



Saudi Arabia unaffected by Dubai debt woes

The debt problems in Dubai will have little impact on Saudi Arabia. Saudi banks have minimal exposure to the affected companies in Dubai and the direct impact on the Saudi economy will be small. Confidence about the unique dynamics of the Saudi economy meant that the stock market was largely unscathed.

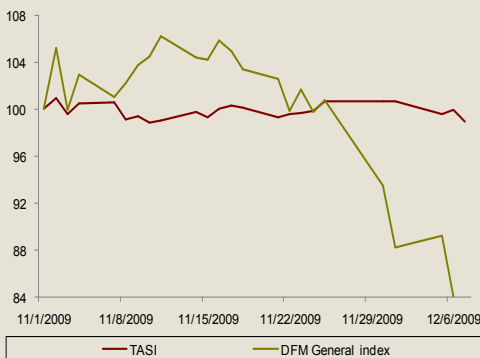
On the first day of trading since Dubai World announced a standstill on its debt repayments, the TASI fell by only 1.1 percent, albeit on very low volumes. On Sunday, the TASI rose before falling back on Monday after another sharp fall on the Dubai stock market. Saudis are permitted to invest in the Dubai stock market and vice versa. It is therefore possible that some Emirati investors cut their holdings of Saudi shares to cover losses at home. However, this would not be significant enough to have an impact on the market as their holdings are small (non-Saudi GCC investors accounted for 1.2 percent of total trade by value on the Saudi stock market in November). Non-Emirati GCC investors were responsible for just over 5 percent of total trades by value on the Dubai Financial Market in September (latest data).

Saudi banks have very little exposure to Dubai World. The SAMA governor put the exposure at just 0.2 percent of total assets. Of Dubai World's total liabilities of \$59 billion, only those of its property companies, Nakheel and Limitless (worth a combined \$26 billion) are being restructured. It is possible that some Saudi banks hold the sukuk issued by Nakheel, but this will only be a very small proportion of their total investment portfolios.

We do not expect serious direct fallout on the Saudi economy. Companies working on projects in Dubai may see some impact and questions are likely to be raised about the projects that Dubai government-backed enterprises are working on in the Kingdom. The only project being undertaken by one of the affected real estate companies is Limitless' \$12 billion Al Wasl real estate development in north Riyadh, which is currently at the infrastructure construction stage. UAE developer Emaar, while owned by the government of Dubai, is not part of Dubai World. We therefore do not think that work on the King Abdullah Economic City, being undertaken by its local subsidiary, Emaar Economic City, will be affected. Other Emaar projects in the Kingdom (Khobar Lakes and Jeddah Gate, both in early stages of construction) are potentially more vulnerable to developments in the UAE real estate market.

No data is available on Saudi real estate ownership in Dubai. Anecdotally, we do not think that Saudi investors are heavily exposed. Furthermore, investors in individual units have already seen property prices fall sharply and therefore almost certainly

Relative stock market performance
(November 1 = 100)



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suffered the bulk of their losses before the debt standstill. The same applies for those Saudi companies that financed developments in Dubai.

More generally, Saudi businesses in Dubai will be exposed to a likely renewed downturn in the local economy. Prior to the standstill there had been signs that confidence was returning (notably, property prices had risen and the exodus of expatriate workers during the summer was far lower than had been expected), but this process has been set back. As a result of the renewed troubles in Dubai, the IMF has said it is likely to revise down its real GDP growth forecast for the UAE as a whole from 3 percent to around 2 percent.

A final potential implication of what happened in Dubai for Saudi companies is in the sukuk market. Saudi companies have been looking at sukuk as an alternative source of finance, given the reluctance of commercial banks to lend. A \$3.5 billion sukuk issued by Nakheel, due to mature in mid-December, is set to be the first major sukuk default. This will provide a serious test for the mechanism for resolution of legal issues around sukuk and if not handled smoothly and equitably could complicate sukuk issuance for local companies. Investors will also insist on clarity of government support for part- or fully-owned government companies after the government of Dubai distanced itself from the debts Dubai World, contrary to the assumption of many investors.

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