

ACCA





The views expressed in this presentation are purely of the presenter and does not represent the views of either the ACCA or Ministry of Finance.

Disclaimer : This is an informative Seminar and needs to be used as such. The topic is dynamic and the Presenter shall not be held liable for any business decision taken based on this session. Each Business & individual makes their decision on specific circumstances and the business environment at the time of decision making.



Current Economic Conditions: Uncomfortable Choices

ACCA -ICD Event
21 November 2009
Hamid Hamirani

Agenda

1. **The Problem of Indebtedness**
2. **The US Economy**
 - ▶ Problem of Government Debt
 - ▶ Problem of Credit
3. **The UAE Economy**
 - ▶ The year that was..2009
 - ▶ Fundamentals, Challenges and Outlook Ahead
4. **The GCC Economy**
 - ▶ The Oil Factor
 - ▶ Outlook
5. **Q & A / Discussion**



BOB, WHAT DO THE CURRENT ECONOMIC SIGNS LOOK LIKE OUT THERE?

WALL STREET



ECONOMY NEWS



...STILL MOSTLY MAGIC MARKER ON CARDBOARD...

CLOSED



NOT HIRING

LAI D OFF

EVERYTH MUST GO!

PLEASE \$

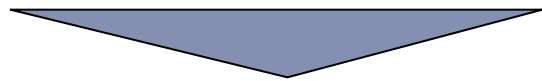
VAN HANDELSTAN NEWS

WORLDLESS RECOVERY



Looking Back before Looking Ahead..

- Irving Fisher (1867-1947)
wrote about the problem of over-indebtedness (Irving Fisher, 1933, *Econometrica*, "The Debt-Deflation Theory of Great Depressions").
- Over-indebtedness:
The difference between normal business cycles (recessions) and extreme business cycle fluctuations (depressions).
- Analysis of Great Depressions of 1837, 1873 and 1929



Uncomfortable conclusion: Major business cycle fluctuations caused by over-indebtedness and fall in asset prices.

Present Situation = No different!

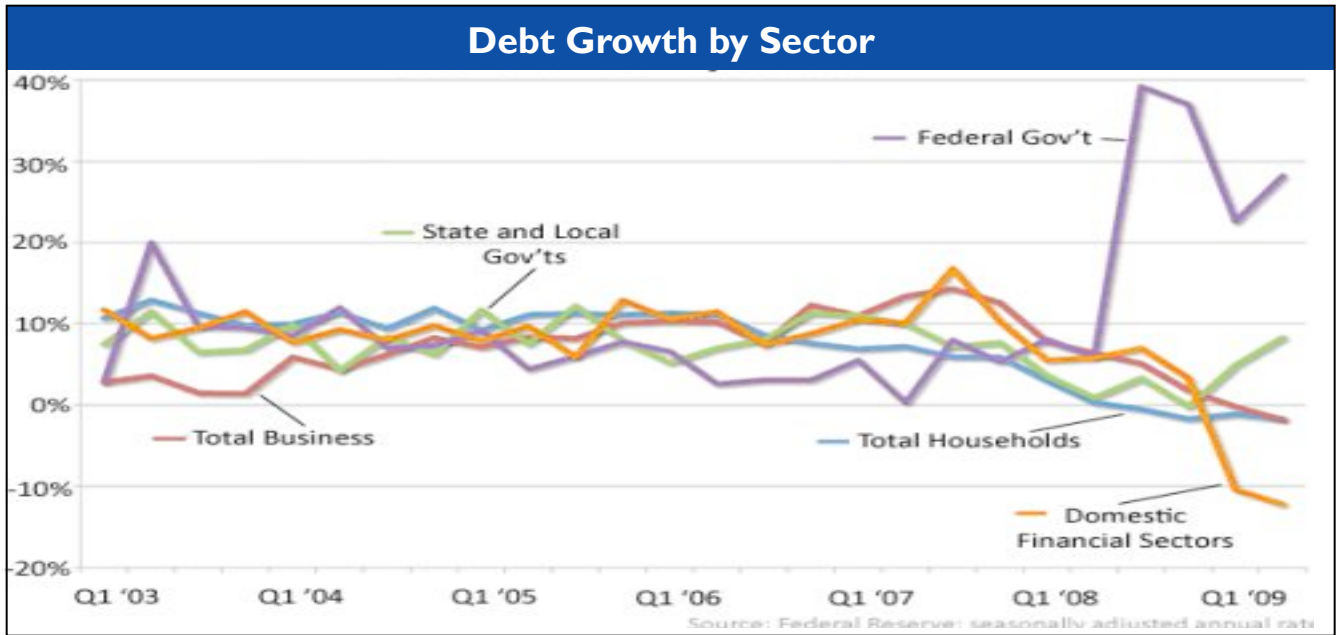




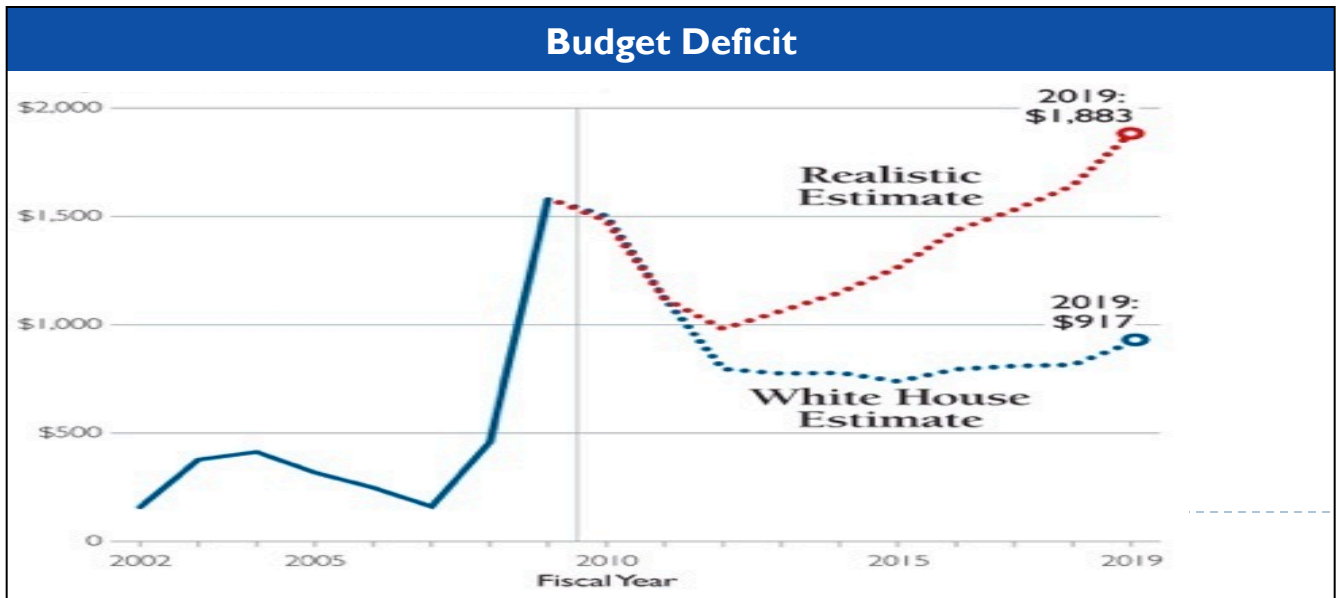
The US Economy

The Issues of Government Debt & Credit Growth

Over Indebtedness




- High growth in government debt
- Reduction in private sector debt



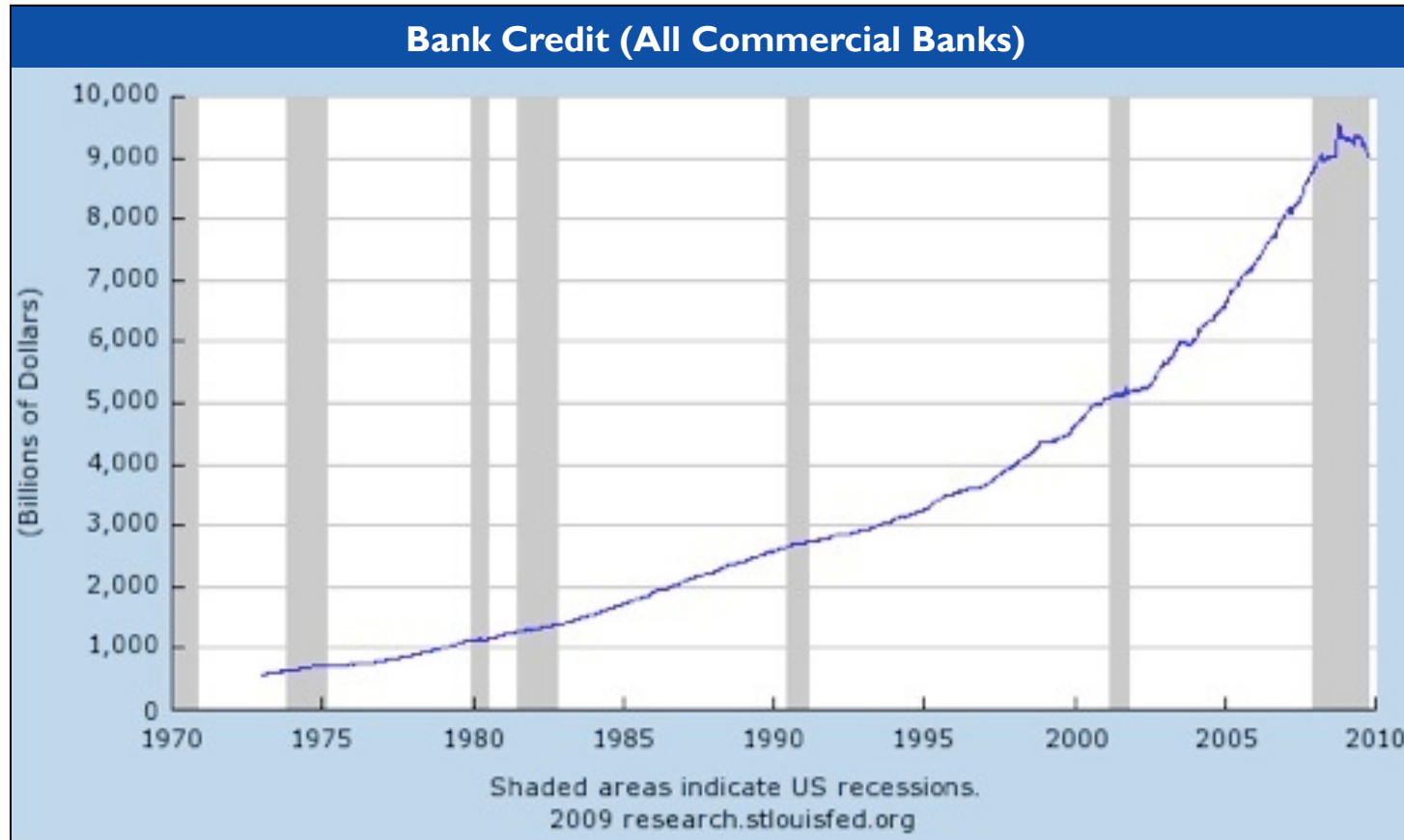
- US\$ 2 trillion budget deficit by 2019
- Where is the money going to come from?

Implications of Massive Government Debts

- ▶ The way out of the current crises is to create jobs and increase productivity.
- ▶ Government Deficits of \$1.5 Trillion  Servicing debts and not investments.
- ▶ In 1998, the US had a total debt- (government plus private) to-GDP ratio of 260%. Today it is 373%. The US has added over \$15 trillion in debt, yet total employment today is roughly where it was 9 years ago.
- ▶ How can the US find \$1.5 trillion each and every year?



Banks are lending less...



- Banks are investing their deposit base in risk-free Treasury debt
- Banks are reducing their loan portfolios in order to deal with the massive write-offs expected as commercial real estate prices have dropped to 30% from their peak

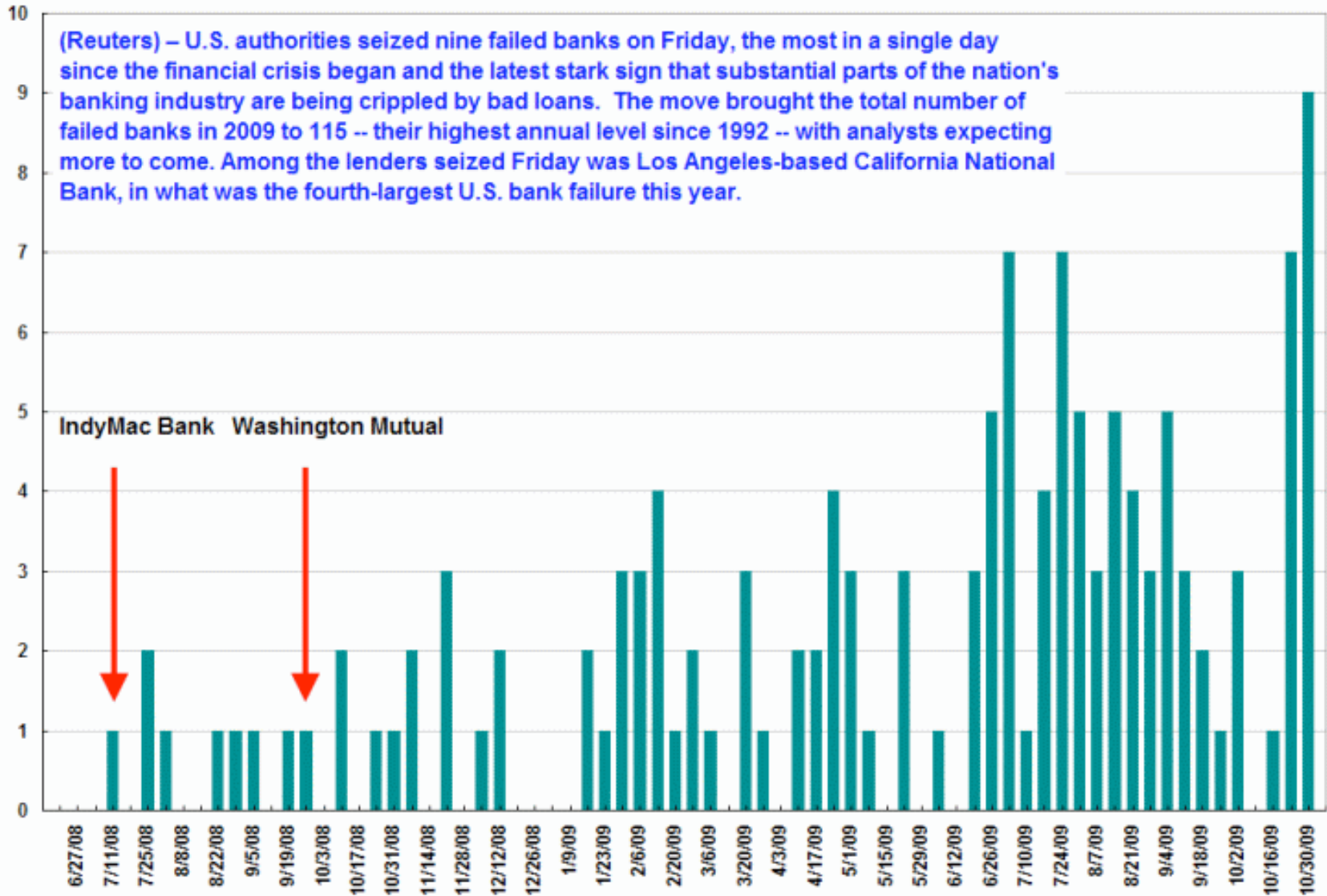
Not Lending...

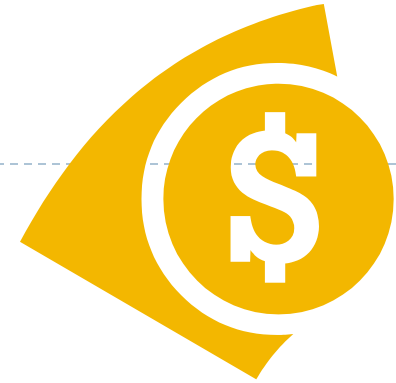
- ▶ **Where is the money?**
 - ▶ Returning back to the Fed and Treasury debts
- ▶ **Banks own 45% of commercial real estate loans compared to 21% single family loans.**
 - ▶ Have to raise capital and reduce loan portfolio's
 - ▶ Stricter guidelines on adequate capital reserve
- ▶ **Commercial Real Estate: Dropped 30%**
- ▶ **Chris Whalen: over 400 banks will fail in this cycle**



Bank Failures reported by FDIC

(Reuters) – U.S. authorities seized nine failed banks on Friday, the most in a single day since the financial crisis began and the latest stark sign that substantial parts of the nation's banking industry are being crippled by bad loans. The move brought the total number of failed banks in 2009 to 115 -- their highest annual level since 1992 -- with analysts expecting more to come. Among the lenders seized Friday was Los Angeles-based California National Bank, in what was the fourth-largest U.S. bank failure this year.



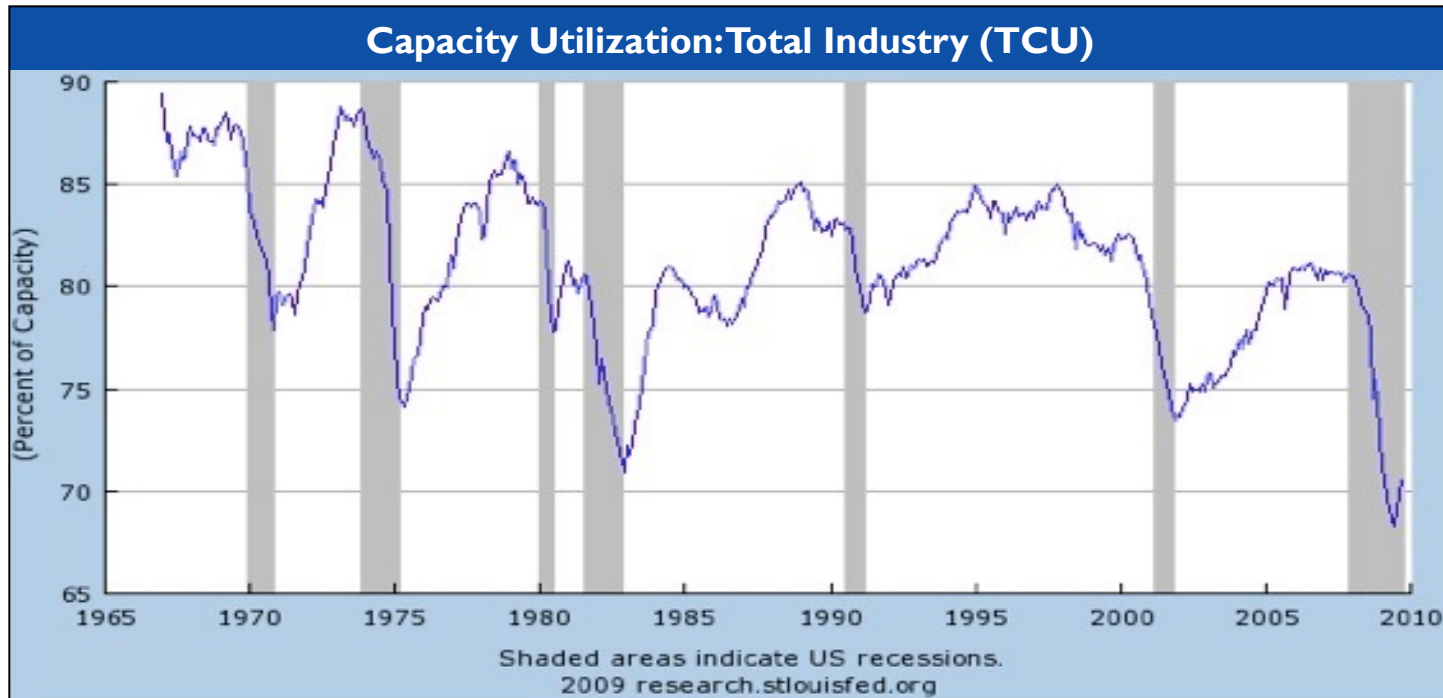


Other Deflationary Elements



Other Deflationary Elements

- Capacity Utilization

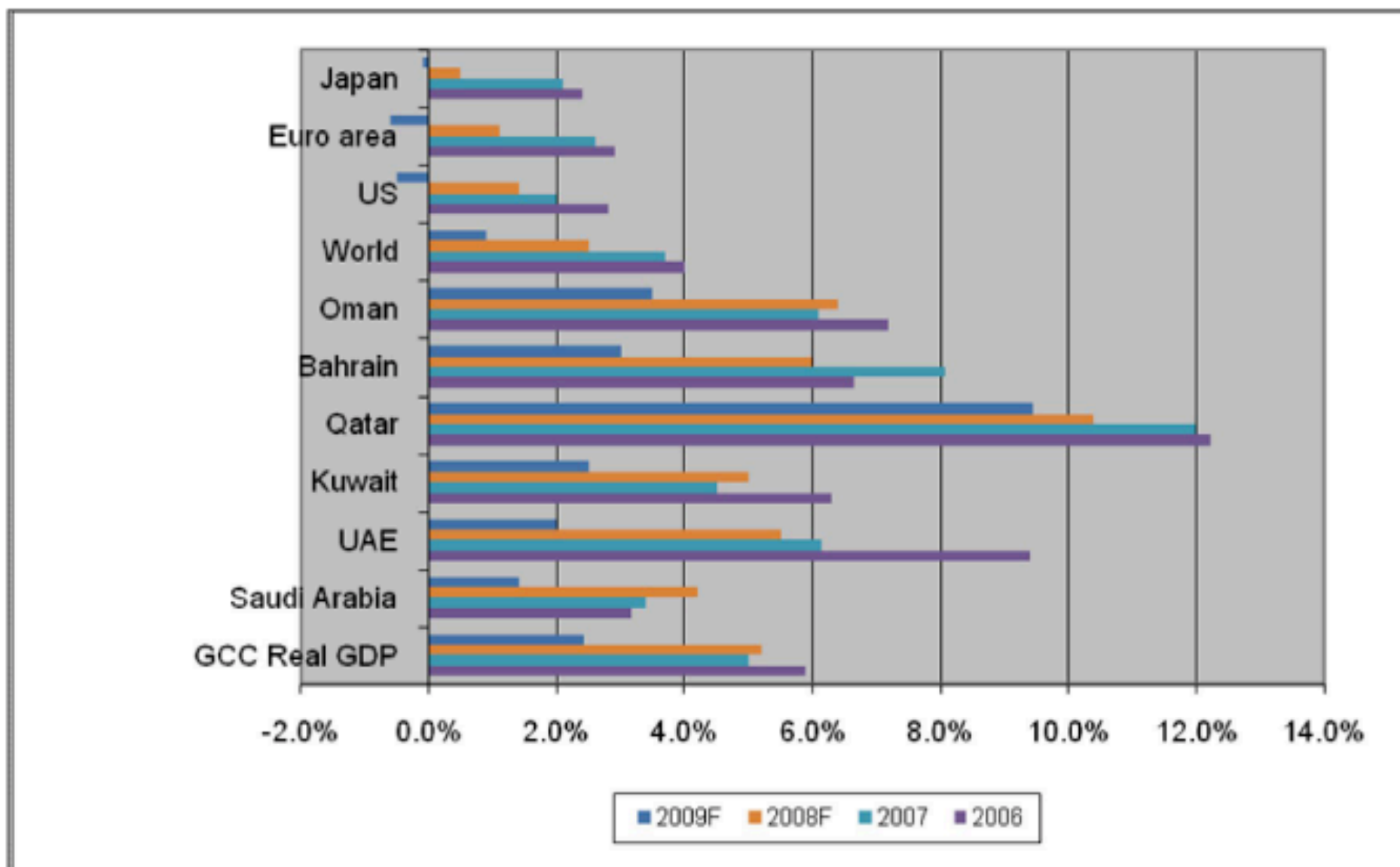


- Rising Unemployment:
 - 9.8% unemployment, 7% underemployed (temporary)
 - Only a few years ago, less than 1 in 16 Americans was unemployed or underemployed. Today it is 1 in 5.
- Decreased Final Demand Driven by Increased Savings
 - Savings Rate back to 3% with expectation that it will rise to 9% in 3-5 years (where it was 20 years ago)
 - Consumption habits and American psyche have changed drastically

THE UAE Economy

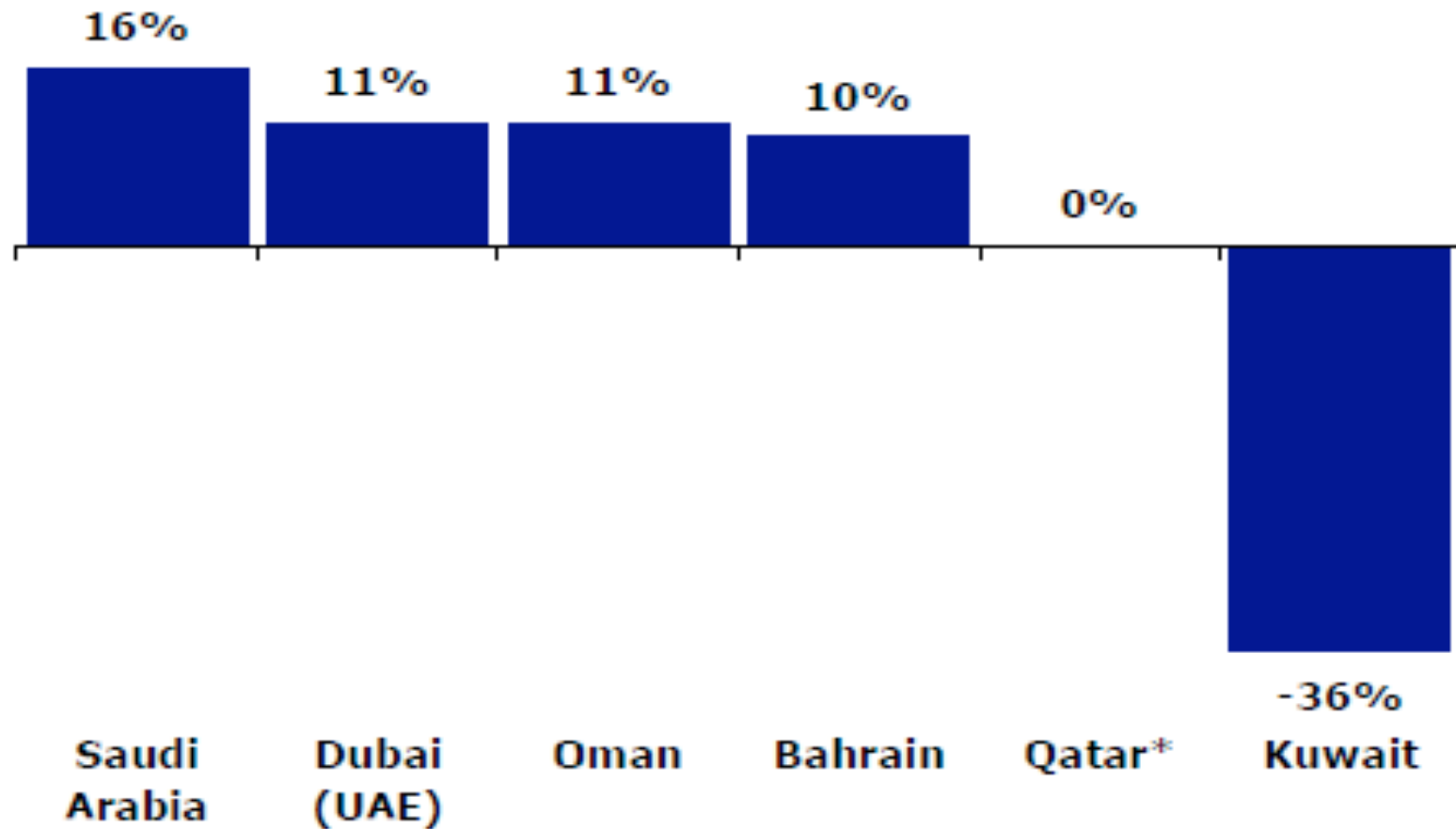
The Year That Was...2009

Chart: 01 Real GDP Growth Rates of GCC countries



*Estimates for GCC countries for 2008 & 2009 are Global's own estimates and for other countries are from World Bank Reports
Source: World Bank and Global Research*

Figure: 2 – Government Expenditure - % change 2009 Budget Vs 2008



Source: Central Government Websites, Press releases, Analyst Estimates

Note: Change in Qatar's government expenditure is based on analyst estimates



The Dubai Model – Lessons Learnt

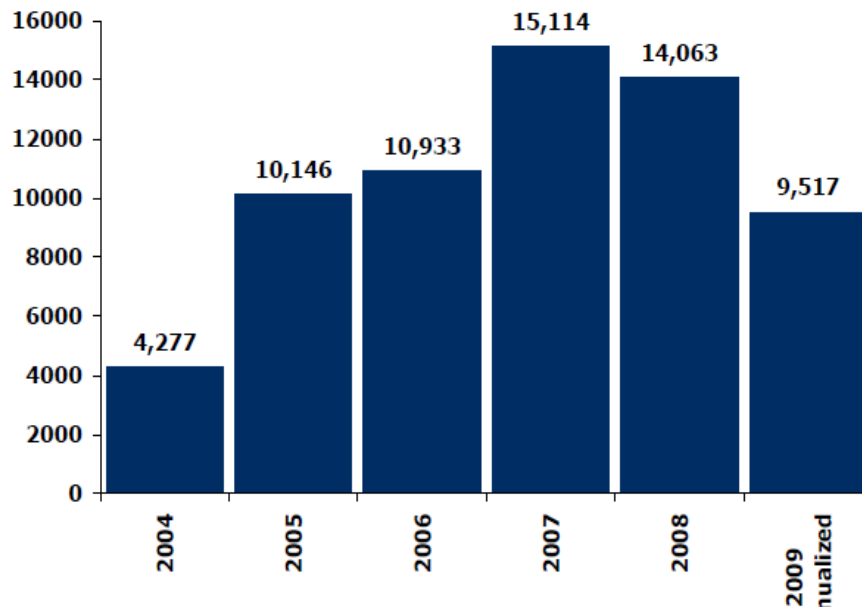
- ▶ **Successful Diversification of Economy**
 - ▶ 25% Non Oil Sector of GDP
- ▶ **Greater exposure to the global economy**
- ▶ **The Property Story**
 - ▶ Attracted investment inflows
 - ▶ Supported strong growth In consumer spending
 - ▶ Spiraled investment in construction activity



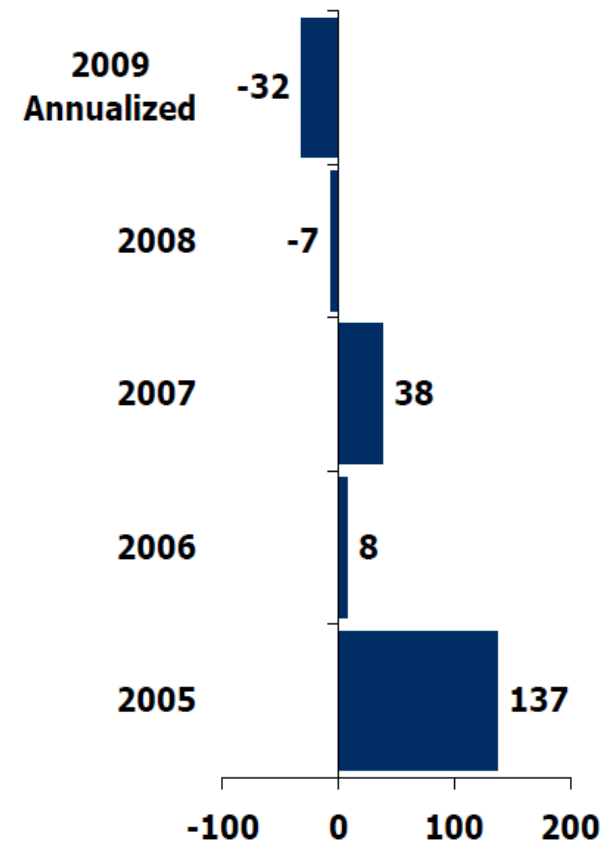
As a Result...

Decline in earnings continue, pace of decline intensifies

Yearly Earnings Trend (USD Mn)



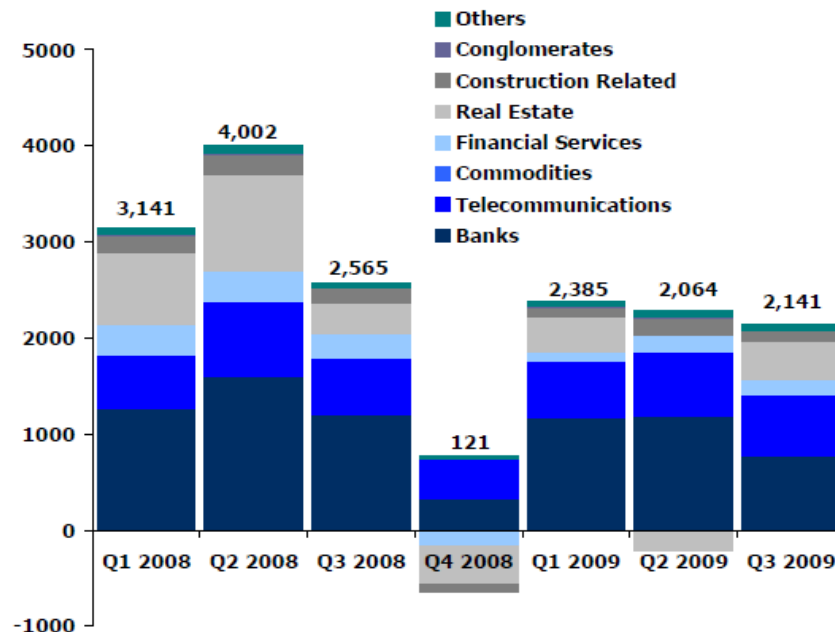
Yearly Earnings Growth (%)



- UAE earnings for 2008 was at USD 14 Bn. This was a 7% decline from 2007 levels.
- For 2009, annualizing the results of almost 70% of the companies that have come out with their 9M earnings so far indicates a total profit for UAE at USD 7.5 R4.
- This can be mainly attributed to the decline in banking earnings. Q309 bank earnings have witnessed a decline of 47%.

Banking Sector Follows..

**Quarterly Earnings Trend Sectoral
(USD Mn)**



- UAE banks posted a 1% growth in their earnings in 2008.
- The scenario worsened in the 9M 2009 period. The overall earnings growth for banks in the 9M 2009 period has been at -22%.
- The aggregate of two telecom players also show a decline of 2% in their 9M earnings on a YoY basis.

Top Companies –Sector-Growth Rate -9M 2009

Top Companies – United Arab Emirates - Banking

Name	Market Cap (USD Mn)	9M08	9M09	Growth
National Bank of Abu Dhabi	7,814	688	705	3%
First Gulf Bank PJSC	6,851	635	669	5%
Emirates NBD PJSC	6,401	NA	NA	NM
Mashreqbank psc	3,968	413	305	-26%
Abu Dhabi Commercial Bank PJSC	2,842	409	186	-54%
Dubai Islamic Bank PJSC	2,708	471	30	-94%
Union National Bank PJSC	1,965	365	254	-31%
Commercial Bank of Dubai P.S.C.	1,874	227	206	-9%
National Bank of Fujairah PSC	1,770	18	19	5%
Abu Dhabi Islamic Bank PJSC	1,663	200	191	-5%
United Arab Bank PJSC	1,601	50	56	12%

Top Companies – United Arab Emirates - Telecom

Name	Market Cap (USD Mn)	9M08	9M09	Growth
Emirates Telecommunications Corporation	22,503	1,957	1,864	-5%
Emirates Integrated Telecomm. Co. PJSC	4,029	-20	43	NM

Top Companies – United Arab Emirates- Real Estate

Name	Market Cap (USD Mn)	9M08	9M09	Growth
Emaar Properties PJSC	6,882	582	-107	NM
Aldar Properties PJSC	3,755	915	427	-53%
Sorouh Real Estate PJSC	2,144	494	127	-74%
Deyaar Development PJSC	1,148	NA	NA	NM
Union Properties PJSC	968	NA	NA	NM
Ras Al Khaimah Properties PJSC	387	89	88	-1%

Top Companies – United Arab Emirates – Construction Related

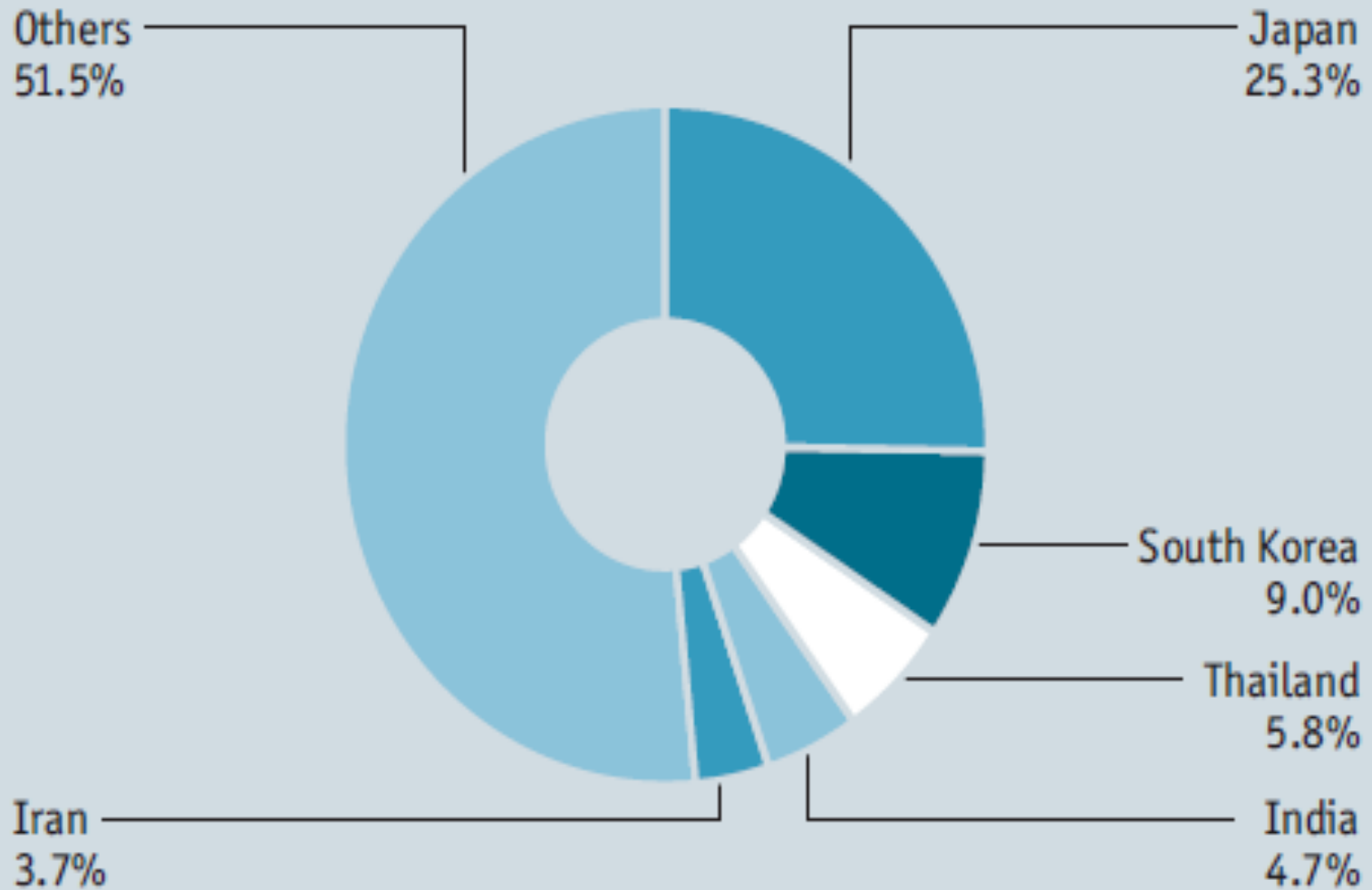
Name	Market Cap (USD Mn)	9M08	9M09	Growth
Arkan Building Materials Company PJSC	1,477	43	-2	NM
Arabtec Holding PJSC	990	207	139	-33%
Drake & Scull International LLC	593	NA	NA	NM
National Marine Dredging Company	463	NA	NA	NM
Gulf Cement Company P.S.C.	456	55	29	-47%
National Cement Company PSC	331	NA	NA	NM
Fujairah Cement Industries PSC	291	35	24	-32%
Ras Al Khaimah Ceramics Co.	284	42	53	27%
Tamweel PJSC	270	NA	NA	NM
Union Cement Company P.S.C.	262	25	27	5%

Note: Companies which have not declared their 9M09 results on the date of this report is marked as NA in both 9M09 column and 9M08 column.

THE UAE Economy

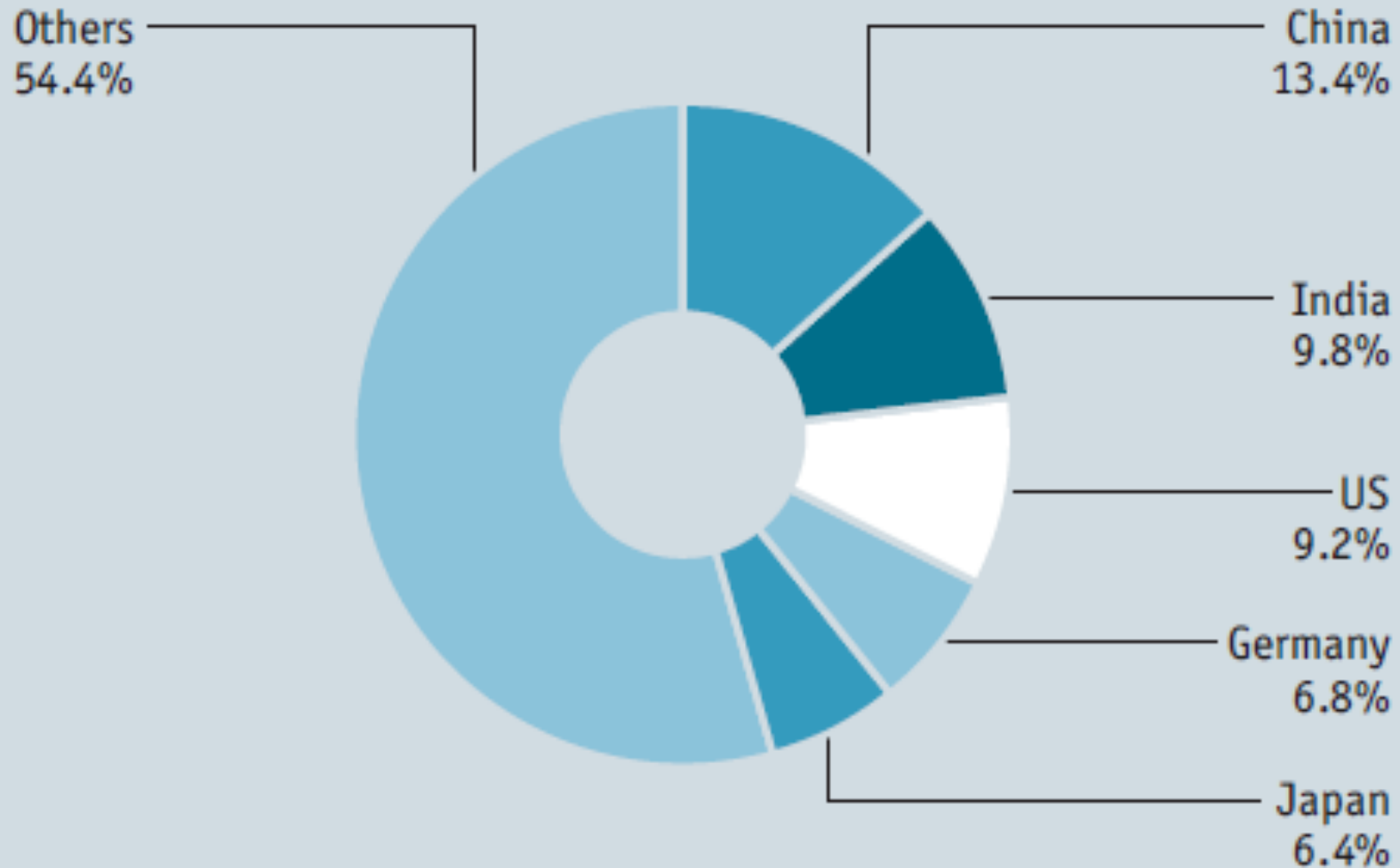
The Fundamentals, Challenges & Outlook Ahead...

Main Destination of Exports - 2008



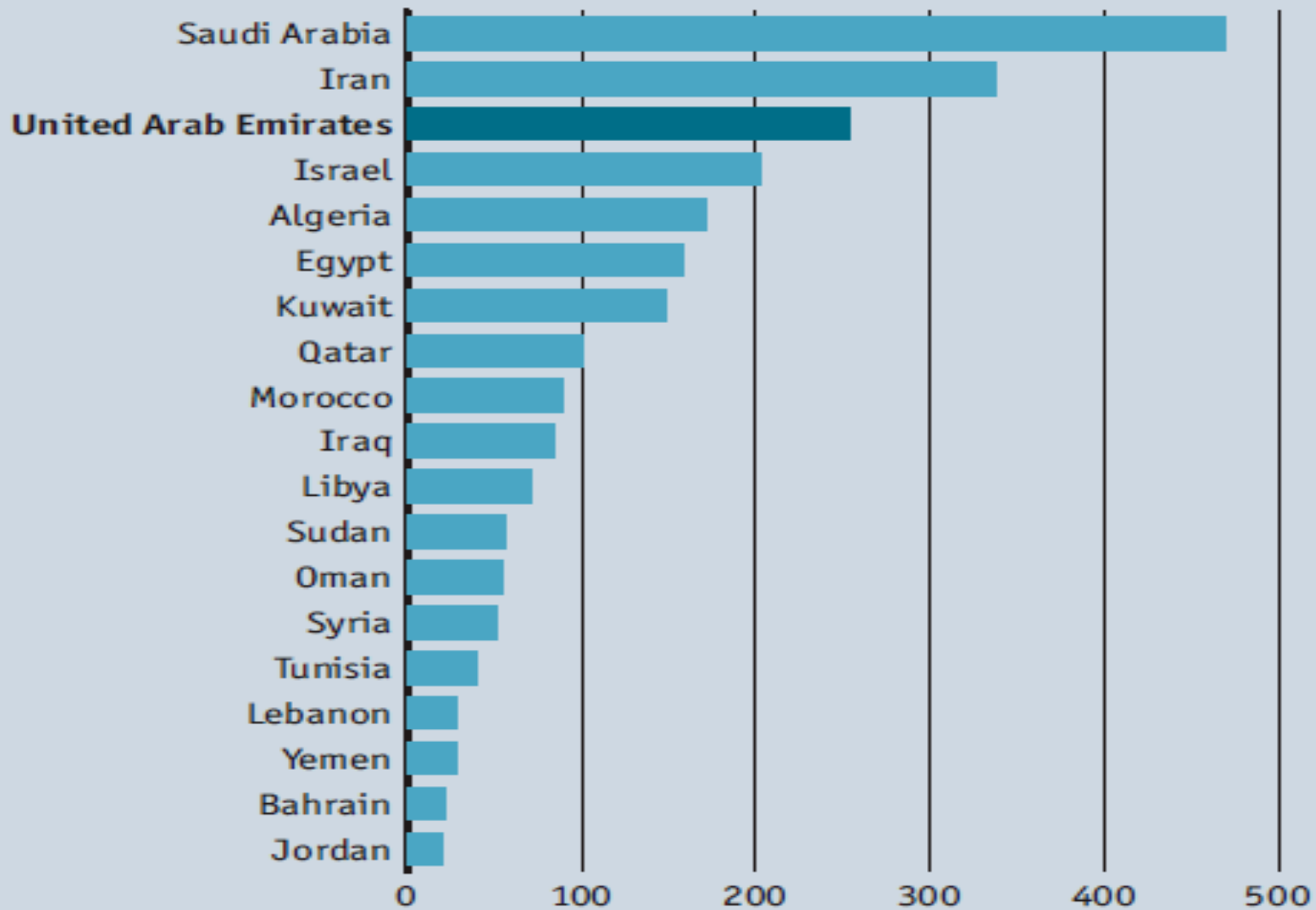
Source: Economist Intelligence Unit.

Main Origin Of Imports - 2008



Source: Economist Intelligence Unit.

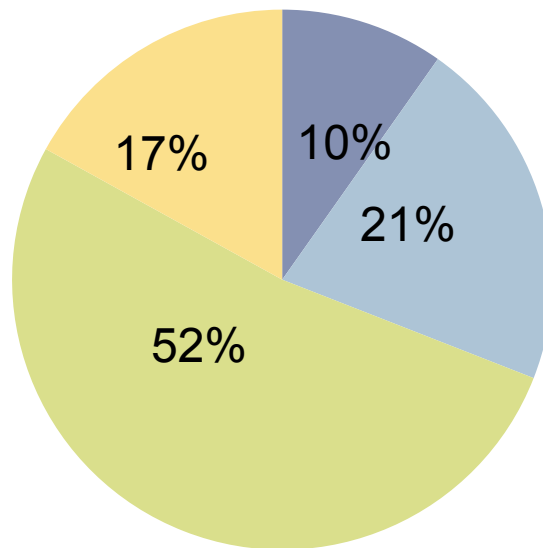
Gross domestic product (US\$ bn; market exchange rates)



Sources: Economist Intelligence Unit estimates; national sources.

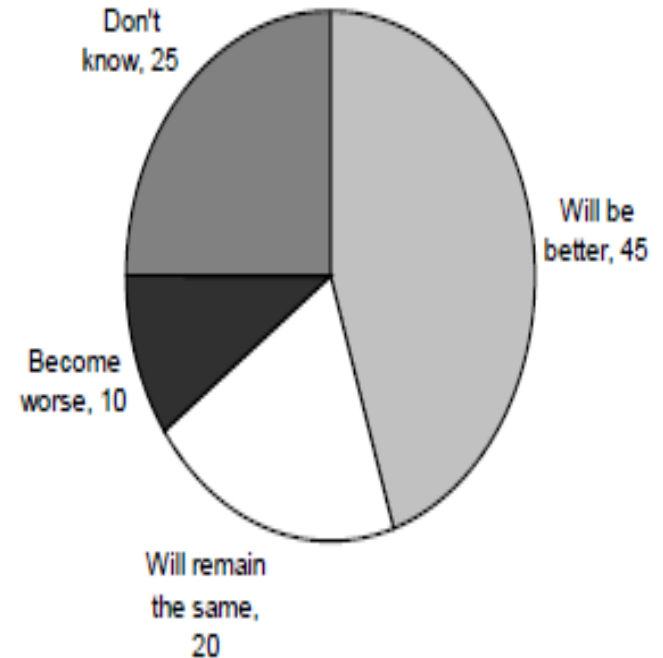
Consumption lead UAE GDP

- Government Spending
- Capital investments
- Private Consumption
- Others



Confused About The Future

Poll – In What Way Do You Think Your Financial Position Would Change In A Year's Time? (%)



Source: YouGov, Bayt.com



UAE Economic Challenges – Government Debts

- ▶ **2008: Dubai Total Debt burden = US\$ 80bn**
 - ▶ Dubai World Debt Liabilities = \$60bn
- ▶ **Refinancing ST loans with LT Debt**
 - ▶ Re-opening of International Capital Markets
 - ▶ Narrowing of spread on CDS (1000 to 300 basis points)
 - ▶ Positive Sign
- ▶ **Dubai's Access to Credit**
 - ▶ Recent Dubai International Capital (DIC) US\$550m loan
 - ▶ Sale of US\$ 2bn Five year Islamic Bond
- ▶ **Testing Times**
 - ▶ Refinancing Nakheel's US\$3.5bn Sukuk
 - ▶ Due December 14th 2009



UAE Economic Challenges – Power & Water

- ▶ **UAE's Rampant Recent Development (2004-2007)**
 - ▶ Sharjah Nominal GDP expanded by 125%
 - ▶ GDP growth in Northern Emirates between 73%-83%
 - ▶ Lack of coherent planning
 - ▶ Lack of consideration on impact on basic resources
- ▶ **Energy Policy – Subsidies – How long can they continue?**
 - ▶ Electricity prices fixed between AED 0.075-0.330 per kilowatt hour (kwh)
 - ▶ Fuel cost to generate electricity between AED 0.750-0.800/kwh
 - ▶ Private Sector Investment in Energy sector
- ▶ **Middle East per capita water availability**
 - ▶ Fall by half by 2050 to 550m³ /y (World Bank)



UAE Economic Challenges – Dubai Real Estate Scenario

- ▶ **Mixed reports on decline**
 - ▶ Colliers: 47%, Deutsche Bank: 52%, HESI:65%
 - ▶ **Stabalization and Increase?**
 - ▶ Colliers: 7% q-o-q increase in Q3 2009
 - ▶ HESI: 9% increase in six months since April
 - ▶ Deutsche Bank: 4% decrease in six months to October
 - ▶ **Transaction Volumes: Increased**
 - ▶ Colliers: 64% increase q-o-q in Q3
 - ▶ Improved Liquidity
 - ▶ Easing of loan-to-value
 - ▶ 3-Month Interbank rate (EIBOR) decline from 3.87% to 1.95% since Q1 2009
 - ▶ **Looking Ahead – 2010 will depend upon:**
 - ▶ Population Growth
 - ▶ Improvement in Loan availability
 - ▶ Increased Oil Prices
-



UAE Outlook: GDP Forecast

	2005	2006	2007	2008	2009f	2010f	2011f	2012f	2013f	2014f
Nominal GDP, AEDbn [1]	485.5	624.6	729.7	901.5	831.7	913.8	1,013.9	1,117.5	1,181.9	1,266.8
Nominal GDP, US\$bn [1]	132.2	170.1	198.7	245.5	226.5	248.8	276.1	304.3	321.8	344.9
Real GDP growth, % change y-o-y [1]	8.2	6.6	5.2	7.4	-2.8	3.6	5.7	6.0	4.0	5.5
GDP per capita, US\$ [1]	32,197	40,218	44,254	52,068	48,519	52,265	55,761	59,096	60,094	62,539
Population, mn [2]	4.1	4.2	4.5	4.7	4.7	4.8	5.0	5.1	5.4	5.5

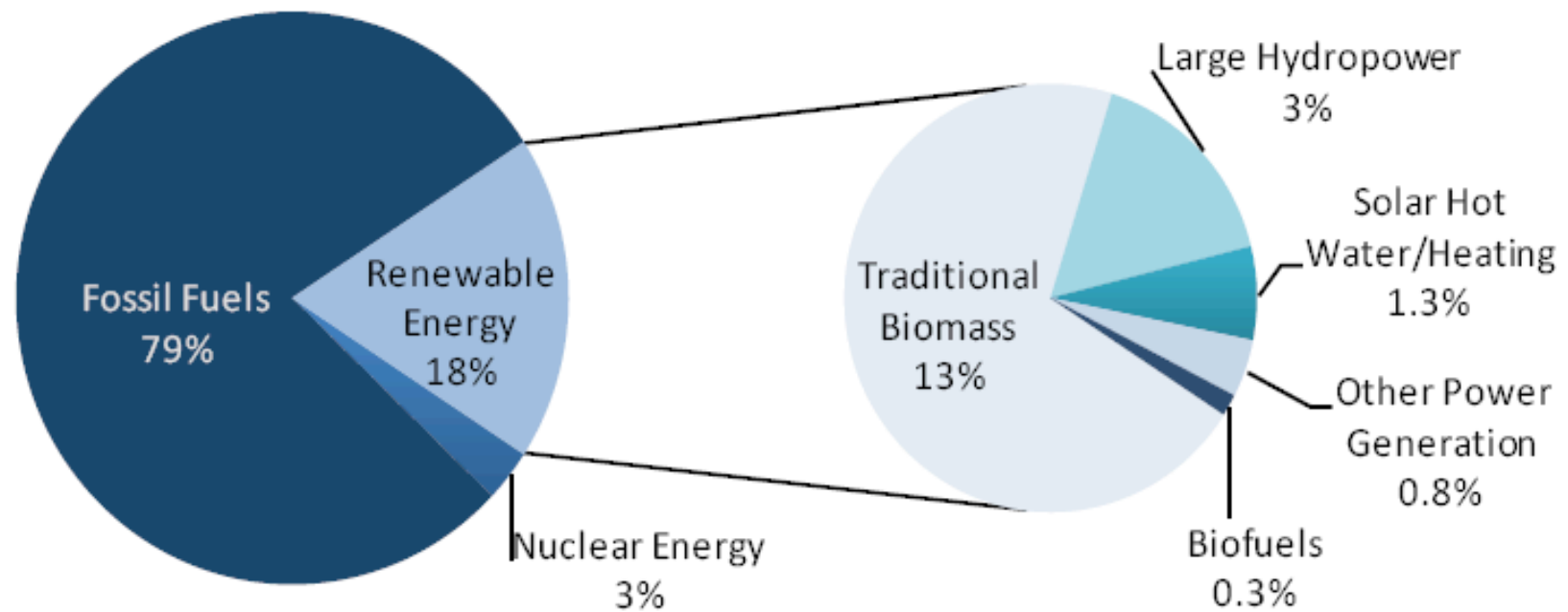
e/f = BMI estimates/forecasts. Sources: 1 UAE Central Bank/BMI; 2 Ministry of Economy.



THE GCC Economy

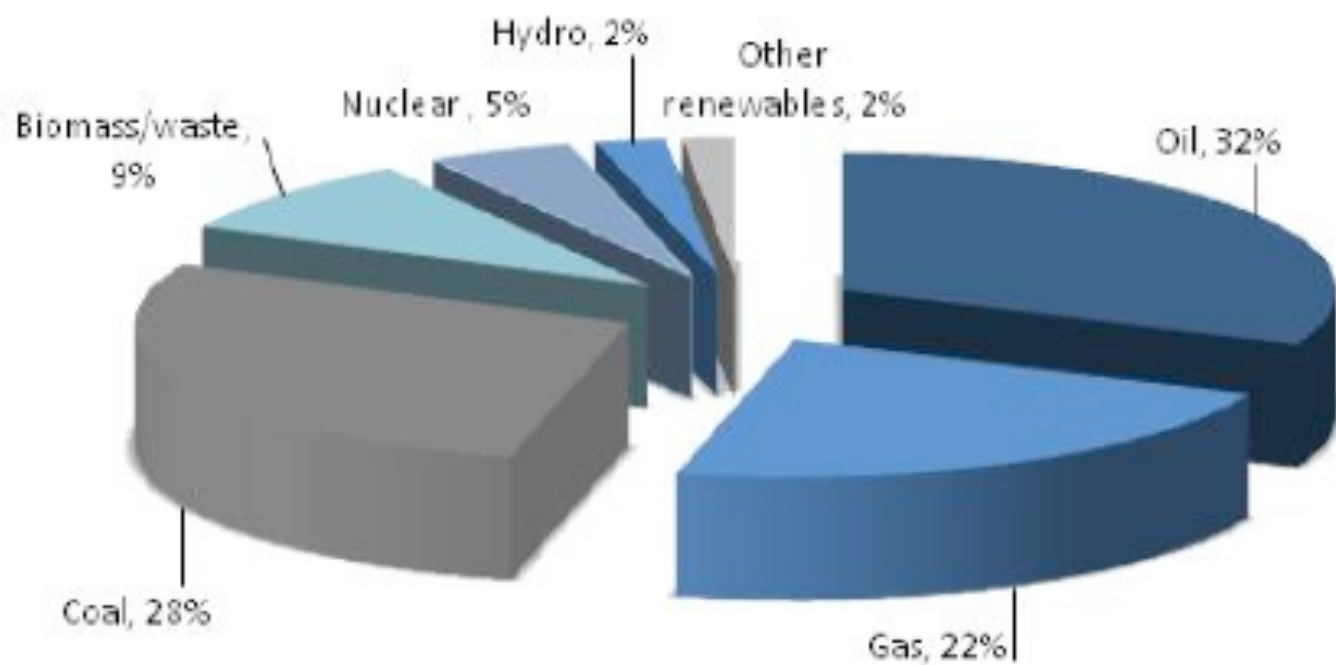
Oil Matters...

Global Energy Consumption 2006



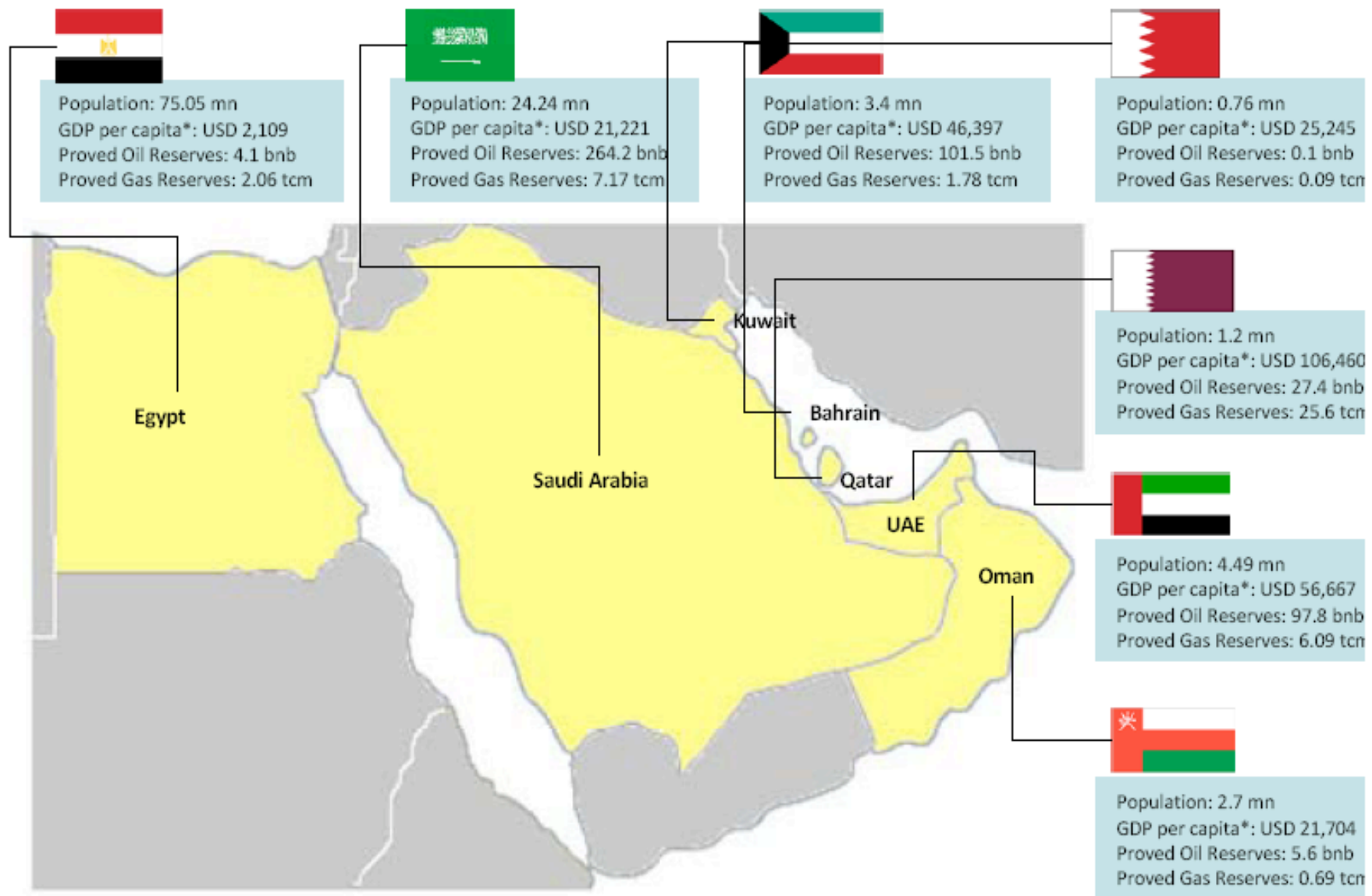
Source: OPEC World Oil Outlook 2008, Blominvest

%age shares of energy sources in Total Energy Supply (2030)



Source: OPEC World Oil Outlook 2008, Blominvest





Source: Blominvest

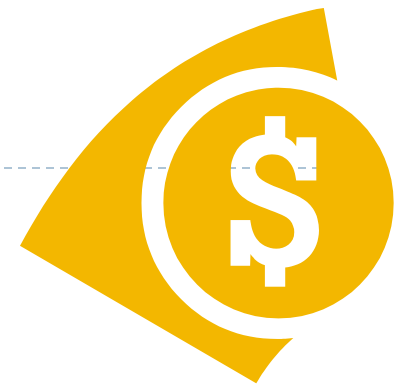
Breakeven Oil Prices

Public Finances and Breakeven Oil Prices

	Budget Balance (% of GDP)			Breakeven Brent Price (USD)		
	2007	2008E	2009F	Current	2008E	2009F
Abu Dhabi	25.5	31.3	6.6	45	31	40
Kuwait	40.6	27.8	13.6	45	42	NA
Saudi Arabia	16.9	24.5	4	45	50	54
Bahrain	2.2	5.2	-2.2	45	74	70

Source: Fitch





Economic forecast

World economy: Forecast summary

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP growth (%)										
World (PPP exchange rates) ^a	4.4	5.0	5.0	2.8	-1.3	3.2	3.4	3.8	4.0	4.1
World (market exchange rates)	3.6	4.0	3.8	1.7	-2.5	2.3	2.3	2.8	3.0	3.0
US	3.1	2.7	2.1	0.4	-2.4	2.4	1.1	1.9	2.3	2.3
Japan	1.9	2.0	2.3	-0.7	-6.2	1.3	1.0	1.1	1.0	0.9
Euro area	3.5	3.0	2.6	0.6	-4.1	0.8	1.0	1.5	1.8	2.0
China	10.4	11.6	13.0	9.0	8.2	8.6	8.4	8.5	8.2	8.2
Eastern Europe	5.6	7.3	7.3	4.7	-6.0	1.6	3.5	4.1	4.2	4.1
Asia & Australasia (excl Japan)	7.2	7.9	8.7	5.5	3.7	5.7	6.3	6.5	6.4	6.5
Latin America	4.9	5.6	5.5	3.9	-2.9	2.7	3.3	3.7	3.8	3.9
Middle East & North Africa	6.4	6.1	5.6	6.0	0.8	4.4	4.4	4.8	4.7	4.9
Sub-Saharan Africa	6.6	6.6	6.8	4.5	-1.7	3.0	4.9	5.0	4.9	4.9
World trade growth (%)	7.5	9.1	7.5	3.6	-9.4	3.7	4.6	5.2	5.7	5.9
World inflation (%; av)	3.0	3.2	3.4	4.9	1.2	2.1	2.6	2.8	2.8	2.9
Commodities										
Oil (US\$/barrel; Brent)	54.4	65.4	72.7	97.7	62.0	74.0	70.0	80.0	82.5	89.5
Aluminum (US\$/tone)	1,900	2,594	2,661	2,621	1,671	1,951	2,017	2,100	2,250	2,350
Copper (US cents/lb)	167	306	322	316	226	281	299	300	305	310
Gold (US\$ /troy oz)	445	604	697	870	960	1,044	976	900	850	825
Exchange rates (annual av)										
¥:US\$	110	116	118	103	94	90	89	88	87	86
US\$:€	1.25	1.26	1.37	1.47	1.40	1.42	1.40	1.42	1.44	1.45

^a PPP = purchasing power parity

Source: Economist Intelligence Unit.



Uncomfortable
choices..

Uncomfortable Choices

- There are no good choices. If the right thing is done and the deficits are cut, it means very hard choices:
 - Can the Developed World keep its commitments to two wars and its massive defense budget? Medicare and Social Security reform are not painless. Education? Research? The "stimulus"?
 - But cutting the deficit by hundreds of billions while raising taxes by even more than is already in the works, is not the formula for sustainable recovery.
 - We are in a deflationary, deleveraging world. A far different world than in the past.
 - The markets can remain irrational or complacent for a lot longer than most of us think. It could be years. Or not.
 - This is not a prescription for a return to normal growth. We are headed for a New Normal that is less than what the market currently believes.
 - Can we Muddle Through? We have no choice but to do so.
 - But it will not be fun. It will not be long-term 5% growth and employment going back to 6% any time soon.
 - Can we reverse the course? With a different attitude, maybe we can. But it won't happen next year, and it's unlikely in 2011.
-



1

2





Mr. Hamid Hamirani, FCCA

+968 99359852

hamirani@accamail.com

ACCA

