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Subject: IMF on dubai economy very positive in general

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 IMF

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UAE appears to be on the path of economic recovery, supported by increase in oil production, trade, tourism and manufacturing, amid continued oversupply in the real estate sector, an International Monetary Fund delegation said in a statement.

“The economic recovery looks set to continue. Real GDP growth reached an estimated 4.9 percent in 2011, supported by increases in oil production. Non-hydrocarbon growth also strengthened, to around 2.7%, backed by strong trade, tourism, and manufacturing, and despite continued oversupply in the real estate sector,” the high level IMF delegation said in its assessment.

“Real non-oil GDP growth is projected to further strengthen to 3.5% in 2012. With limited potential for further increases in oil production in the near term, overall GDP growth is expected to moderate to 2.3%. Inflation is likely to remain subdued at around 1.5% this year,” it added.

However, IMF was cautious about the outlook owing to the current geopolitical risks and worsening global financial conditions. The report specifically cited the difficulty in rolling over the external debts of the GRE's (Government-related entities), which could affect liquidity in country's banking system.

"The current uncertain global economic and financial environment poses a number of risks to this outlook. The weak growth prospects in the advanced economies could lead to a pronounced decline in oil prices if regional geopolitical risks subside.

"Moreover, renewed worsening of global financing conditions could make it more difficult to roll over some of the GREs' maturing external debt and affect liquidity conditions in the banking system," the delegation headed by Harald Finger declared.

IMF expressed its concerns on some of the troubled GRE's slow restructuring process, their high refinancing needs and continued reliance on foreign funding. The global financial body advised Emirati authorities to continue to improve regulation, oversight and governance to manage the remaining GRE risks.

"Substantial progress has been made in the debt restructuring of government-related entities (GRE), but several troubled GREs are still in the process of restructuring. Moreover, the GREs are still faced with high refinancing needs and continued reliance on foreign funding," said an IMF statement released to the media.

The IMF officials noted that while the UAE's financial authorities are increasingly managing their upcoming rollovers proactively, the current uncertain global financial environment still constitutes a key risk and urged to improve transparency and communication in order to support the market refinancing of GRE debt.

IMF said it is happy with the measures the UAE has taken to gradually tighten fiscal policy that will strengthen public finances without undermining the economic recovery.

"In this environment, the authorities' plans to gradually consolidate fiscal policy are appropriate. The large increases in public expenditure that took place in response to the 2009 crisis should now be unwound as they expose the UAE to the risk of falling oil prices. The recovery will also continue to be supported by an accommodative monetary stance under the peg to the US dollar," the IMF statement explained.

While IMF was generally happy with the UAE's banking sector, it was cautious on foreign funding requirements that might arise especially from banks' lending to government and GRE's.

"The banking sector remains resilient to shocks, thanks to substantial liquidity and capital buffers. Although the banking system has remained comfortably liquid, a foreign funding shock could generate some foreign currency liquidity tightening in the banking sector. Despite a considerable rise in non-performing loans since 2008, the banking system remains well-capitalized. However, care should be taken to avoid a further increase in banks' loan concentration to the government and GREs," the Paris-based financial body said in its assessment.

IMF commended the UAE for taking the right measures in the right direction by establishing databases and improving the quality of economic statistics.

"The authorities have made good progress in establishing databases and improving the quality of economic statistics. Nevertheless, more progress is needed to strengthen key statistics, including balance of payments, national accounts, and fiscal accounts."

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