

# Saudi Arabia and Gulf Economies: the storm is over but clouds persist

**F**ollowing a period of historic turbulence and instability as international market values reset in the wake of a global downturn, an updated briefing from one of Saudi Arabia's most noted chief economists was met with some anticipation. A year since his last presentation, Dr John Sfakianakis' characterful and engaging presentation of what is often viewed as 'a rather dry subject', always provides a demystified view of what is really going on!

Having recently moved from The Saudi British Bank (SABB) to Banque Saudi Fransi, Dr John warmed the audience with a light-hearted introduction, and explained that his role had now further developed from local to regional Chief Economist.

In response to possibly one of the most poignant concerns today, Dr John started by describing the impact of the slump in the UAE and in particular, Dubai. The second half of 2009 saw Gulf losses and over-leveraged conglomerates impact markets the world over. Further recent news of certain companies in Dubai letting go of their ratings agencies was the latest in a series of shockwaves to expose vulnerabilities many had thought could never strike here. Notwithstanding Dubai's significant

PR capabilities, these stories led to a swathe of negative reputational testimony that would take some time to heal, in particular with reference to bailouts and the role of sovereigns. In fact, in many instances economists worldwide were having to rethink their models.

Many had perhaps naively viewed the Gulf as 'decoupled' from other economies; it never was, but some Gulf states had long deserved greater recognition. This was now a time for the more robust Gulf economies incorrectly seen as an offshoot of the UAE (Saudi and Qatar in particular) to be re-evaluated. After all, there was a quantitative and qualitative difference between them and Dubai, which actually only represented 2.8% of total GCC output.

One of the main concerns in the Gulf was the "mine is bigger syndrome" or Duplication Predicament. Too many regional states were vying for the same achievements at the same time - financial centres, towers, low cost air carriers, artificial islands, F1 - not everyone could become the "the regional hub". With characteristic flourish, Dr John took the audience through an insightful 'weather report', showing the macro economic health of countries in the Middle East.



by Alex MacDonald-Vitalie

Under "Fine", stood Qatar which continued to outperform with Gas driven growth and Egypt which had shown resilience. The same too for Jordan, although 2010 might present some challenges. Stronger than expected, Lebanon continued to defy economics models, and Syria, well it still wasn't connected to real world so could truly claim decoupled status.

A "Partly Sunny" outlook persisted over much of the Gulf - in Kuwait, parliamentary politics crippled progress, and a slowdown in Bahrain continued alongside a period of recovery from name lending fallout. The same went for Saudi, although 2010 would be better if still a little slow while Banks remained cautious.

Unsurprisingly, "Cloudy" remained over Iraq with persistent security vulnerabilities, and the UAE as Dubai exerted downward pressure on whole of its economic performance. Oman was still slow, but the Yemen, between regional instability, corruption and de-development definitely maintained a "Snowy" outlook!

In the West, some analysts had begun to talk of 'green shoots' and an upturn, but Dr John explained that for now, we could not expect a V-shaped recovery. The economic slowdown was likely to continue while private sector demand remained subdued, and while US consumers refrained from spending, the continuing impact would likely be felt until the end of 2010 at least. From an EU

