

آفاق الاقتصادين المحلي والعالمي

Global and U.A.E. Economic Outlook

The world in 2009 - 2009 was an exceptionally bad year for the global economy. Global GDP experienced negative growth for the first time since World War II. The International Monetary Fund (IMF) estimates that the world economy declined by 0.8% in 2009 over 2008. The negative growth was largely in the Western advanced countries and post-communist Europe. However, no economy in the world escaped this event, as every single economy of the world, without exception, saw a lower growth rate than in the preceding year 2008. This included China and India, the clear global leaders in 2009 in terms of growth rates, who saw their growth rates nipped by several percentage points compared to 2008.

Global Economic Performance, Annual Growth & Projections, %

	2008	2009	2010	2011
World	3.0	-0.8	3.9	4.3
Advanced Economies	0.5	-3.2	2.1	2.4
- USA	2.7	-2.5	2.7	2.4
- Euro area	0.6	-3.9	1.0	1.6
NIC*	1.7	-1.2	4.8	4.7
Central/East Europe	3.1	-4.3	2.0	3.7
- Russia	5.6	-9.0	3.6	3.4
Emerging & Developing World	6.1	2.1	6.0	6.3
- Africa	5.2	1.9	4.3	5.3
Developing Asia	7.9	6.5	8.4	8.4
- China	9.6	8.7	10.0	9.7
- India	7.3	5.6	7.7	7.8
Middle East	5.3	2.2	0.3	0.2
Western Hemisphere	4.2	-2.3	3.7	3.8
- Brazil	5.1	-0.4	4.7	3.7

Source: IMF

NIC = Newly industrialized Asian economies

Interlinked global economy - This shows how intertwined the global economy is now and how events in one part of the world have immediate repercussions elsewhere. The impact of such events is commensurate and proportional to the economic size of the

origin and consequently, the turbulence of 2008 financial crisis in the richer, advanced Western nations sent ripples across the entire world. In comparison, the Great Depression of 1930, which was much stronger in intensity, was largely a local American affair.

Deceleration and decline - Advanced industrial economies, together, declined sharply by inasmuch as 3.2% in 2009. Surprisingly, the decline in Euro zone was even higher than in USA, the epicenter of the crisis. East European economies were the hardest hit which saw a -7.5% growth rate and Russia suffered in particular, registering the worst global growth rate of -9%. Developing countries, together, saw a positive growth rate of 2%. China led the field with 8.7% growth followed by India (5.6%). African countries saw their combined growth rate tumble from 5.2% in 2008 to 1.9% in 2009.

Middle East and UAE - The Middle East, of which UAE is a part, saw a modest 2.2% growth rate. This seems to agree with the reported 1.3% growth rate estimated for the UAE economy in 2009, despite the fact that the economies of the AGCC countries because of the high role of both exports and imports, are even more sensitive to international turbulences. The U.A.E. economy was able to weather the storm, both, on the strength of healthy oil prices and a strong non-oil sector. Nevertheless, oil prices in 2009 were lower than in 2008, when they had reached unsustainable high rates of around \$150 per barrel. Demand for oil suffered as the oil importing economies saw reduced demand due to the recession and setback to growth in their economies. As a result, UAE oil revenues in 2009 were considerably lower than 2008 which was an exceptional year.

Trade –Global trade also suffered, but bounced back in the second half of 2009, after dipping very sharply in the fourth quarter of 2008, when demand fell in anticipation of a recession. However, recovery in consumer confidence had already started in the first quarter of 2009, undoubtedly helped by the enormous government support and bail outs, particularly, in the western countries. Continued strong demand in developing countries also helped this demand recovery. In UAE too, after a sharp fall in demand early 2009, consumer confidence had recovered by the 2nd quarter of the year.

Nevertheless, trade volumes declined by 12.3% in 2009, which was evenly spread across all countries, developed and developing. IMF projects a very optimistic growth rate for trade in 2010 at 5.8%, which may be possible because of the “held back” demand in 2009.

Containment of inflation - A consequence of the decline was underutilized capacity which led to reduced inflationary pressure. Inflation is currently much higher in the developing countries, partly, because of their higher economic growth than in the stagnant developed world. Inflation has also been contained in UAE and the inflation rate in 2009 was reduced to a very acceptable 2-3% from double digit figures in 2008.

Recovery underway – Currently, key emerging economies in Asia are leading a global recovery. However, several Western European economies and a most of economies in Central and East Europe are lagging behind. The recovery has certainly been helped by the gigantic government bail-outs in the West and fortuitous events in the commodity markets, which have remained stable. Oil has particularly shown little of its customary

fluctuation since mid-2009, and is expected to remain stable in 2010, though this can rarely be said with conviction.

Global Trade and Prices, Annual Growth & Projections, %

	2008	2009	2010	2011
World trade volume Goods & Services	2.8	-12.3	5.8	6.3
Imports: Developed Economies	0.5	-12.2	5.5	5.5
Imports: Developing Economies	8.9	-13.5	6.5	7.7
Exports: Developed Economies	1.8	-12.1	5.9	5.6
Exports: Developing Economies	4.4	-11.7	5.4	7.8
Oil Price Average	36.4	-36.1	22.6	7.9
Non-Oil Commodities Average	7.5	18.9	5.8	1.6

Source: IMF

Recovery in financial markets - Financial markets recovered faster than expected, thanks to the huge bail outs. Banks are no longer as cautious in lending as immediately after the crisis. UAE banks are in a healthy position because of sound regulation and there are no serious liquidity concerns. However, globally, it is recognized that small and medium-size enterprises left with facing the brunt of the downturn as they continue to face credit constraints as they are low priority customers for banks. This issue is also a consideration in UAE and how to ease lending to the SME sector. Stock markets though not at the peaks of 2008, nevertheless, have recovered from the plunging depths reached late 2008 and early 2009.

Forecast: Resumption of growth in 2010 – The global economy is expected to resume its growth in 2010. IMF projects GDP in the advanced economies to expand by 2% in 2010, and then further rise marginally to 2.5% in 2011. This means that their output will not recover to pre-crisis level till end of 2011. Growth in emerging and developing economies is expected to rise to about 6 % in 2010. Developing countries are set to grow much faster than the developed countries in the future, and this applies to UAE as well, even though the IMF projection for the Middle East is somewhat modest.

The experience of 2008-09 must rank one of the most unique in recent global economic history, for this crisis was not a “natural” one but rather “man-made”. It highlighted the need not only for regulation, but enlightened and competent regulation. More than the banking profession, it is the economic profession which failed. The failure of any other kind of enterprises is part of the market mechanism, but failure of even bank can cause a serious disruption, and multiple banks failure can result in collapse of the entire international economic regime, in an inter-dependent and intertwined economic system that we live in now. The lessons learnt, hopefully, such virtually man-made oversights which are virtually “life-threatening”, do not happen again.