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EM Special Publication

MENA in 2010

Economics

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The Middle East and North Africa (MENA) region outperformed EM in 2009 with GDP growth at an estimated 2.1% against -4.6% for EMEA with only two out of our seven MENA countries likely to have recorded negative growth.

We see more than a doubling in MENA growth in 2010 to 5%. This is largely the result of higher oil prices and production on the back of a more supportive global backdrop. The continuation of substantial investment spending, particularly in Abu Dhabi, Qatar and Saudi Arabia is also a factor.

But despite the acceleration in growth expected for 2010, the disconnect between sovereign and corporate creditworthiness that became evident in 2009 will remain. Corporate balance sheets remain stretched and the Dubai World debt restructuring has severely dented investor confidence.

The GCC were not alone in corporate debt restructurings last year but the lack of transparency continues to stand out. None of the GCC countries publish external debt data and corporate balance sheets are often out of date. The validity of assumed implicit sovereign guarantees for regional corporates has now been severely questioned as has the practice of name lending.

We see four key risk for the region in 2010 namely a double dip recession in advanced economies, rising inflation, restricted access to capital markets and protracted USD strength. Dubai looks to be most vulnerable to all risks and Egypt the least vulnerable.

No GCC corporate has yet tapped international capital markets since the Dubai World announcement and as yet no major redemptions have come due. The February 16th redemption of the USD750mn Emirates Bank Eurobond, the June 27th USD1.25bn DIC loan and the first USD2.1bn tranche of the Dubai World loan will be closely watched. With no further information on the Dubai World restructuring other key dates to watch are March 31st when the USD1.2bn Limitless loan would have come due and May 13th for the AED3.6bn Nakheel 2010 sukuk.

MENA: Key Economic Forecasts (2010)*

	Bahrain	Kuwait	Oman	Qatar	Saudi	UAE	Egypt
GDP (USDbn)	21.6	116.8	59.6	98.9	403.4	242.0	239.2
Real GDP (%)	3.7	3.1	3.8	18.0	4.1	3.7	5.4
CPI (% eop)	2.0	3.2	2.9	0.0	5.0	3.5	8.8
C/A (% GDP)	6.2	25.4	4.8	10.6	9.7	4.4	-1.8
Fiscal Bal. (% GDP)	3.7	17.8	3.9	9.5	3.6	12.7	-8.5
Govt. Debt (% GDP)**	-	6.9	-	31.4	10.0	36.9	85.4
External Debt (% GDP)	-	23.5	-	56.7	19.6	74.7	13.6
NFA (USDbn)	-	418.1	-	114.4	424.3	435.5	-

*Source: Haver Analytics, IMF, DB Global Markets Research. *Forecasts for Kuwait, Saudi, UAE and Egypt are DB, Bahrain and Oman are IMF, as is Qatar real GDP forecast. **Govt. and external debt data here are 2009 estimates, not 2010. All Egypt data are FY2009/10.*

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Overview

Macro Outlook

Our sample of the Middle East and North Africa (MENA) region outperformed EM in 2009 with GDP growth at an estimated 2.1% against 1.6% for EM with only two out of our seven MENA countries likely to have recorded negative growth last year, namely Kuwait and the UAE[1]. The region suffered similar declines in trade volumes and credit extension as that seen across EM but large buffers from the earlier oil windfall allowed governments to continue with investment projects and to spend their way through some of the slowdown. Monetary policy remained accommodative with interest rates at historic lows in line with the US Federal Reserve and regional central banks injecting liquidity as necessary. But similar to other major oil exporters, the region saw a substantial decline in nominal GDP last year, down to an estimated USD859bn for the GCC from USD1055bn in 2008 and we do not expect these losses to be fully recouped until 2012. Despite the 38% average decline in oil prices last year the GCC did, however, remain a net saver with a combined 2009 C/A surplus of USD57bn or 6.6% of GCC GDP versus 22.9% in 2008. .

Despite the outperformance in headline GDP, the MENA corporate landscape came under severe stress in 2009. Announced debt restructurings were in the region of USD50bn, with Dubai and Saudi Arabia dominating. In May 2009 Kuwait's The Investment Dar became the first GCC-based sukuk issuer to default, followed shortly after by Bahrain-registered Golden Belt (an SPV established exclusively to issue sukuk for Saudi Arabia's Saad Group). The Saad-Algosaibi default is thought to involve around USD22bn in debt held by banks regionally and internationally and the Dubai World restructuring was announced at USD26bn, dropping to USD22bn after the Nakheel '09 sukuk was repaid. The GCC were not alone in corporate debt restructurings last year with companies globally defaulting on external debt, but the lack of transparency stands out. Dubai World has yet to issue any information past the initial six-month standstill request and the refusal by Saudi authorities to help international banks negotiate with the companies, or indeed to allow disclosure of exposure by their own banks, has not helped the situation. The transparency problem is exacerbated by the fact that corporate balance sheets across the region are often out of date and none of the GCC countries publish external debt data.

The disconnect between sovereign and corporate performance is highlighted by the substantial ratings downgrades last year for GCC corporates versus no ratings downgrades for any of the sovereigns (Dubai does not have a published rating). In Dubai, the corporate downgrades reflected the changing assumptions from rating agencies on implicit sovereign guarantees. But outside this, the downgrades were simply a reflection of deteriorating creditworthiness.

MENA growth should more than double to 5.1% in 2010. Our DB baseline sees global growth rising to 4% in 2010, from -1.2% in 2009, thanks to a rebound in inventories, a reduced pace of deleveraging, continued fiscal stimulus in H1 and an improving labour market. This provides a favourable backdrop for an acceleration in MENA growth in 2010. Oil prices and production have picked up from the 2009 lows and recent data show that the pullback in new lending is easing. We expect MENA growth to more than double to 5.1% in 2010 with the GCC at 5.0% from 1.2% in 2009. A more supportive global backdrop and pick-up in regional growth should help corporates in 2010. But the fact remains that balance sheets are stretched and the debt restructuring at Dubai's Union Properties and Gulf Finance House in Bahrain in the past week mean the trickle of bad news continues. Moreover, the approximately USD15bn extended by the Dubai Financial Support Fund (DFSF) has not done much to increase transparency either. Nakheel for example now owes the DFSF USD4.1bn to cover the December 2009 redemption. USD liabilities have not gone down but we have no information on when Nakheel must repay this financing or the interest rate being charged.

Key risks for MENA in 2010

We identify four key risks for the region this year.

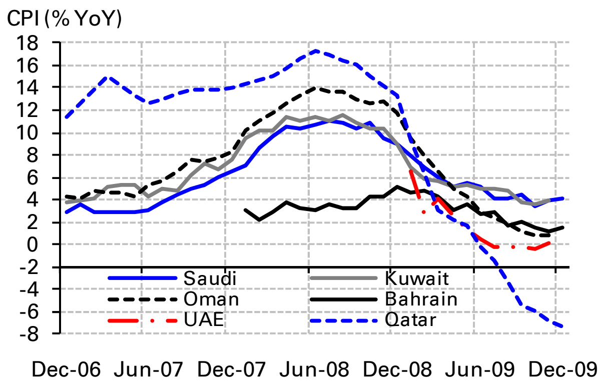
1) Double dip recession. With oil still dominating GDP across the region (ex Egypt), the main risks to our growth forecasts stem from any double dip in US/global growth which drags down oil production and prices. A reduced liquidity spillover from oil would also mean lower deposit growth, which, given the impaired access to capital markets would do nothing to help a rebound in credit growth. In such a scenario we would expect governments to turn up the fiscal taps but with capital spending already high there is a limit to how much more could be channeled into investment projects in the short term. This

[1] We define MENA here as Bahrain, Egypt, Oman, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. The Gulf Cooperation Council, or GCC, is defined as Bahrain, Oman, Kuwait, Qatar, Saudi Arabia and the UAE.

may therefore mean current spending such as wages/salaries and subsidies rises instead.

2) Inflation. Similar to the rest of EM, the combination of rising food and commodity prices globally at a time when the disinflationary impact of last year's decline in prices drops out of the base leaves upside risks for inflation in 2010. Egypt is the exception here where sharp gains in local food prices through 2009 should mean base effects actually become more favourable in the course of this year. Saudi Arabia is probably most at risk. Inflation declined by less than the rest of the GCC in 2009 and with a sizeable fiscal stimulus effort still in place and a structural shortage of housing, any external inflation shock could quickly push CPI to uncomfortable levels.

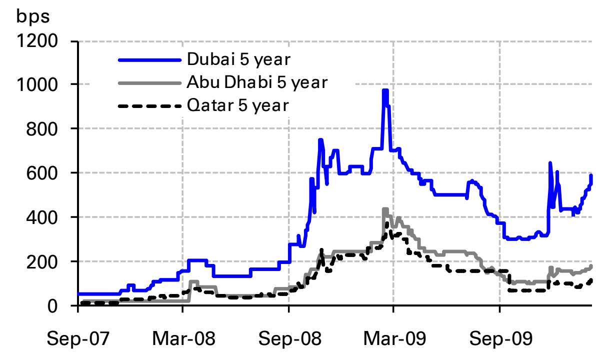
GCC: Inflation dropped sharply in 2009 but can it be sustained?



Source: Haver Analytics (Qatar data prior to January 2009 are interpolated from the quarterly series)

3) Capital market access. No GCC corporate has yet tapped capital markets since the Dubai World restructuring announcement. It is therefore difficult to know how much financing costs may have risen and to what degree access has been restricted. And even though the Nakheel '09 sukuk was eventually repaid, transparency has not improved in relation to the Dubai GREs or any other GCC corporates and investor confidence has been severely dented. In addition to this, while there were some initial changes to the legal mechanisms to resolve disputes related to Dubai World, it remains the case that we have not seen bankruptcy law tested in the region and there is no precedent on sukuk default. Abu Dhabi corporates raised USD10.1bn in Eurobond financing last year and the Government of Abu Dhabi another USD3bn. In Qatar, the sovereign was the largest Eurobond issuer in EM last year with USD10bn and Qatari corporates raised another USD3.75bn. Local banking sectors are not large enough to finance the diversification projects planned in the region during the coming years so any material increase in finance costs or reduced access to capital markets could well mean a reassessment of some of these projects with potential implications for growth. A reflection of the higher financing costs can be seen in the wider CDS spreads with Dubai CDS remaining around 215bps wider than the pre Dubai World announcement level, Abu Dhabi around 63bps wider and Qatar 40bps.

GCC: CDS spreads remain wider since the Dubai World restructuring announcement

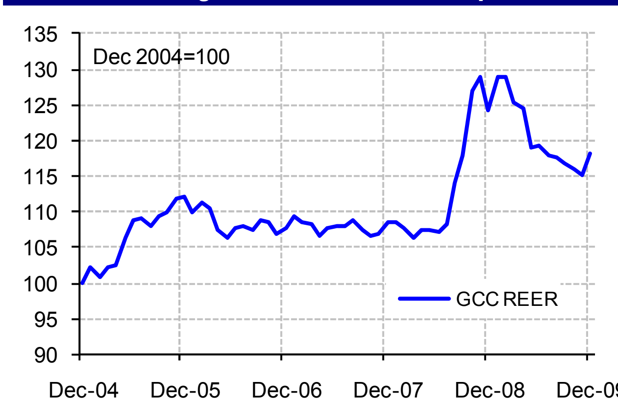


Source: DB Global Markets Research

Key maturities this year in Dubai outside those captured under the current May 30th Dubai World standstill are the February 16th USD750mn Emirates Bank Eurobond redemption, the June 27th USD1.25bn Dubai International Capital revolving loan and the first USD2.1bn tranche of the Dubai World loan on June 20th.

4) USD strength. Stresses related to sovereign risk in peripheral Europe have the potential to cause EUR weakness and see the USD strengthening beyond our 1.40/USD end 2010 baseline. With GCC countries increasingly diversifying, reduced competitiveness in the non-oil economy could complicate these plans. In Dubai, where oil accounts for only 2% of nominal GDP reduced competitiveness for the non-oil economy could be particularly harmful to the recovery.

GCC: USD strength could curb GCC competitiveness



Source: Haver Analytics, DB Global Markets Research (GCC is simple average)

Egypt Ba1(stable)/BB+(stable)/BB+(stable)

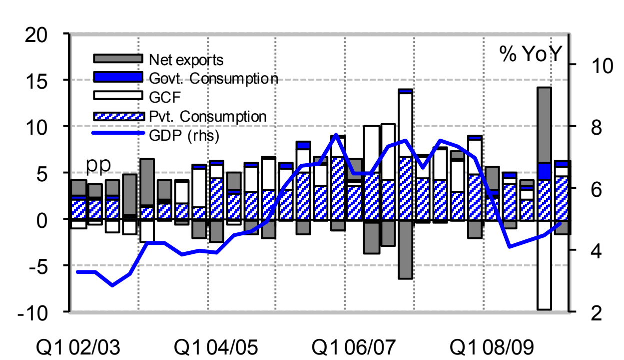
Moody's/S&P/Fitch

- **Economic Outlook:** GDP growth is continuing to move back towards pre-crisis levels, inflation looks to be easing again after the run up in local fruit and vegetable prices through 2009 and the C/A deficit remains comfortably financed. Deleveraging also looks to be easing which should provide an additional boost to domestic demand in FY2009/10.
- **Main Risks:** Comments from the authorities suggest the fiscal deficit could reach double digits in FY2009/10. While we expect this will continue to be financed through local banks the stalling in fiscal reform is worrying given the pickup in growth. The interest bill accounted for 21.8% of total spending in H1 FY09/10, up from 14.5% a year earlier, which adds an increasingly structural element to the deficit.

Macro View

Growth inching back to pre crisis levels. Now more than half way through FY2009/10 growth is gradually returning to the rates recorded prior to the onset of the global crisis. Q1 FY2009/10 saw GDP growth reaching 4.9%, the fastest pace in a year and we expect further acceleration through the coming quarters with our GDP growth forecast for FY2009/10 at 5.4%. With a relatively low level of openness (exports/GDP at 25%), Egypt will likely benefit less than others from the recovery in global trade but it is also true that domestic demand suffered less than most during the global crisis. Within domestic demand, private consumption will continue to dominate with the easing back in inflation boosting real incomes, and a public sector wage hike and a flattening out in unemployment both helping too.

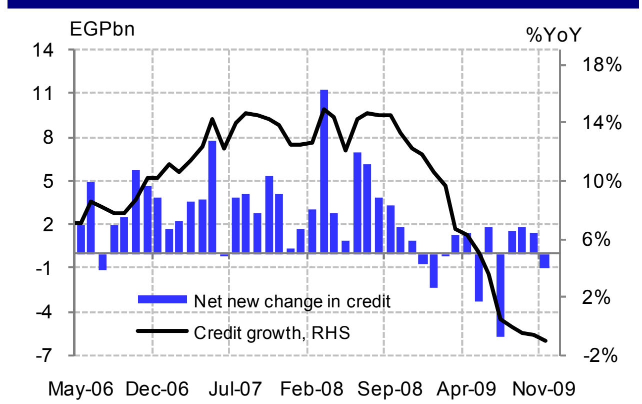
Egypt: GDP growth continues to pick up



Source: Haver Analytics, DB Global Markets Research (GCF includes stockbuilding)

With the global backdrop much improved, we do not expect the two consecutive negative contributions to GDP from investment to continue. FDI has been remarkably resilient in Egypt suggesting the drop in investment was domestically driven, though perhaps reflecting worries over the global economy. The investment climate should also benefit from improving credit conditions going forward. Following a sharp pull back in household lending through summer 2009, net new lending to households has been positive for four consecutive months now which could also prove to be an important support to growth if continued. Credit extension to corporates has been slower to recover but with the pace of deleveraging slowing this is still enough to provide a positive boost to domestic demand. The pullback in corporate credit was enough to mean overall net new lending dropped back into negative territory in November, the first negative reading since July, but the decline will still lower than those earlier in the year.

Egypt: The worst of the credit pullback appears to be over



Source: Haver Analytics, DB Global Markets Research (all numbers here are FX adjusted)

Monetary conditions should tighten without CBE rate hikes. With two consecutive negative MoM inflation readings through November and December (after an average monthly gain of 1.5% through February-October), Egypt will be hoping the worst of the inflation spike is now over. But since last year's inflation spike was dominated by sharp gains in local food prices, and in particular fruit and vegetables and caused partly by problematic distribution networks, it is difficult to know with certainty. Urban CPI ended calendar 2009 at 13.3% YoY with vegetables accounting for 41% of this, meat 15% and fruit 12% with the overall food contribution at 73%. The CBE had noted in last year's policy statements that this was not reflective of underlying price pressures in Egypt and continued to cut rates despite the run up in inflation. The October release of the CBE's core inflation measure has added greater transparency to the Bank's monetary policy decisions and we expect further transparency in 2010 with the release of quarterly inflation reports. Although not formally announced, PM Nazif mentioned a comfort level on core inflation of 6-8% suggesting inflation has been within target for the past six months. The CBE have left deposit and lending rates unchanged at three policy meetings now (November, December and February) leaving rates at 8.25% (deposit rate) and 9.75% (lending rate) respectively and ending an easing cycle which saw 375bps of cuts in the deposit rate and 325bps of cuts in the lending rate. Despite ex-post real rates remaining negative we do not expect the CBE are in any hurry to hike rates. The combination of more favourable base effects and the recent easing back in food prices will mean headline CPI begins to drop back into single digits around April. The combination of rising real rates and a continued gradual appreciation of the EGP will mean monetary conditions tighten without the need for the CBE to hike rates and we see the policy rate remaining unchanged through calendar 2010.

Fiscal risks remain high. Egypt's main macro worry continues to be on the fiscal side. The official target sees the deficit widening to 8.4% of GDP compared with 6.9% for FY2008/09 with revenues dropping to 19.1% of GDP and expenditures at 27.4%. Comments from policymakers suggest the deficit may be closer to 9-10% however. Data through H1 put the deficit at 4.9% of projected GDP compared with 3.5% in H1 FY2008/09 with the primary deficit almost doubling to 2.1% of GDP in H1 from 1.2% a year earlier. Revenues and grants dropped 26% YoY with expenditures down 6.8% YoY. Overall spending growth was limited by the decline in the subsidy component (the largest expenditure item at 26% of the total) given the decline in global food and fuel prices from H1 FY2007/08. Wages and salaries increased 14.1% due to a wage and pension hike and, importantly, the interest bill increased by 40% given the rising debt stock. Interest payments now account for 21.8% of total spending compared with 14.5% in H1 FY2008/09. On the revenue side, the largest decline was seen in income tax, down 27.7% while tax revenues declined by a smaller 8.5%.

The EGP21.4bn (USD3.9bn) widening of the fiscal deficit in H1 was almost entirely financed by increased commercial bank holdings of T-bills. With T-bill yields firmly above commercial bank deposit rates and likely to remain so, we do not expect financing problems as such. Nevertheless, with parliamentary elections in 2010 and presidential elections in 2011 we do not expect much improvement on the spending side. While the subsidy bill is expected to drop from last year levels it will nevertheless remain large at around 20% of total spending with fuel subsidies accounting for more than half of this. Measures to boost revenues such as the introduction of a real estate tax or VAT have yet to be implemented and planned dates remain unclear.

Egypt: Deutsche Bank Forecasts

	07/08	08/09	09/10F	10/11F
National Income				
Nominal GDP (USDbn)	162.7	188.2	239.2	277.9
Population (mn)	73.6	75.0	76.5	78.2
GDP per capita (USD)	2212	2509	3127	3554
Real GDP (%)	7.2	4.7	5.4	5.9
Priv. consumption	5.7	4.5	4.0	6.5
Govt consumption	2.1	8.4	6.2	4.5
Investment	15.5	-9.1	6.5	8.5
Exports	28.8	-12.8	12.0	10.0
Imports	26.3	-17.7	10.0	12.0
Prices, Money and Banking (eop)				
CPI (YoY%)	20.2	10.0	8.8	5.6
Broad money (M2)	15.7	8.4	13.0	13.5
Non-government credit	12.6	5.1	10.0	15.0
Fiscal Accounts (% of GDP)				
Budget balance*	-6.8	-6.9	-8.5	-7.5
Revenue	24.7	27.2	24.5	25.5
Spending	31.5	33.8	33.0	33.0
Primary balance	-1.2	-1.8	-2.5	-2.6
External Accounts (USDbn)				
Exports	29.4	25.2	29.2	32.7
Imports	52.8	50.3	60.4	68.9
Trade balance	-23.4	-25.2	-31.2	-36.2
% of GDP	-14.4	-13.4	-13.0	-13.0
Current account balance	0.9	-4.4	-4.2	-4.7
% of GDP	0.5	-2.4	-1.8	-1.7
FDI (net)	12.1	6.8	7.0	8.5
FX reserves (USDbn)	32.8	29.5	33.5	36.0
EGP/USD (eop)	5.33	5.59	5.35	5.30
Debt Indicators (% of GDP)				
Government debt	80.2	81.3	85.4	82.0
Domestic	66.9	67.4	72.4	72.0
External	13.3	13.9	13.0	10.0
Total external debt	20.8	16.8	13.3	11.9
in USD bn	33.9	31.5	32.5	34
Short term (% total)	7.4	6.7	6.7	6.7
General (% pavg)				
Unemployment	8.4	9.4	9.2	8.7
Financial Markets (eop)	*Current*	*3M*	*6M*	*12M*
CBE deposit rate (%)	8.25	8.25	8.25	8.25
CBE lending rate (%)	9.75	9.75	9.75	9.75
EGP/USD (eop)	5.45	5.37	5.34	5.32

*Source: CBE, DB Global Markets Research *Discrepancy reflects acquisition of financial assets.*

Kuwait Aa2(negative)/AA-(stable)/AA(stable)

Moody's/S&P/Fitch

- **Economic Outlook:** With the troubles at Gulf bank in late 2008 and the defaults at Global and TID shortly after, Kuwait's financial sector troubles peaked earlier than in other GCC countries. Monthly banking data suggests things are now improving, likely helped by last year's USD5.2bn financial sector stimulus package. And with oil prices and production now increasing, 2010 should look much better than 2009.
- **Main Risks:** Politics have restrained Kuwait's economic growth. The country held early elections in both 2008 and 2009 to avoid parliament bringing a variety of allegations against the PM although little has changed with each government. Reform bills and privatizations have often been sidelined and the diversification effort has suffered.

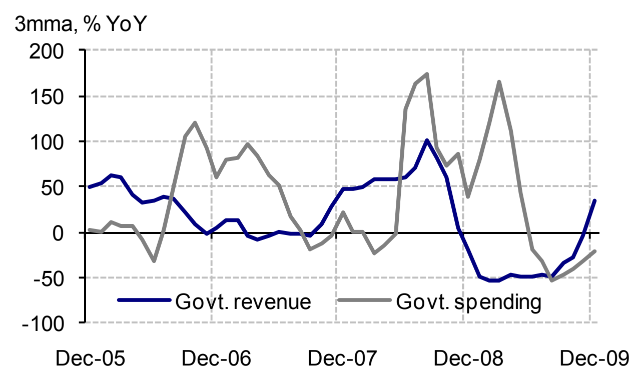
Macro View

Reform momentum at last. With one of the highest oil dependencies globally, 2009 likely recorded the worst GDP growth rates for a decade (we estimate -0.6%) through the combination of declining oil prices and production and limited efforts to boost the non-oil economy. While the cracks in Kuwait's financial sector have received less attention that the troubles in Saudi and the UAE, the crisis at Gulf Bank in late 2008 and the subsequent defaults at Global Investment House and The Investment Dar (TID) show that Kuwait's non-oil economy was far from immune to the global financial crisis. The recent parliamentary approval of the country's first development plan in more than two decades as well as the projected pick-up in oil prices and production and a restructuring agreement in place at Global should all mean that 2010 looks better.

The four-year development plan, worth USD104bn (or around 90% of projected 2010 GDP) is intended to turn Kuwait into a regional trade and financial centre and includes a new business hub (Silk City), a container harbor and investment into the country's oil sector. Diversification away from the oil sector has been slower in Kuwait than neighbouring countries both because of an unhelpful political environment which has seen several reform bills and privatization efforts thrown out, and also because of the lower urgency in Kuwait than in other Gulf countries since Kuwait has almost 100 years of oil reserves based on current production, the highest out of all the GCC. Reflecting the continued friction between the government and parliament, Moody's reduced the outlook on Kuwait's Aa2 rating to negative from stable last year although Kuwait managed to avoid an actual downgrade.

On the fiscal side, data through December show a KWD7.2bn (USD25bn) surplus in the fiscal year starting April 2009 compared with a KWD9.7bn surplus (USD35.4bn) through April-December 2008. Revenues were down 30.2% YoY through the nine months to December compared with a larger 34.9% drop in spending. Looking at December data alone shows revenues up 109% YoY with oil revenues up 114.4%. Expenditures are up just 0.1% however, with declines in several components. On a calendar-year basis, the budget surplus for 2009 stands at 10.9% of our projected GDP, the lowest surplus for a decade, with revenues and expenditures at 48.4% of GDP and 37.5% of GDP respectively. At an average surplus of 22.3% of GDP during the past 10 years (mirrored by an average C/A surplus of 29% of GDP), Kuwait's fiscal surpluses are higher than in any other GCC country and suggests Kuwait has significant scope to spend.

Kuwait: Fiscal revenue growth back in positive territory from December

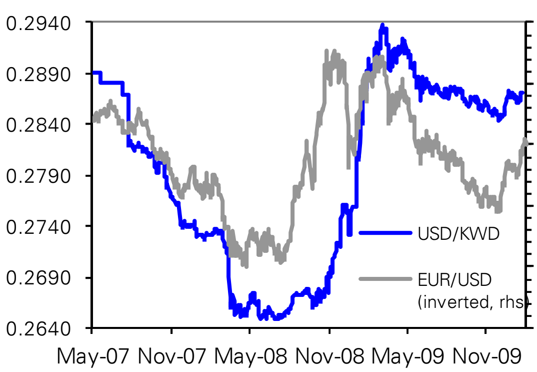


Source: Haver Analytics

Timely macro data is limited in Kuwait making it difficult to gauge the relative impact from the global and local troubles. Nevertheless, the decline in domestic demand last year can be seen in the sharp pull back in import growth with imports contracting 20.7% YoY through the first nine months of 2009. YoY data show three consecutive declines in imports, something not seen in Kuwait since 1999/2000 but that said, the drop back in imports is not worse than that seen globally. Exports were also unsurprisingly down substantially, standing at -45.6% YoY through the first nine months of 2009. With the turnaround in oil prices and production, exports are now moving back up in QoQ terms. With exports falling faster than imports the trade surplus narrowed in 2009 but at an annualized USD32.1bn, this would still be around 29% of GDP. On the banking side, while private credit growth has dropped back sharply to stand at 6.1% YoY in December (from a peak of 37.4% in January 2008) this is the highest in the GCC and Kuwait was the only GCC country with positive readings for net new credit every month between February and November 2009. This reversed in December, however, with MoM credit growth at -0.4% compared with a decline of -1.9% in Saudi Arabia and -0.9% in the UAE. We attribute the negative December readings to risk aversion related to the Dubai World restructuring announcement in late November rather than country specific factors. As such we do not expect this to continue outside the UAE. So with Kuwait's financial troubles peaking before its neighbours, Kuwait banking sector also looks to be recovering sooner which should have provided some support to the economy in H2.

Disinflation reducing KWD appreciation bias. Since moving back to an undisclosed currency basket in May 2007, moves in USD/KWD have ranged between a 9.2% appreciation and a 1.6% depreciation (relative to May 2007). This compares with a maximum 18.3% appreciation of the EUR during the same period and 7.8% depreciation. This is largely in line with our view that the CBK followed a basket with a slope or appreciation bias given the high inflation environment in Kuwait at the time of its introduction.

Kuwait: USD/KWD has not strayed much weaker than the May 2007 level



Source: Bloomberg

Inflation data are available only through April making it difficult to know whether Kuwait saw the same degree of disinflation as elsewhere in the GCC which could have influenced the bias in the currency basket. CPI stood at 5.2% YoY as of April, down from a peak of 11.6% in August 2008 with food prices down almost 10pp during the period (18.3% weight) and a 7.4pp decline in housing services (26.7% weight). With the YoY decline in global food prices through 2009 and continued weakness in Kuwait's property sector we expect disinflation to have continued through 2009 but inflation to have remained in positive territory. With our DB call for EUR/USD at 1.30 by end 2010 this would suggest some depreciation for KWD ahead but we expect the CBK would ensure this is limited.

Kuwait: Deutsche Bank Forecasts

	2008	2009E	2010F	2011F
National Income				
Nominal GDP (USD bn)	151.8	111.6	116.8	121.7
Population (mn)	3.4	3.5	3.6	3.7
GDP per capita (USD)	44095	31550	32403	32761
Real GDP (%)	5.4	-0.6	3.1	4.4
Oil sector	6.0	-3.0	2.5	3.5
Non-oil sector	5.0	1.0	3.5	5.0
Prices, Money and Banking (eop)				
CPI (YoY%)	9.0	3.9	3.2	3.5
Broad money (M2)	15.8	13.4	10.1	11.7
Fiscal Accounts (% of GDP)				
Budget balance	30.6	10.9	17.7	25.6
Revenue	57.2	48.4	53.2	60.6
Expenditure	26.6	37.5	35.5	35.0
External Accounts (USDbn)				
Exports	84.7	47.7	53.8	65.7
Imports	22.3	22.3	22.4	22.5
Trade balance	62.3	25.4	31.4	43.2
% of GDP	41.1	22.8	26.9	35.5
Current account balance	63.1	20.8	29.6	44.6
% of GDP	41.5	18.6	25.3	36.6
FX reserves (USDbn)	16.6	18.4	18.5	18.5
NFA (USDbn)	367.6	388.4	418.0	462.5
KWD/USD	0.28	0.29	0.29	0.30
Debt Indicators (% of GDP)				
Government debt	5.1	6.9	-	-
Domestic	5.1	6.9	-	-
External	-	-	-	-
Total external debt	16.9	23.5	-	-
in USD bn	25.7	26.2	-	-
General (pavg)				
WTI (USD/b)	99.7	63.6	65.0	80.0
Crude oil prodn (mnb/d)	2.3	2.0	2.1	2.1
Financial Markets (eop)	*Current*	*3M*	*6M*	*12M*
CBK discount rate	3.0	3.0	3.0	3.5
US Fed funds rate	0.25	0.25	0.25	1.25
KWD/USD	0.29	0.29	0.29	0.29

Source: Haver Analytics, DB Global Markets Research. Fiscal data here are calendar year.

Qatar

Aa2(stable)/AA-(stable)/NR

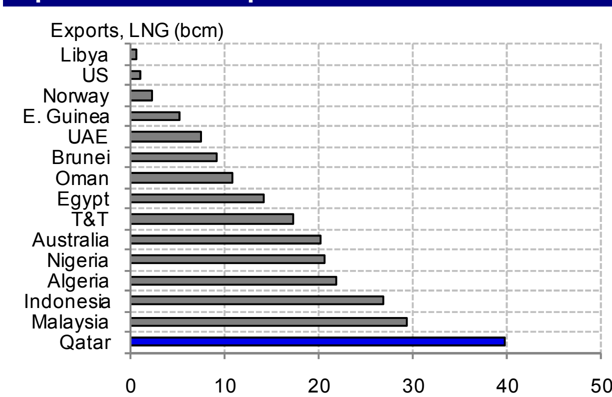
Moody's/S&P/Fitch

- **Economic Outlook:** Large increases in LNG production expected for 2010 should mean Qatar remains firmly at the top of the global growth league. Nominal GDP growth should also recover from the 2009 decline and could well mean Qatar becomes the richest economy globally this year in per capita terms.
- **Main Risks:** Qatar's ability to continue to absorb vast infrastructure spending is unclear. The sovereign issued more than 10% of GDP in Eurobonds last year, most of which was fresh financing. Large scale projects risk causing supply bottlenecks similar to 2006/07 and pushing inflation back into double digits.

Macro View

Top of the global growth league. Initial estimates from the authorities put real GDP growth at 9-11% for 2009 which should be easily one of the fastest globally. Qatar's efforts to reach an LNG production target of 77mn tonnes per annum played a large role with majority state-owned Qatargas seeing two of its mega trains becoming operational in 2009 (trains 4 and 5). 2010 is expected to see two more mega trains become operational from Qatargas as well as two mega trains from Qatar's other flagship LNG project, Rasgas, (trains 6 and 7). This should ensure another substantial increase in GDP growth in 2010 with the latest IMF projections at 18%. Qatar is already the world's largest exporter of LNG and with the third largest gas reserves globally (after Russia and Iran), potential for further development is vast. Although the breakdown of GDP is not yet available we expect non-oil GDP to also have remained positive in 2009 through the combination of government support into the banking sector and the liquidity spillover from the energy-related facilities.

Qatar: The country is already the world's largest LNG exporter and further production increases are to come



Source: BP Statistical Yearbook 2009

Despite double digit real growth, nominal GDP is expected have declined in 2009 with the drop in energy prices more than offsetting the volume gains. Data through Q1-Q3 show a 25.6% YoY decline in nominal GDP to an annualized USD78.5bn. We expect a QoQ gain in Q4 resulting in a smaller annual decline. Despite the drop in nominal GDP Qatar continues to have the highest GDP per capita in the region and ranks third globally, after only Luxembourg and Norway. With nominal GDP expected to increase in 2010, Qatar is well positioned to move into first place to become the richest economy globally in per capita terms.

A decade of fiscal surpluses. With some energy revenues accruing directly to the Qatar Investment Authority and not to the budget, Qatar's fiscal surpluses are more subdued than otherwise may be assumed given the volume gains. Nevertheless Qatar has recorded a fiscal surplus every year since the fiscal year ending March 31 2001 and although a deficit is projected for the fiscal year ending March 2010, data through the first six months of the fiscal year show a surplus was maintained at an annualized USD5.7bn (around 6.2% of GDP). Qatar, like several other neighbouring economies, has consistently underestimated oil revenues with a budgeted oil price of USD40/b for the current fiscal year, down from a USD55/b budget assumption in the previous fiscal year. We expect the full year budget to record a surplus of around 8.3% of GDP with outperformance on the revenue side. The budget for fiscal year ending March 2011 has yet to be announced but with revenues likely to remain high we expect expenditures to remain elevated too, focusing on infrastructure and education in line with Qatar's 2030 National Vision.

Qatar: Government budget projects a deficit for FY2010, surplus much more likely

% GDP	2006	2007	2008	2009	2010b*
Revenue	31.8	33.2	32.2	41.8	19.0
Oil & gas	29.2	29.3	27.6	33.6	14.6
Tax	0.1	1.8	2.4	4.3	1.9
Other	2.5	2.2	2.2	3.9	2.5
Expenditure	24.6	25.9	23.2	29.3	20.3
Capital	8.7	6.7	9.2	9.8	8.1
Current	15.9	19.2	13.9	19.5	12.1
Govt balance	7.2	7.3	9.0	12.5	-1.2

*Source: Qatar authorities. *budget projections*

External issuance was the largest in EM last year. Qatar raised USD10bn in sovereign Eurobonds in 2009 (USD3bn in April and USD7bn in November), the largest from any EM sovereign last year. The funding was intended to a) provide contingency funding to any state owned entities, b) to fund infrastructure projects and c) to fund continued growth in the hydrocarbon sector. In addition to this, RasGas (70% owned by state-owned Qatar Petroleum) also issued USD2.24bn in multi tranche bonds in July. Balance of payments data are not yet available for 2009 but we expect that a C/A surplus was maintained albeit smaller than the average 11% of GDP for the three years previously with high import growth on the back of infrastructure projects. Gas revenues overtook those of oil in 2008 and given the volume gains in gas in 2009, this should be even more pronounced when last year's data becomes available. With the C/A in surplus, Eurobond proceeds were not required to plug any financing gap and instead should have accrued directly to reserves. Qatar does not publish any detail on the capital account but the USD6.8bn increase in FX reserves between Dec 08 and Oct 09 (and therefore before the November USD7bn issue) suggests the capital account and overall BoP saw a substantial surplus.

Deflation unlikely to continue in 2010. Qatar's inflation environment turned around sharply in 2009 on the back of deflation in rents. Headline stands at -10% YoY as of Q4 09 compared with 13.2% YoY a year earlier with the rental and housing maintenance component at -21.4% YoY from 13.7% a year earlier. And with a 31.3% weight in the index, rents have contributed -6.8pp of the decline in headline CPI compared with a 4.4pp gain to CPI because of rents as of Q4 08. In line with the rest of the region Qatar does now publish monthly inflation data but with the index available only since January 2009 no YoY comparisons are yet available. YTD data available through December paints a largely similar picture with rents down 14.3%, communications prices down 13.1% and headline CPI down 5.4%. Given the fairly buoyant macro outlook for Qatar it seems unlikely that rental prices would continue to decline at such a pace and we do not see continued deflation in 2010.

Qatar remains committed to an eventual GCC common currency and the authorities have reiterated their commitment to the USD peg "for the time being". This suggests monetary policy will continue to follow the Fed but only to the extent that it ever has in Qatar. The QCB has left the repo rate unchanged since July 2006 at 5.5% while the deposit rate has been unchanged at 2% since April 2008. The much higher inflation environment in Qatar was likely the prime reason why the bank did not cut rates further in line with the Fed. And with inflation now below the US, the QCB are unlikely to be in a hurry to raise rates either. Moreover, the bank will likely be reluctant to raise rates in case this fuels any further speculative inflows. Some of the increase in FX reserves last year is likely to have been due to speculative inflows and with base money growth back at 70.0% YoY as of September it seems the QCB continues to struggle to mop up inflows.

Qatar: Deutsche Bank Forecasts

	2008	2009E	2010F	2011F
National Income				
Nominal GDP (USD bn)	100.4	83.8	98.9	115.4
Population (mn)	1.1	1.2	1.4	1.5
GDP per capita (USD)	91446	68770	73121	76884
Real GDP (%)	16.4	11.0	18.0	13.2
Oil sector	18.5	9.0	26.9	16.0
Non-oil sector	14.2	13.0	9.1	10.0
Prices, Money and Banking (eop)				
CPI (YoY%, Q4)	13.2	-10.0	0.0	3.5
Broad money (M2)	19.7	-6.8	19.3	9.7
Fiscal Accounts (% of GDP)				
Budget balance	9.0	12.5	8.3	8.0
Revenue	32.2	41.8	40.3	39.5
Expenditure	23.2	29.3	32.0	31.5
External Accounts (USDbn)				
Exports	54.9	45.7	55.9	63.7
Imports	25.1	29.3	34.5	39.1
Trade balance	29.8	16.4	21.4	24.6
% of GDP	29.7	19.6	21.6	21.3
Current account balance	14.2	7.2	10.5	11.9
% of GDP	14.1	8.6	10.6	10.3
FX reserves (USDbn)	9.6	20.2	21.0	21.0
NFA (USDbn)	96.7	103.9	114.4	126.4
QAR/USD	3.64	3.64	3.64	3.64
Debt Indicators (% of GDP)				
Government debt*	8.8	31.4	-	-
Domestic	4.1	11.7	-	-
External	4.7	19.7	-	-
Total external debt	59.4	56.7	-	-
in USD bn	59.2	67.7	-	-
General (pavg)				
WTI (USD/b)	99.4	61.3	65.0	80.0
Crude oil prodn (mnb/d)	0.8	0.8	0.8	0.8
Financial Markets (eop)	*Current*	*3M*	*6M*	*12M*
O/N lending rate	5.5	5.5	5.5	5.5
O/N deposit rate	2.0	2.0	2.0	2.0
US Fed funds rate	0.25	0.25	0.25	1.25
QAR/USD	3.64	3.64	3.64	3.64

*Source: Haver Analytics, IMF, DB Global Markets Research. *Government debt here is as reported by national authorities and does not include debt of state-owned companies. This would add around another 25% of GDP by end 2009. Both fiscal and government debt data are fiscal years ending March 31. GDP growth forecasts here are IMF.*

Saudi Arabia Aa3(positive)/AA-(stable)/AA-(stable)

Moody's/S&P/Fitch

- **Economic Outlook:** Substantial fiscal stimulus combined with accommodative monetary policy helped Saudi Arabia record positive growth in 2009 despite large declines in oil prices and production. With another expansionary budget announced for 2010 and much improved outlook for the energy sector we reiterate our call for a V-shaped recovery.
- **Main Risks:** Inflation declined by less in Saudi Arabia in 2009 than elsewhere in the GCC and we expect disinflation to reverse in 2010. Rising global food prices, sticky rental inflation and continued stalling on the mortgage law all pose upside risks and may leave SAMA in a difficult position should Fed hikes get delayed.

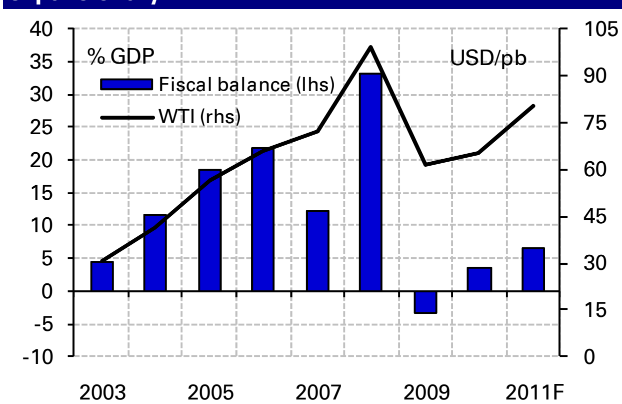
Macro View

Reiterating our call for a V-shaped recovery. The statistics authority has estimated that real GDP growth remained positive in 2009 at 0.15%, with growth in the non-oil sector enough to offset an estimated 6% contraction in oil GDP. Nominal GDP declined 20% to USD369.2bn, the largest decline since our data begin in 1970 with the 38% fall in average oil prices also the largest on record. This decline wiped out the increase of 2008 leaving nominal GDP now slightly below 2007 levels. Based on our forecast of a modest 6% gain in oil prices this year and a reversal of the sharp decline in oil production, we expect some of this to be reversed in 2010 but it will take Saudi Arabia until 2011 to get back to 2008 USD GDP levels.

The continued expansionary fiscal policy stance will provide important support to non-oil GDP growth. Preliminary data for 2009 show Saudi Arabia recording its first state budget deficit since 2002 due to a substantial fall in revenues and a modest decline in spending. At 3.3% of GDP the deficit entailed a deterioration of some 36.5pp vs 2008 although the deficit was around 1.4pp narrower than the original target. This compares to the past three years where on average the fiscal surplus was 10x larger than the original projections. This mostly came from vastly underestimated oil revenues with spending exceeding the original targets. The recently announced budget for 2010 is also set to be a record with the fiscal deficit targeted at SAR70bn (-4.7% of projected GDP), based on revenues and expenditures of SAR470bn (USD125.3bn) and SAR540bn (USD144bn) respectively. The budget is based on a fairly conservative oil price assumption of USD44/b compared with our DB forecast of USD65/b (WTI, pavg). The USD144bn spending is projected to be the highest on record although at 36.6% of our projected GDP this would still be lower than the 37.6% of GDP spending in 2001. Based on our oil price forecast of USD65/b for 2010 we expect a surplus of 3.6% of GDP with our breakeven estimate on the fiscal side at USD52/b for 2010.

Saudi Arabia's fiscal stimulus is the largest in the G20 according to the IMF[2] with a total of almost 7% of GDP in additional discretionary measures through 2009 and 2010 (relative to 2007). This has raised some concerns over overheating particularly as the monetary policy stance remains accommodative and the global backdrop is improving. The spending detail in the 2010 budget sees 46% of total spending going into infrastructure, 25% to education and another 15% into health. Out of the infrastructure spending this will include completion of previously approved projects as well as new programs. To the extent this is capital rather than current spending we do not expect significant overheating pressures from another expansionary budget particularly given only modest growth in non-oil GDP in 2009 (both private sector and government). Nevertheless, with a better than expected GDP reading for 2009 and a continued fiscal boost we have revised up our 2010 GDP growth projections and see GDP growth at 4.1% this year.

Saudi Arabia: Fiscal policy has become increasingly expansionary



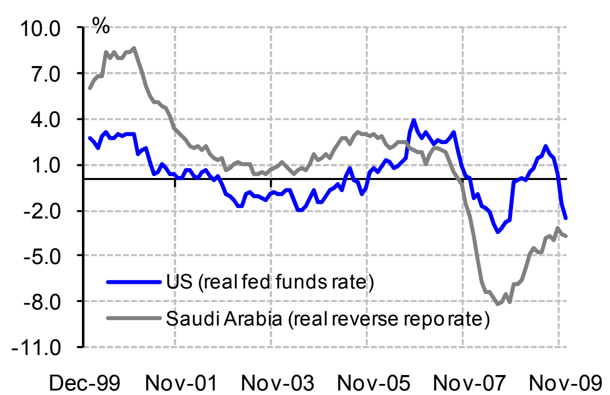
Source: SAMA, DB Global Markets Research

Following the Fed. Our US economists expect the first interest rate hike from the US Federal Reserve in August with a total of 100bps expected in 2010. With the SAR peg to the USD likely to remain in place SAMA is likely to start raising rates too. The reverse repo (deposit) rate stands at 0.25% and the repo (lending) rate at 2%. The

[2] See IMF Staff Position Note: The State of Public Finances Cross-Country Fiscal Monitor. November 2009.

repo rate has been unchanged since January 2009 which was the last of the 350bps easing cycle while the reverse repo rate was cut by 25bps in June last year. With headline CPI at 4.2% YoY as of December, real rates are currently negative. While inflation is down significantly from the 11.1% peak in July 2008, inflation has probably not come down as much as expected given the slowdown in economic growth. The renovation, rent, fuel and water component (18% weight in the index) has been the main driver of inflation through 2009, up 12% YoY as of December likely due to an ongoing shortage of housing. The housing shortage is likely to remain during our forecast horizon and with timing on the long-awaited mortgage law still unclear, rental inflation may remain high in 2010. With global food prices also moving steadily upwards and domestic demand picking up, we see upside risks for inflation in 2010. As ex-post real rates remain deeply in negative territory and growth is improving we think SAMA will quickly follow any Fed hikes. But while the Bank may be comfortable raising rates from an inflation standpoint, they may be worried about choking off what appears to be a incipient recovery in credit extension. Credit extension was pulled back in Saudi more sharply than elsewhere in the region and this was before the Saad-Algosaibi headlines dented confidence. Net new credit extension was zero for 2009 as a whole compared with 8% of GDP in 2008, the lowest in all of the GCC.

Saudi Arabia: Real rates have been negative since '07



Source: Haver Analytics, DB Global markets Research. Real rates are ex-ante.

NFA rising once again. Our latest oil forecasts see WTI at USD65/b for 2010, rising to USD80/b for 2011. This should allow Saudi Arabia's C/A surplus to rise from the multi-year low of an estimated 5.4% of GDP last year to double digits by 2011. The larger surplus should allow SAMA to rebuild some of the foreign asset stock run down in 2009. Central bank data show a drop of USD32.6bn with NFA at USD405.3bn as of December 2009 (book value) with the majority of the decline coming in H1. NFA has increased each month since October and barring a sustained decline in oil prices we see no reason why this should not continue to increase going forward.

Saudi Arabia: Deutsche Bank Forecasts

	2008	2009E	2010F	2011F
National Income				
Nominal GDP (USD bn)	465.6	369.2	403.4	475.2
Population (mn)	24.9	25.5	26.2	26.8
GDP per capita (USD)	18701	14468	15421	17724
Real GDP (%)	4.5	0.2	4.1	4.3
Oil sector	4.8	-6.1	3.0	2.0
Non-oil sector	4.3	3.0	4.5	5.2
Prices, Money and Banking (eop)				
CPI (YoY%)	9.0	4.2	5.0	4.5
Broad money (M2)	19.0	10.0	14.5	15.0
Fiscal Accounts (% of GDP)				
Budget balance	33.3	-3.3	3.6	6.3
Revenue	63.1	31.1	39.3	41.3
Expenditure	29.8	34.3	35.7	35.0
External Accounts (USDbn)				
Exports	313.3	171.8	212.2	255.6
Imports	100.6	110.7	124.0	136.4
Trade balance	212.7	61.1	88.2	119.2
% of GDP	45.7	16.6	21.9	25.1
Current account balance	134.0	19.8	39.1	61.4
% of GDP	28.8	5.4	9.7	12.9
FX reserves (USDbn)	28.2	30.2	30.0	30.0
NFA (USDbn)	437.9	405.3	424.3	468.0
SAR/USD	3.75	3.75	3.75	3.75
Debt Indicators (% of GDP)				
Government debt	13.5	10.0	-	-
Domestic	13.5	10.0	-	-
External	0.0	0.0	-	-
Total external debt	16.6	19.6	-	-
in USD bn	77.3	72.4	-	-
General (pavg)				
WTI (USD/b)	99.4	61.6	65.0	80.0
Crude oil prodn (mnb/d)	8.9	7.9	8.2	8.2
Financial Markets (eop)	*Current*	*3M*	*6M*	*12M*
Repo (lending) rate	2.00	2.00	2.00	2.50
Reverse repo (deposit) rate	0.25	0.25	0.25	1.25
US Fed funds rate	0.25	0.25	0.25	1.25
SAR/USD	3.75	3.75	3.75	3.75

Source: SAMA, DB Global Markets Research

United Arab Emirates

Aa2(stable)/NR/NR

Moody's/S&P/Fitch

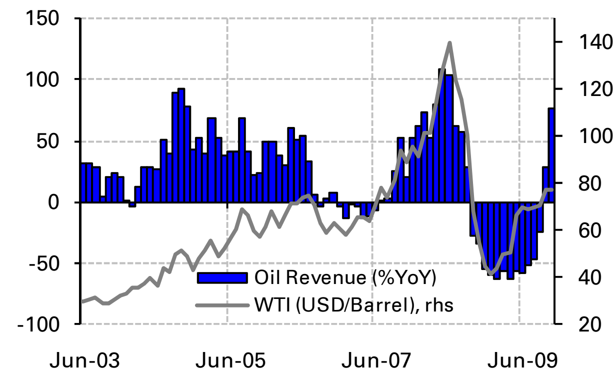
- **Economic Outlook:** Rising oil prices and production as well as a continued diversification effort should mean GDP growth remains positive in Abu Dhabi in 2010. This should be enough to offset a contraction in growth in Dubai where significant financing constraints mean a scaling back in investment plans and lingering uncertainty over the Dubai World restructuring means risk aversion remains elevated.
- **Main Risks:** The continued overhang in Dubai real estate poses risks for the banking sector in terms of future NPL growth and deteriorating asset valuations. Any renewed weakness in the global backdrop would also impact heavily on Dubai's service capacity. External refinancing risks remain high and access to capital markets has yet to be tested following the restructuring news.

Macro View

A return to growth in 2010. The UAE will see a sharp disconnect between positive GDP growth in Abu Dhabi versus a likely contraction in Dubai. Abu Dhabi will benefit from an ongoing diversification effort and rising oil prices and production, whereas Dubai is facing a continued property market overhang, dented investor sentiment from the Dubai World debt restructuring and a severely constrained financing environment. But with global trade and IP rebounding and tourism likely seeing a pick-up from improved economic sentiment more generally, some sectors of Dubai's service-driven economy should still record positive growth. At 32% of UAE GDP, we do not expect a contraction in Dubai to pull overall UAE growth into negative territory, particularly with Abu Dhabi continuing to push forward with its 2030 Vision which sees around USD8bn investment spending annually and should provide significant support to the non-oil sector.

A lack of high frequency data means it is difficult to pin point any turnaround in the real economy in the UAE. Dubai's open economy had already taken a hit from the global crisis with trade, tourism and construction all affected and financing conditions increasingly tight. In Abu Dhabi, oil production dropped 6.1% YoY through January-November 2009 weighing heavily on real GDP growth. This has since turned around with oil revenues now at 36.2% in 3m/3m terms (or USD6.6bn/month) compared with a low of -54.9% in January 2009 (or USD3.4bn/month). While this is partly a price effect, oil production is also up 26.6% YoY as of November.

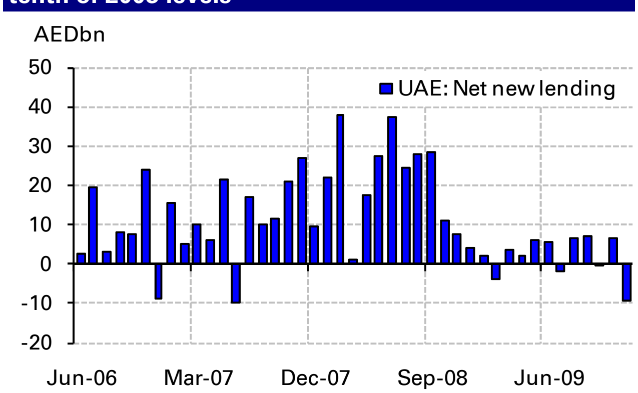
UAE: Abu Dhabi oil revenues have recovered thanks to rising oil production and prices



Source: Haver Analytics, DB Global Markets Research

Monthly banking data available through end 2009 for UAE as a whole paint more of a mixed picture. MoM loan growth for December recorded the largest decline seen since the collapse of Lehman at -2.0%. This probably reflects the heightened risk aversion by banks related to worries over exposure to Dubai World. With the Nakheel sukuk repaid in December the January data are unlikely to be as bad although it remains the case that the UAE banks have large exposure to Dubai government-related entities. The debt worries also meant some capital flight with deposits also down 2% MoM in December. Given Dubai's limited access to external financing, any continued deposit flight would bode badly for a recovery in credit growth in 2010. Through 2009 net new lending in the UAE stood at just USD6.5bn or 2.68% of estimated GDP. This compares with USD67.1bn in 2008 or 26.4% of GDP suggesting lending is running at one tenth of previous levels.

UAE: New credit extension in 2009 was around one tenth of 2008 levels



Source: Haver Analytics

A reduction in the pace of deleveraging would provide a positive boost to GDP growth this year across the UAE. And combined with the return to positive GDP growth in the oil sector and improved global conditions providing some cushion to Dubai, we see UAE GDP growth at 3.7% this year from an estimated -1.2% in 2009.

Refinancing headaches here to stay. The impact of the Dubai World restructuring on Dubai's access to capital markets has yet to be tested but this will undoubtedly have a lasting impact on investor confidence and risk premia. Dubai CDS spiked more than 300bps in response to the announcement and remains significantly above pre announcement levels. The local equity markets were also hit following the news and the DFM remains some 20% down and ADX around 7% down. The recent announcement that Borse Dubai will trigger a one-year option to extend its USD2.5bn syndicated loan maturing in February will delay any real test for now.

Our estimates show Dubai facing USD10.1bn in principal external debt payments this year, of which USD7.3bn is in loans and USD2.8bn in bonds. If we subtract out the USD1.2bn Limitless loan which falls under the six month standstill as well as the Nakheel AED3.6bn (USD0.98bn) sukuk coming due on May 13th, and now the Borse Dubai loan, this leaves a total of USD5.4bn (principal only) to be financed this year (USD3.6bn in loans and USD1.8bn in bonds). The next significant upcoming repayments are a USD750mn Emirates Bank Eurobond on February 16th and then in June, a 3-year USD1.25bn DIC revolving loan. With the USD20bn bond program managed by the Dubai Financial Support Fund now complete we do not expect any more exceptional funding into Dubai this year. Our understanding is that ~USD15bn of this has been spent leaving some resources to cover the 2010 redemptions. But with other private debt likely coming due in addition to probably substantial trade payables it remains the case that Dubai will face a tough time refinancing its debt in 2010. Moreover, 2011-2014 will see an average of at least USD13.5bn coming due suggesting Dubai's refinancing headaches are here to stay.

More of the same on monetary policy. The May 2009 announcement that the UAE would not join an eventual GCC common currency has not changed the monetary policy environment. We expect the AED peg to the USD to remain in place for the foreseeable future particularly given the need to maintain macro stability in light of the refinancing concerns. With inflation ending the year around zero (in YoY terms) on the back of a sharp drop in rents (39.3% weight) and food (13.9% weight), the CBU is unlikely to be in a hurry to follow any Fed hikes. But that said, the repo (policy) rate (unchanged at 1% since January 2009) does not provide a particularly good indication of financing costs anyway.

United Arab Emirates: Deutsche Bank Forecasts

	2008	2009E	2010F	2011F
National Income				
Nominal GDP (USD bn)	254.6	222.9	242.0	273.8
Population (mn)	4.8	4.9	5.1	5.2
GDP per capita (USD)	53436	45423	47878	52592
Real GDP (%)	7.4	-1.2	3.7	4.3
Oil sector	12.1	-5.0	4.0	4.0
Non-oil sector	3.9	2.0	3.5	4.5
Prices, Money and Banking (eop)				
CPI (YoY%, pavg)	12.3	1.5	3.5	4.5
Broad money (M2)	19.2	8.7	8.6	13.2
Fiscal Accounts (% of GDP)				
Budget balance	21.7	4.0	12.7	19.5
Revenue	52.6	34.2	37.8	46.0
Expenditure	25.1	30.2	25.1	26.5
External Accounts (USDbn)				
Exports	239.2	188.5	220.2	260.0
Imports	176.3	158.6	178.4	207.0
Trade balance	62.9	29.9	41.9	53.0
% of GDP	24.7	13.4	17.3	19.3
Current account balance	22.3	8.7	10.7	27.0
% of GDP	8.8	3.9	4.4	9.8
FX reserves (USDbn)	31.6	35.9	36.0	36.0
NFA (USDbn)	416.1	424.8	435.5	462.4
AED/USD	3.67	3.67	3.67	3.67
Debt Indicators (% of GDP)				
Government debt	-	36.9	-	-
Domestic	-	17.8	-	-
External	-	19.2	-	-
Total external debt	-	74.7	-	-
in USD bn	-	166.5	-	-
General (pavg)				
WTI (USD/b)	99.4	61.6	65.0	80.0
Crude oil prodn (mnb/d)	2.6	2.4	2.5	2.5
Financial Markets (eop)	*Current*	*3M*	*6M*	*12M*
CBU Repo rate	1.00	1.00	1.00	1.50
US Fed funds rate	0.25	0.25	0.25	1.25
AED/USD	3.67	3.67	3.67	3.67

Source: Haver Analytics, IMF, DB Global Markets Research. External debt is calculated as Eurobonds bonds plus loans. Domestic debt is calculated as CBU CDs plus the USD20bn debt issued by the Dubai Financial Support Funds which was all purchased within the UAE. Government external debt is as published by the Dubai and Abu Dhabi authorities and includes guaranteed debt and debt of wholly-owned companies including Mubadala, IPIC and Investment Corporation of Dubai plus others.

Appendix 1

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Additional information available upon request

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Risks to Fixed Income Positions

Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor that is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may -- by construction -- lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which the coupons to be received are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

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