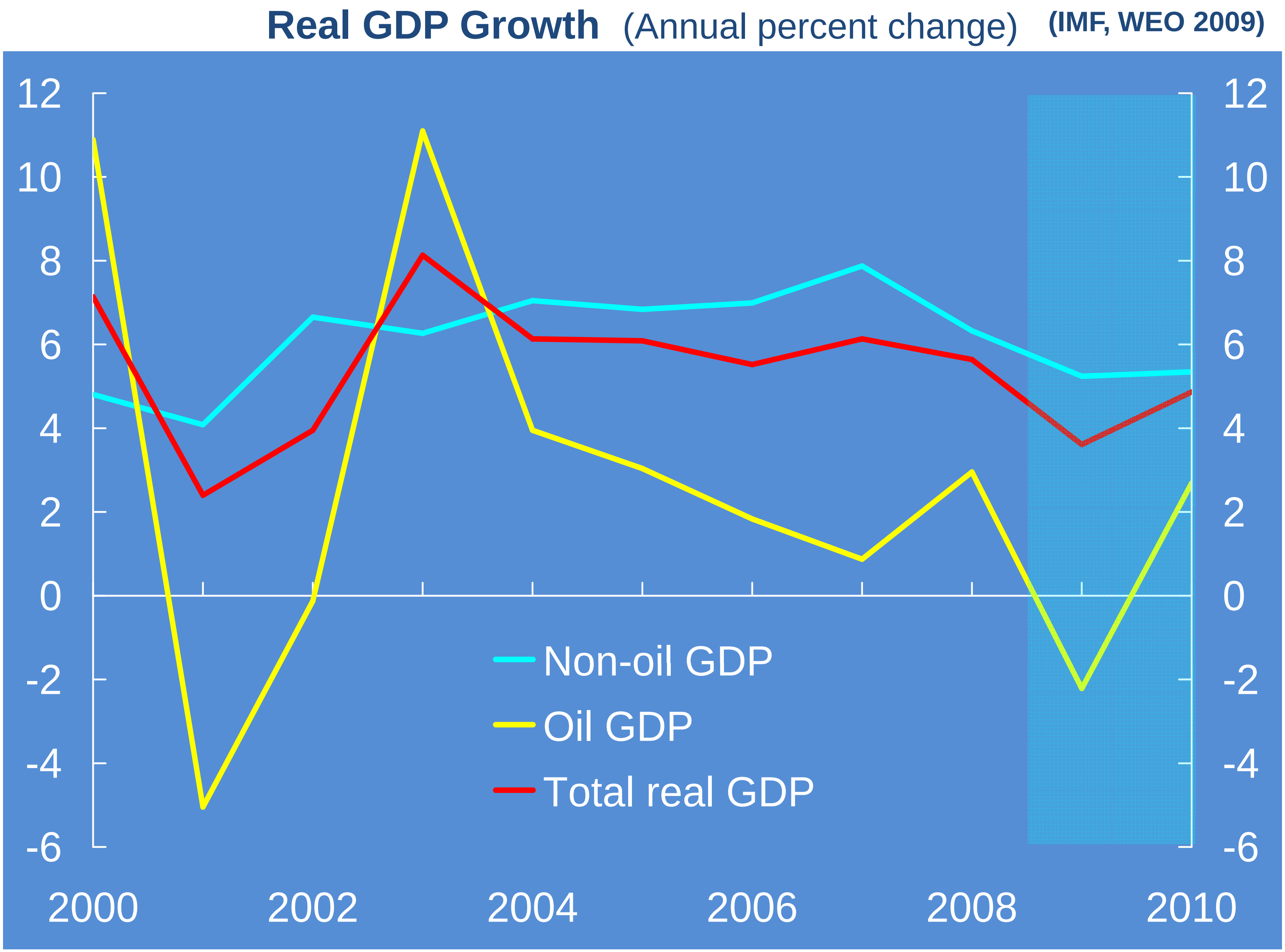


Growth in oil producers is expected to slow...

Real GDP Growth, Oil-Exporting Countries (Annual percent change)



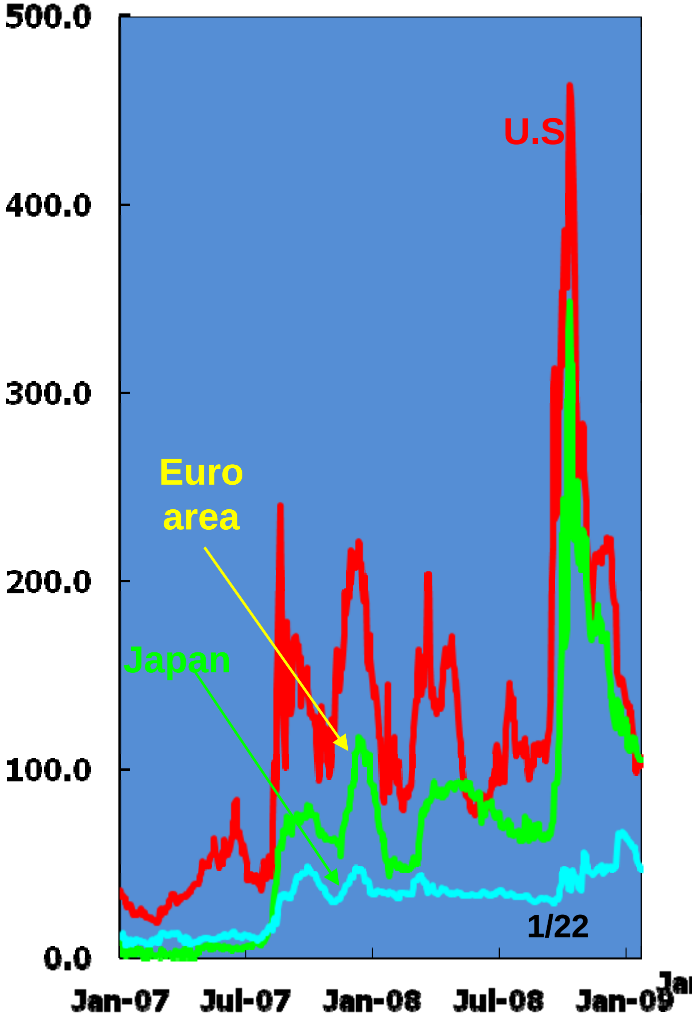
Economic Diversification will help oil producers



Global financial system slowly coming back from the brink (IMF, WEO 2009)

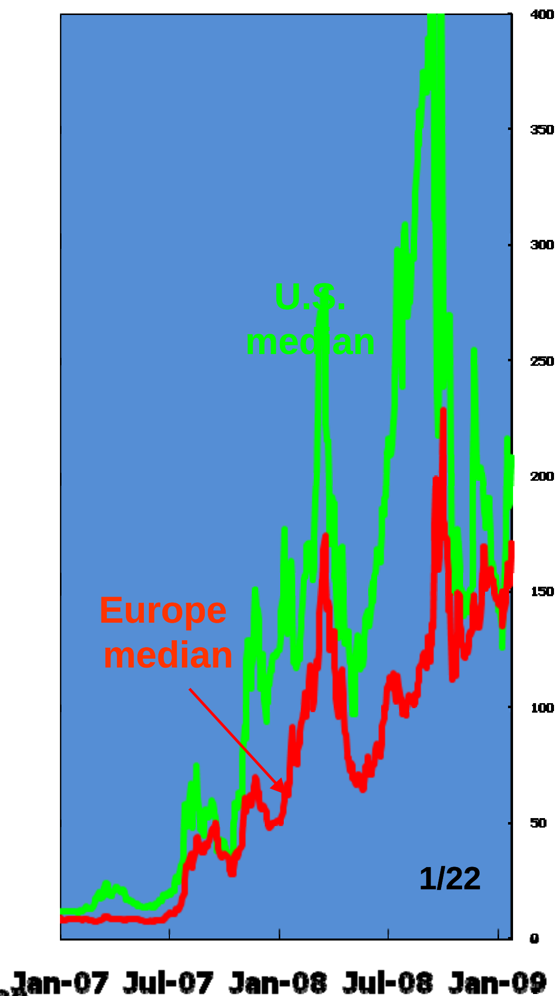
Interbank Markets

(3-month LIBOR minus T-bill rate; in percent)



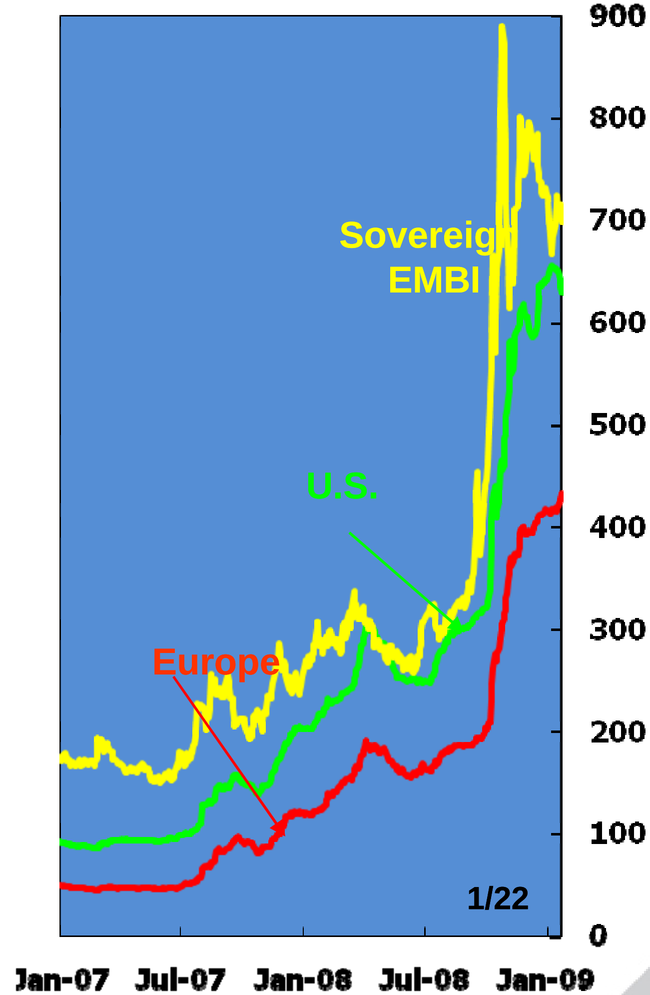
Bank CDS Spreads

(5-years; basis points)



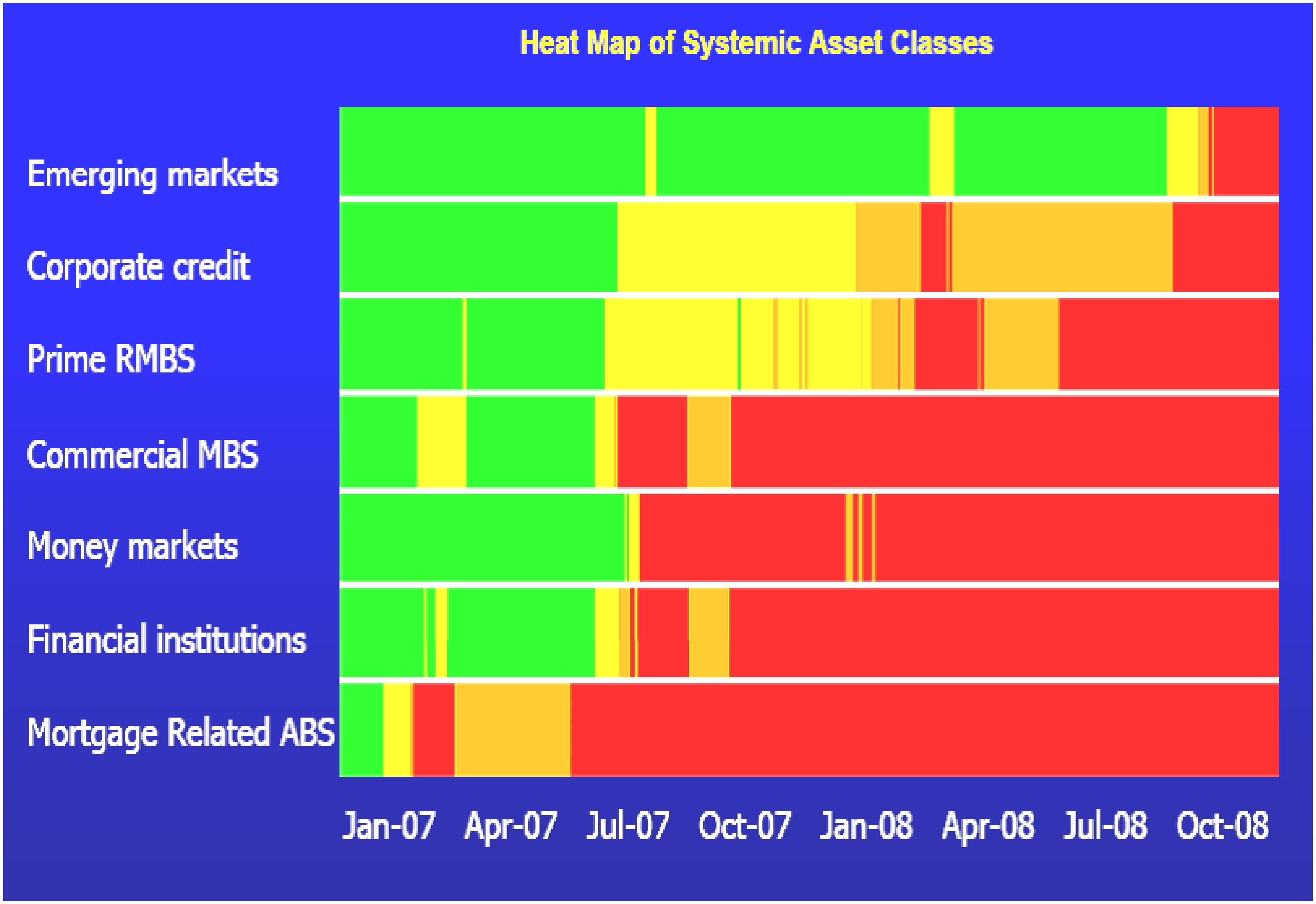
High-Grade Spreads

(basis points)

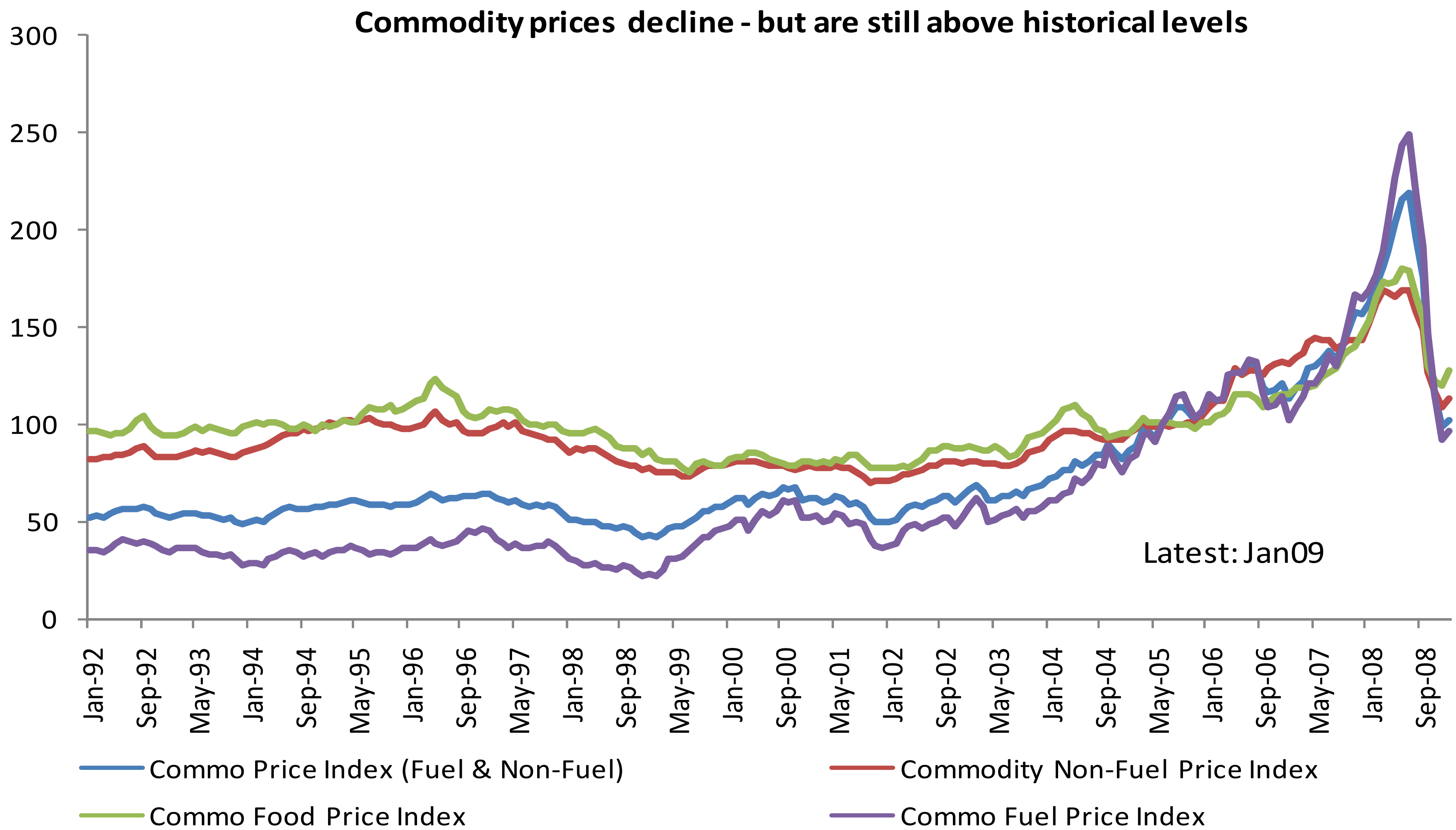


But spread of the crisis to emerging markets will continue

(IMF, WEO 2009)



Commodity prices fall= Commodity Exporters hurt



Source: IMF, DIFC Economics.

GCC Market Performance: Risk Aversion & Contagion Effects

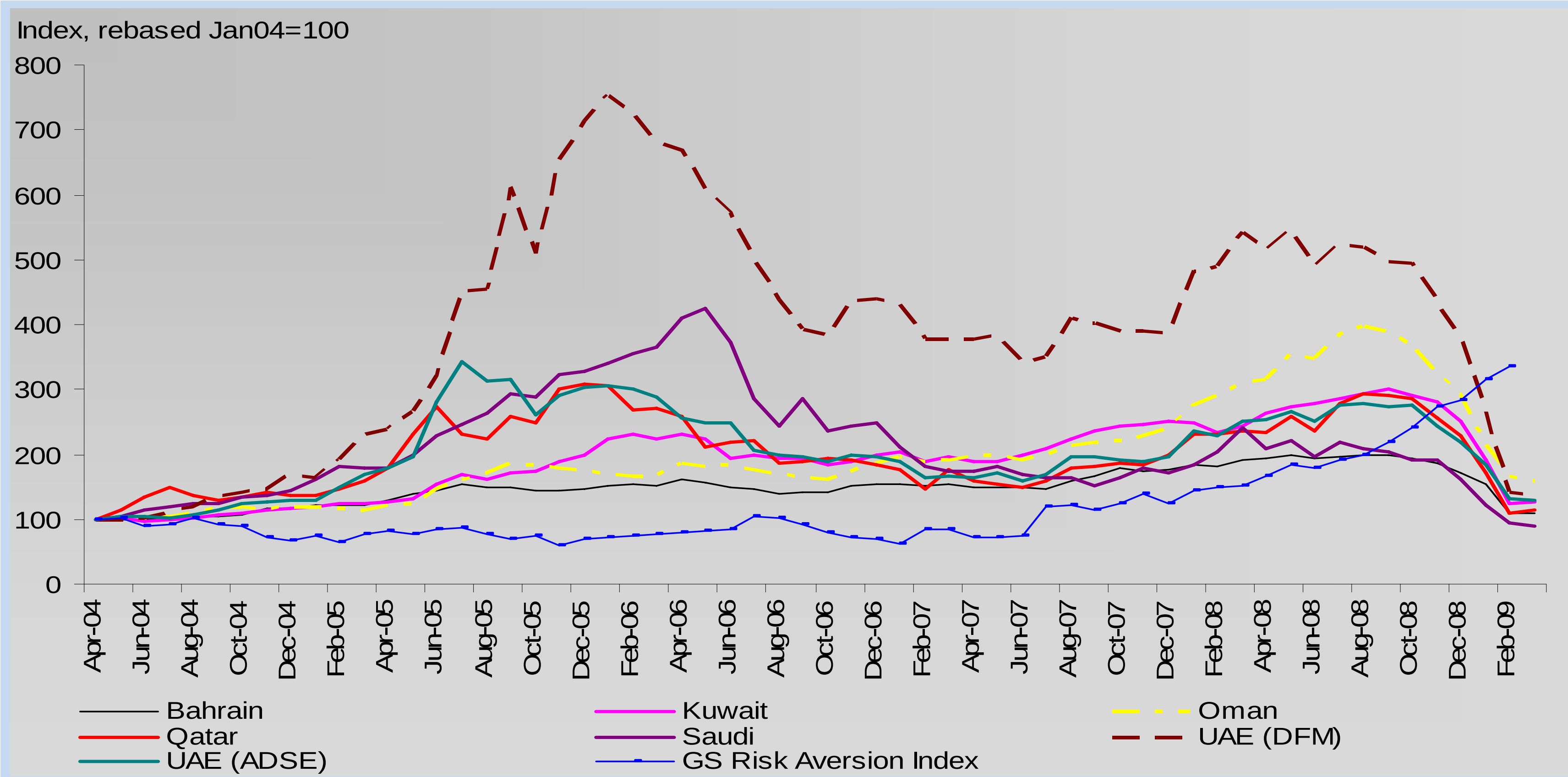
DIFC | Dubai International Financial Centre

Equity Performance: Emerging Markets vs. G7

Source: Reuters, DIFC Economics

GCC Equity Performance

- Contagion effects from the crisis=>regional equity markets; but to a lesser extent than in G7
- Strong economic and financial fundamentals should restore investor confidence in the medium-term.

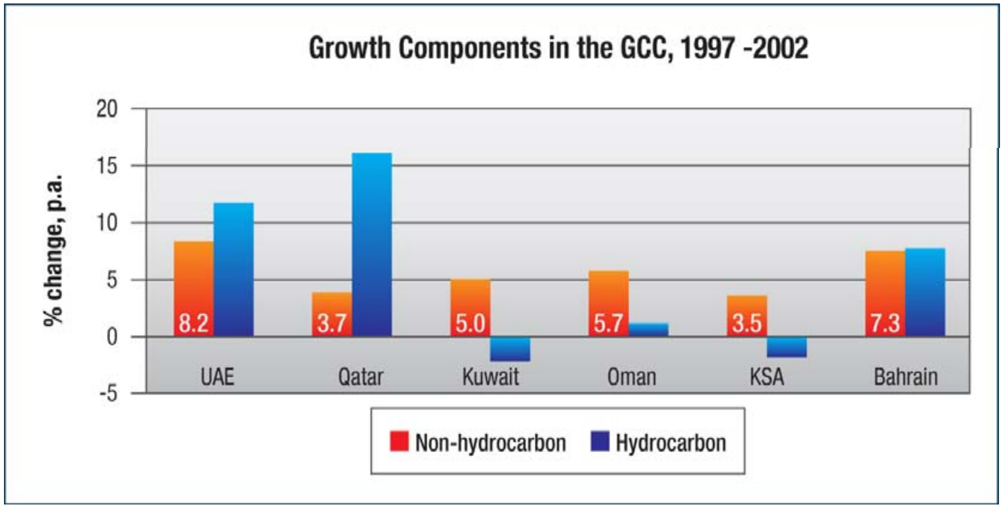


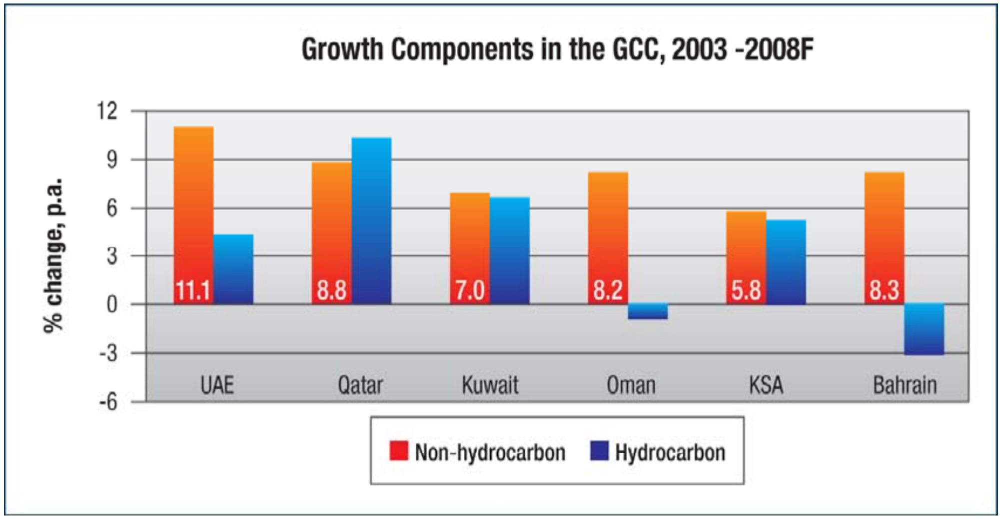
MENASA: Contagion, Spillover & Recovery?

Emerging Markets/MENASA/GCC

- Emerging markets have contributed 2/3 of global growth since 2002.
- **Investment-led growth** with strong private sector participation and record FDI levels.
- **Investment & infrastructure** leading to an increase in productivity growth, economic diversification and absorptive capacity.
- **Positive demographics & migration** sustaining low labour costs & output growth
- **Remittances** main form of positive spillover to labour exporting countries
- MENA countries have achieved **above trend average real GDP growth** (5.8%[e] over 2004-2008).
- GCC have achieved average real GDP growth of 6.9%[e] over 2004-2008 vs. 4.6% in 1998-2003, with **increased diversification of economic activity**, while in nominal terms growth has averaged over 25% p.a.
- Growth forecast at lower levels in 2009 compared to 2008: MENA at (2008:5.9%, 2009: 3.6%), GCC at (6.8%, 3.5%).

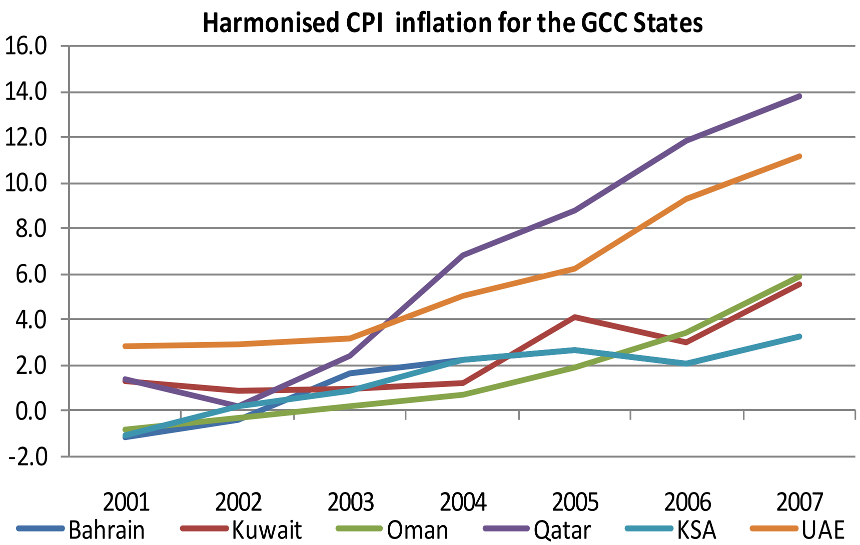
GCC Increasingly Diversified

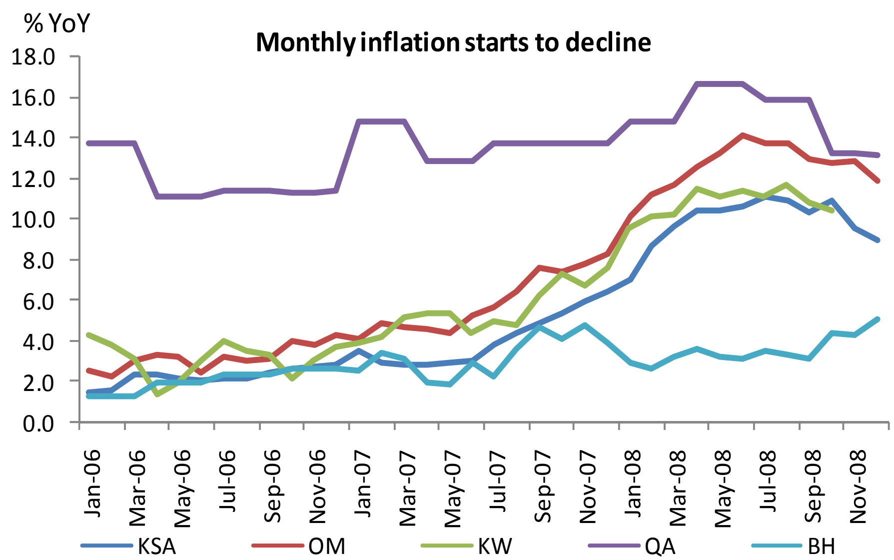




Source: EIU, IMF & DIFC Economics

GCC Inflation falling along with global inflation

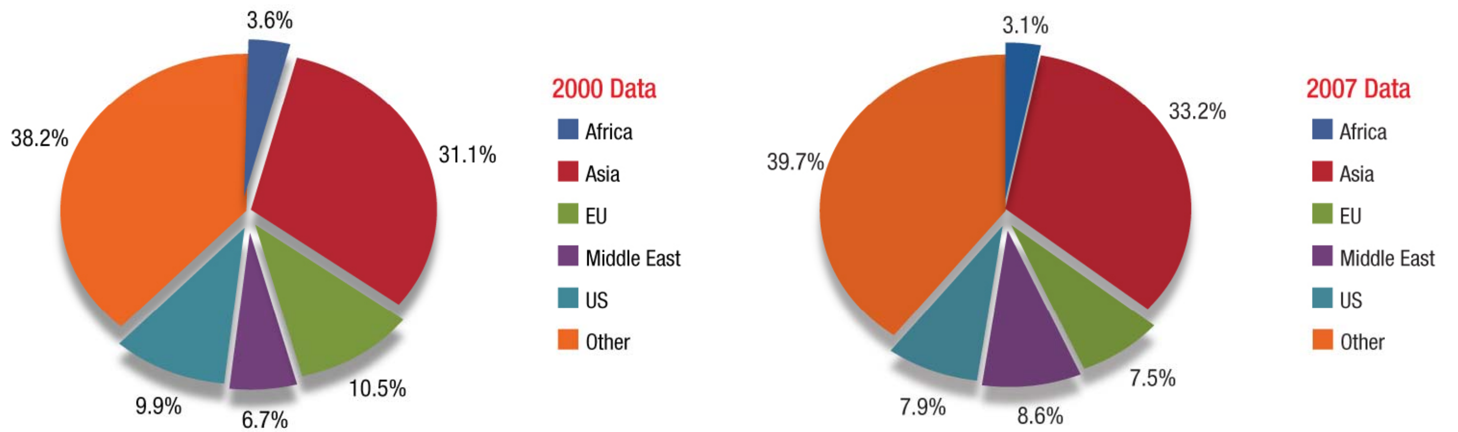




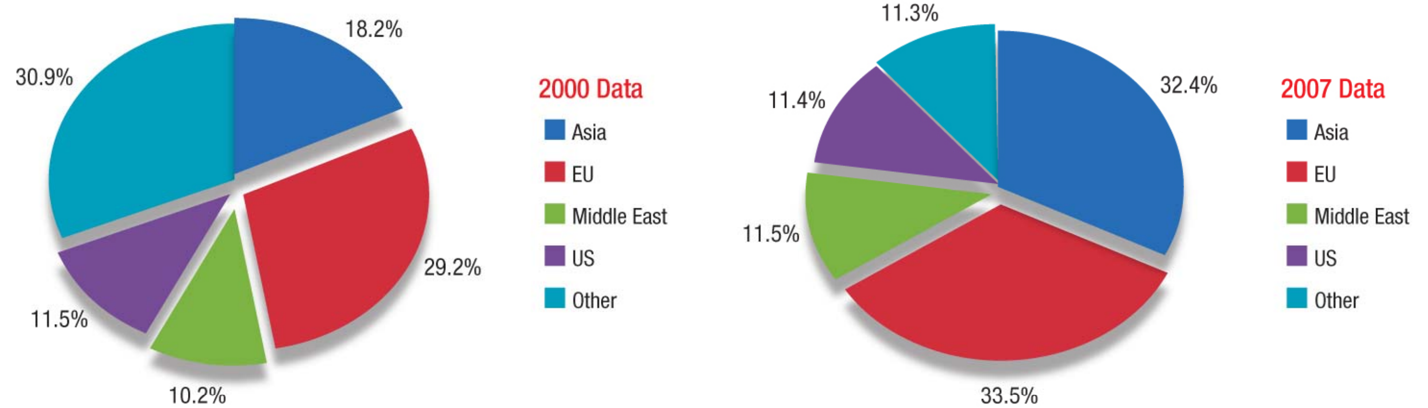
Source: GCC Government Entities & DIFC Economics

GCC: Asia has become the dominant trade partner

GCC's Major Export Partners - Asia's increasing share in exports

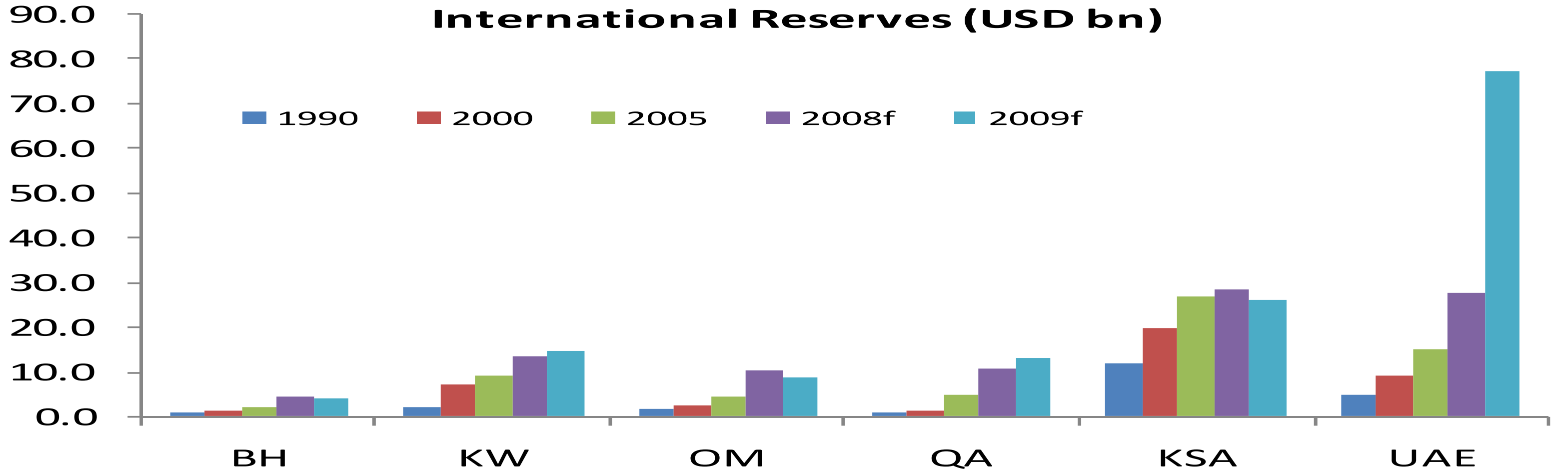


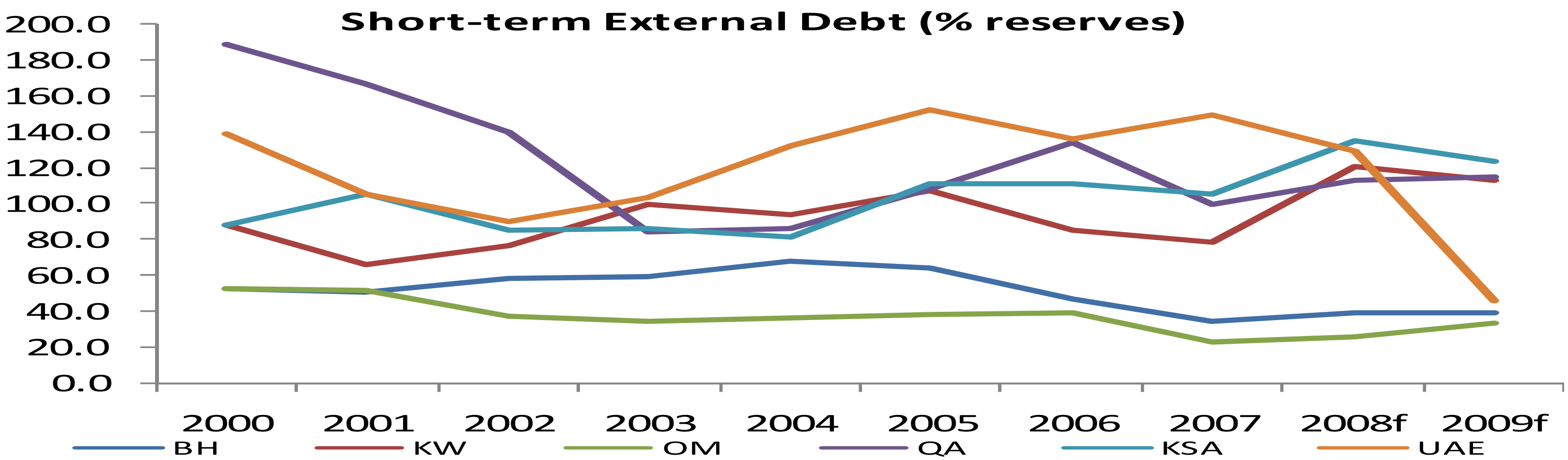
GCC's Major Import Partners - the EU and Asia's rising share



Source: IMF DOTS, DIFC Economics

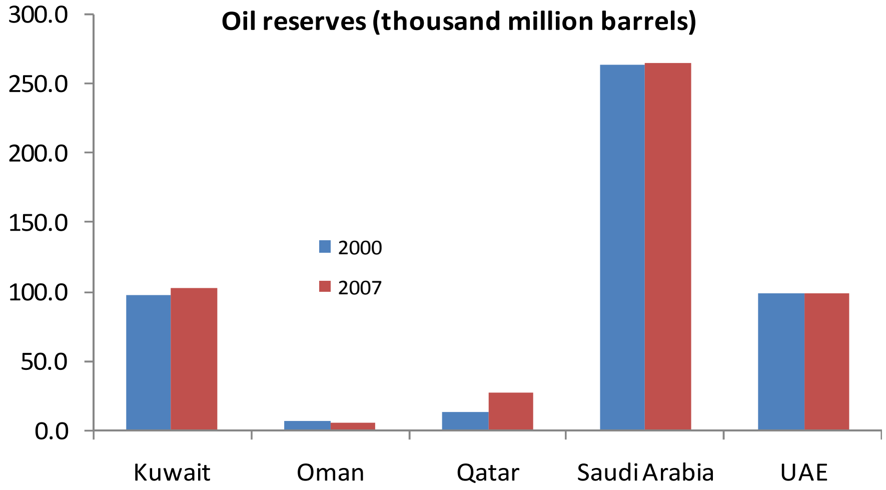
Accumulation of FX Reserves provides a cushion

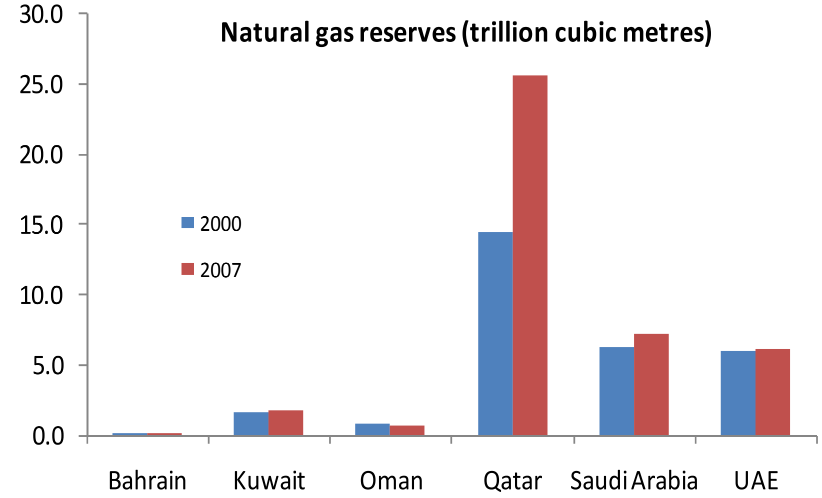


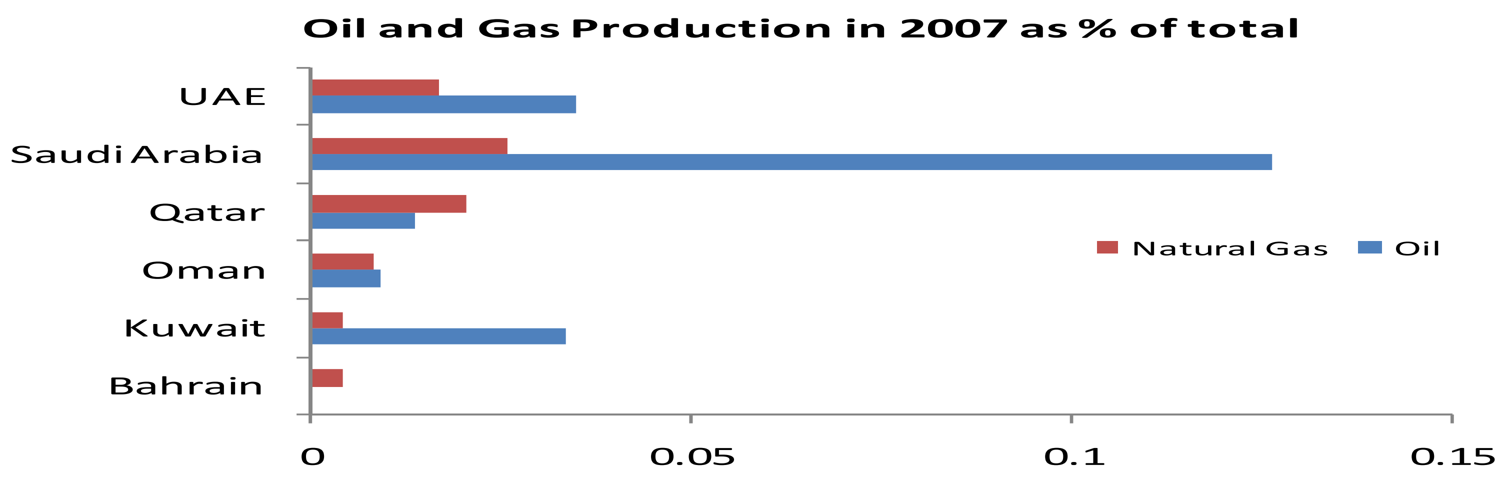


Source: IIF, DIFC Economics

Oil and Gas Reserves



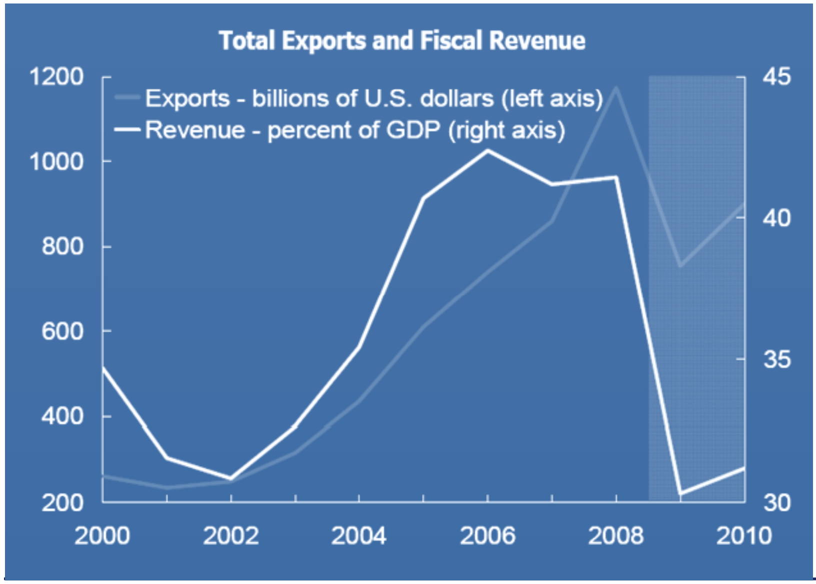


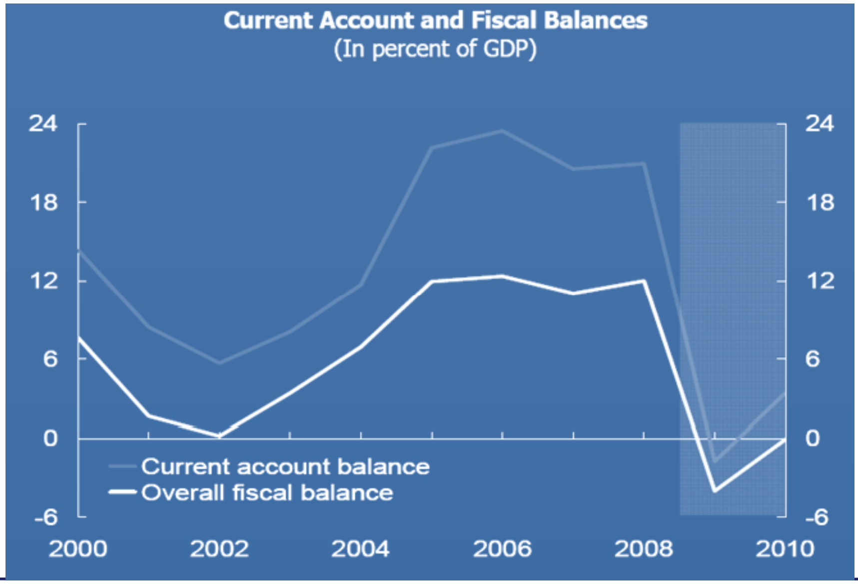


Source: BP Statistical Review of World Energy 2008, IMF REO,DIFC Economics

Fiscal & Current Account Balances will decline…

- Oil producers policy reaction has been fiscally conservative: 60% of higher oil revenues have been saved
- Substantial fiscal surpluses (19% of GDP in 2007) even as spending has picked up
- Fiscal position of GCC remains in surplus for an oil price of $47
- Investment policies less dependent on oil revenues
- Nevertheless, the lower oil prices will impact fiscal balances as **expenditure has NOT been reduced in the recently announced budgets**





Source: IIF & DIFC Economics

GCC Countries: External Financing

	2006	2007	2008e	2009f
Current Account balance	210.6	206.1	315.7	20.6
Non-resident flows	147.2	212.6	119.3	29.5
Equity Investment, net	38.8	47.5	42.3	34.0
Direct Investment, net	37.5	44.9	41.3	32.7
Portfolio Investment, net	1.2	2.6	1.0	1.3
Debt Flows, net	108.5	165.0	76.9	-4.5
Official Flows, net	-0.2	-0.6	2.1	0.2
Commercial Banks, net	86.8	159.7	68.3	-9.9
Other Creditors, net	21.9	5.9	6.5	5.1
Resident Flows	-274.9	-276.1	-307.6	-48.3
Equity Investment, net	-139.4	-132.1	-171.6	-84.9
Direct Investment, net	-35.9	-43.9	-41.4	-36.3
Portfolio Investment, net	-103.6	-88.1	-130.2	-48.7
Resident lending/other, net[1]	-135.5	-144.0	-136.1	36.7
Reserves (- = increase)	-82.9	-142.6	-127.3	-1.8

e = Estimate. f = IIF forecast. Figures are in Billions of Dollars.
[1]Including net lending, monetary gold, and errors and omissions.

Source: Capital flows into Emerging Markets Report, IIF, January 27, 2009.

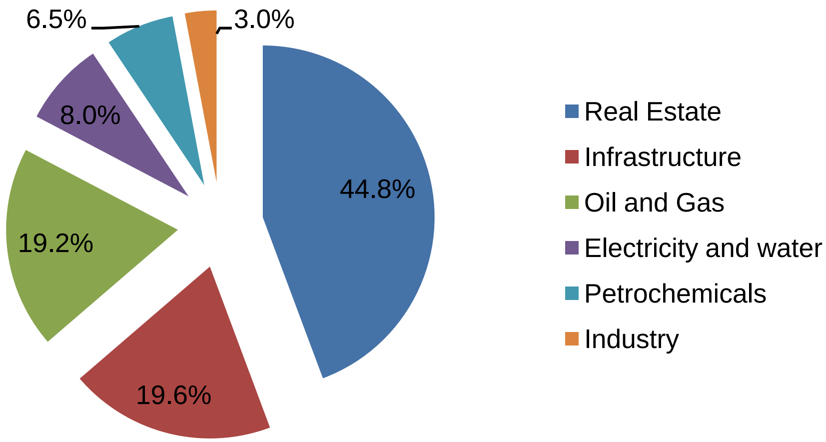
Foreign Direct Investments into the Middle East*

Sector	2005	2006	2007	2008	Total	Average Annual Growth
Financial Services	67	108	81	57	313	18.1%
Business Services	40	56	66	36	196	28.9%
Software & IT Services	39	48	39	31	157	2.2%
Real Estate	26	63	27	37	153	42.6%
Hotels & Tourism	31	50	30	30	141	10.6%
Communications	14	33	26	20	93	57.3%
Industrial Machinery, Equipment & Tools	18	16	23	11	68	16.3%
Coal, Oil & Natural Gas	21	13	18	11	63	0.2%
Transportation	13	15	8	8	44	-15.6%
Building & Construction Materials	4	17	6	10	37	130.1%
Other Sectors	74	94	78	49	295	5.0%
Overall Total	347	513	402	300	1,562	13.1%

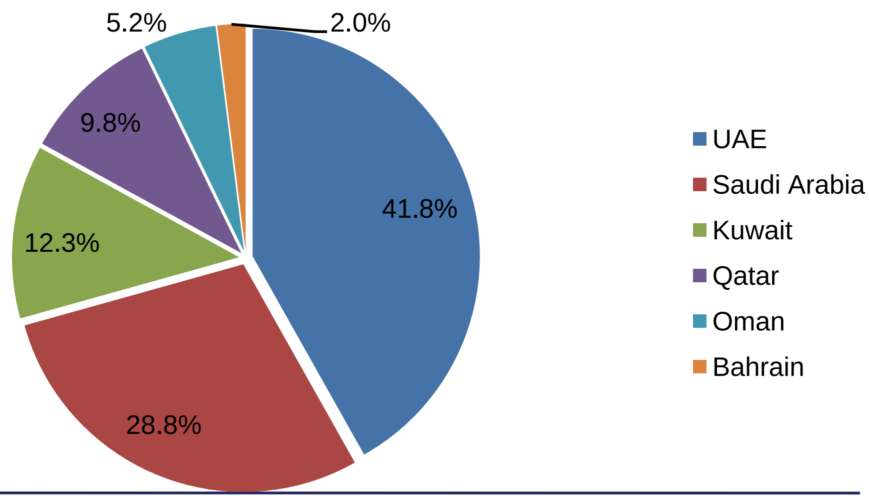
**in US dollars billion.*
Source: FDI Intelligence from the Financial Times Ltd.

GCC Investment Projects

- **Total GCC medium-term project investments stood at $2,193bn. Of this:**
  - real estate: $960bn (43.78%)
  - Infrastructure: $430bn (19.6%)
  - oil and gas: $421bn (19.2%)
  - electricity and water: $175bn (8.0%)
  - petrochemicals : $142bn (6.5%)
  - Industry: $65bn (3.0%)



- **Country breakdown is as follows:**
  - UAE: $918bn (41.8%)
  - Saudi Arabia:$632bn (28.8%)
  - Kuwait: $270bn (12.3%)
  - Qatar: $214bn (9.8%)
  - Oman: $114bn (5.2%)
  - Bahrain: $44bn (2.0%)



Whither the GCC? Key Economic Indicators

	2007	2008	2009
Real GDP growth (in percent)	5.3	6.8	3.5
Inflation rate (in percent)	6.3	10.6	6.3
Oil exports (in billions of US$)	411	584	298
Government revenue from oil (in billions of US$)	314	460	257
External current account balance (in percent of GDP)	25.0	27.5	-0.1
Fiscal balance (in percent of GDP)	17.6	22.8	-3.1

GCC Policy responses to the Financial Crisis

GCC Policy Responses to the Financial Crisis

- Monetary Policy Measures
- Fiscal Policy Measures
- Financial Policies

Monetary Policy Measures

- Bahrain cut the repo rate by 25bp and the overnight rate by 50bp.
- Kuwait cut the repo rate by 100bp and the discount rate by 125bp.
- KSA reduced its repo rate by 50bp (but left unchanged the reverse repo rate) and reduced reserve requirements from 13% to 10%.
- UAE reduced the repo rate to 1.0% effective 19 January 2009.
- In addition to this, a dollar-dirham swap facility was set up by the UAE Central Bank – which has resulted in easing of inter-bank rates.

Fiscal Policy Measures

- Governments are maintaining infrastructure and investment spending and are likely to run modest deficits of 2%-3% of GDP
- Bahrain government, in its draft budget, has suggested a 2009 deficit of 9.3% on spending of 2.03 billion Bahraini dinars. The deficit stood at 9.8% in 2008.
- Kuwait (budget not yet approved) is due to cut expenditures to 12.05 billion dinars in the 2009/10 fiscal year, (19 billion dinars in 2008/09) based on initial figures, according to the head of parliament's budget committee. Kuwait's income for the new fiscal year starting in April would be estimated at 7.8 billion dinars. The new budget would be based on an estimated oil price of $35 a barrel.
- Oman’s 2009 budget deficit is estimated at 0.81 billion rials. The 6.424 billion rial budget is based on an average oil price of $45 a barrel. Expenditure in 2008 was 5.8 billion rials.
- Qatar, to release its budget in April, is using an oil price estimate of $35 per barrel (according to the Deputy PM). According to him “Qatar is committed to infrastructure projects ... there would be no deficit in the 2009 budget”.
- Saudi Arabia expects to post its first budget deficit since 2002 - budget deficit of 65 billion riyals in 2009; spending forecast is 15.8% higher than 2008.
- The total outlay of the UAE 2009 balanced budget, at Dh 42.2bn, is 21% higher than last year's Dh34.9 billion. The oil price at which budget was estimated was not revealed.

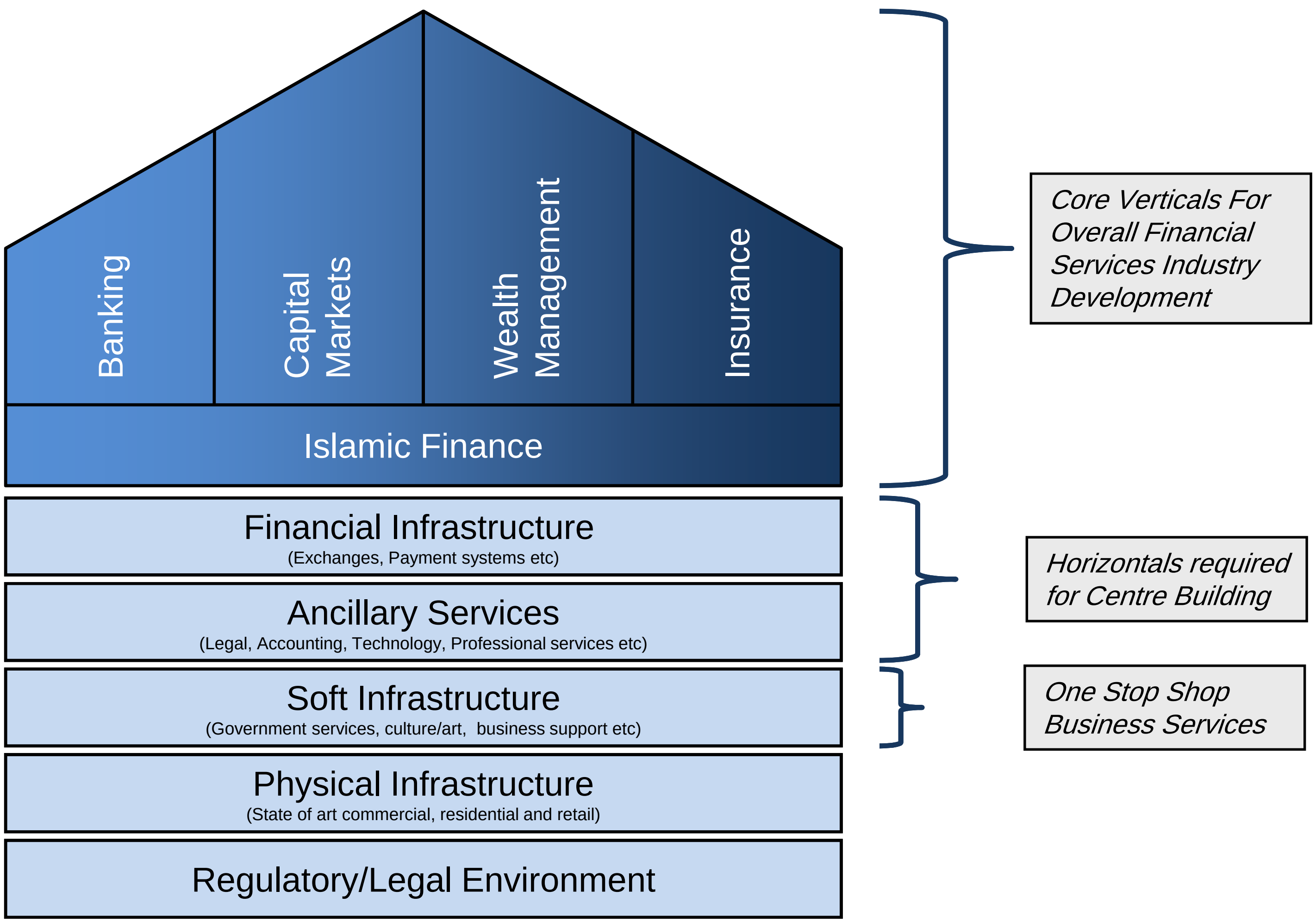
Financial Policies

Financial Policies

- Kuwait introduced a series of other measures including 1bn USD investment by KIA in local stock market, liquidity injections, increase in the loan/deposit ratio, extensive deposits guarantee.
- Qatar has instructed QIA to buy 10-20% of local banks' capital. On Monday, 9th March 2009, the government announced it would buy the investment portfolios of seven banks with Qatar Central Bank's help by the end of the month.
- KSA set up a USD 36bn liquidity facility (only USD 2-3 bn have been used).
- The Central Bank of the UAE initially provided a credit facility of Dhs50 billion to banks in early October 2008, supplemented in mid-October 2008 by a government deposit of Dhs70 billion in banks.
- The UAE authorities announced a blanket, unlimited guarantee of all bank deposits, including interbank deposits and credits, and deposits of foreign commercial banks that have significant retail operations in the country.

DIFC Imperatives: New Economic Geography

DIFC: Ecosystem



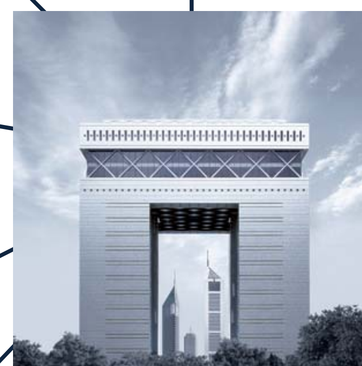
DIFC: Value Proposition

Clear & Transparent Legislation

DFSA: World Class Regulations

DIFC Courts: Independent Judicial System

A dedicated financial services cluster



Borse Dubai & DIFX: Liquid & Transparent International Exchange

Hawkamah Institute for Corporate Governance

Window to a wealth of opportunities

DIFC Education Strategy: Access to Talent

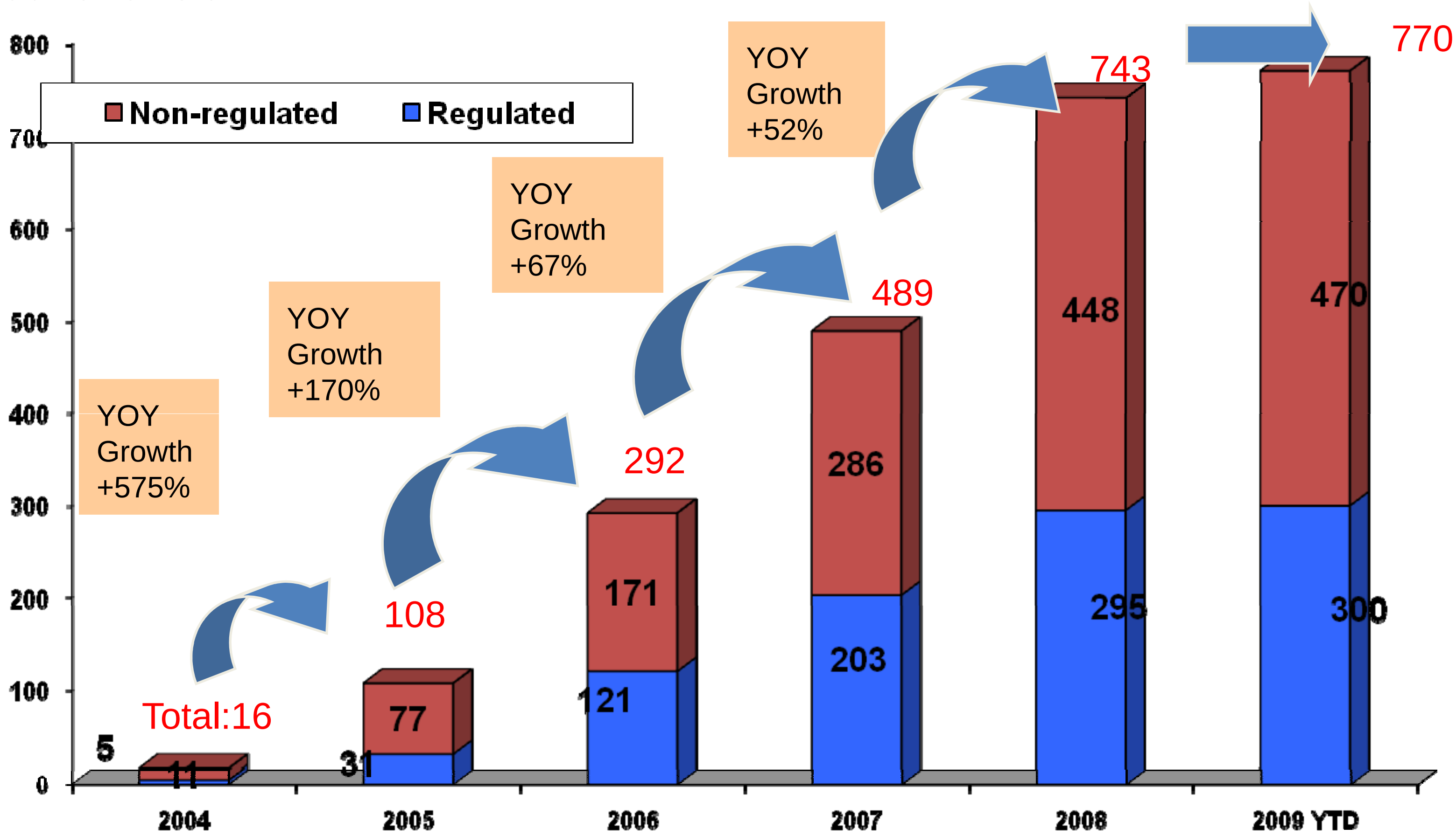
DIFC Resource Centre: Business Support Services

The Momentum

Yearly Growth in Number of DIFC Registered Companies

161% CAGR

Cumulative YOY Growth



Data as of Feb 28, 2009 ; Source: ROC Data, DFSA Register

DIFC Imperatives: a New Economic Geography

- GCC bloc emerging as economic and financial hub for MENASA region
- GCC Common Currency will emerge as a global currency alongside US$, Euro
- Invest, Manage and Control region's financial wealth of $2.6 trillion
- Financing Infrastructure & Regional Economic Integration
- Enable & support economic and financial reforms
- Development of a regional bond market
- DIFC building payment system infrastructure for $ and Euro payments
- Change in Global Economic Geography requires accompanying change in Global Financial Geography
- New Financial Markets will emerge from the meltdown


Thank you
DIFC | Dubai International Financial Centre