# MANAGING DUBAI'S DEBT

**To restore confidence, the emirate needs to embrace ever-greater transparency.**

Back in the days of the Soviet Union, analysts, journalists, academics and even spies all indulged in wild conjecture on the machinations of the government based on idle gossip, rumour and total speculation. It was called Kremlin-watching, and 99 times out of a hundred, it was completely wrong.

In recent weeks, the Gulf region has been plagued by a severe bout of Kremlin-watching, as every coming and going from every palace is analysed, every statement parsed to the bone, every "unofficial spokesman" or "close source" treated like an Oracle. Much like the Kremlin-watchers of yore, they've pretty much miscalled everything, from the Dubai standstill announcement to the depth of support Abu Dhabi was willing to offer.

That we're in such a state reflects badly not just on the journalists who, let's face it, are paid by the word to come up with something, anything for an increasingly news-hungry audience, but also on the Gulf's culture of secrecy and opacity; a culture that has left international and local investors alike feeling justifiably aggrieved.

The announcement on November 25 made by Dubai World, one of the three huge conglomerates that manage money, investments and projects on behalf of Dubai, was a masterclass in how not to do things. Made just after markets closed – and, crucially, on the eve of a long holiday – it took everyone off guard. The hammering Dubai received in the world's press was largely as a result of that decision.

The three weeks that followed the Dubai World announcement must rank as the worst in Dubai's recent history: the spectre of default was talked up daily, rumor mills ran into overdrive, and the city received a huge amount of press-frequently misinformed, but universally bad.

Despite the 11th-hour timing, the announcement on December 14 that the crucial Nakheel sukuk would, indeed, be paid in full, revealed that some major lessons had been learnt, at least about how to manage the release of information. Sent out just before markets opened, it was concise, clear, and offered much, much more than had been hoped for. The impact was instant: stock markets in Dubai and Abu Dhabi shot up, the cost of insuring debt across the region fell, and confidence returned to the bond markets, albeit hesitantly. Even the brief statement on a reorganisation law – essentially a mechanism to allow government affiliated companies to go bankrupt should they fail to meet their obligations — was welcomed, signalling as it did a willingness to tackle even the most taboo scenarios. It was, one can hope, the first step on the road to greater transparency.

There's still a long way to go, however. The most critical thing now is for Dubai to come clean about its total debts, and how it intends to repay them. That it almost fell at the first major obstacle is worrying indeed. An announcement about the depth and breadth of the restructuring needed across the board is essential, even if it does cause even deeper short-term pain. The alternative, "Kremlin-watching" every single upcoming debt deadline, could prove fatal to investors' nerves and patience. There's at least $60 billion of debt due to be paid back over the next four years. The situation with Dubai World may be somewhat clearer now; questions remain over the financial health of the other affiliated companies, with Dubai Holding in particular facing increased scrutiny. Sentiment towards the group can be judged by the market's reaction to the news that a proposed merger between its troubled real estate affiliates and the property giant Emaar had been called off: shares in the publicly-listed company soared.

The Dubai story is far, far from over. The city boasts excellent infrastructure; in the DIFC it has the region's best regulated, best serviced finance centre. Given a huge supply of properties, both commercial and residential, on tap, fantastic infrastructure and a world renowned, if somewhat battered, brand, there is no reason why Dubai should not continue its remarkable journey, albeit at a smaller, more manageable and, above all, more realistic pace. Given that, Sheikh Ahmed bin Saeed Al Maktoum, chairman of the Dubai Supreme Fiscal Committee, may well be right when he said, in the statement announcing Abu Dhabi's aid: "Our best days are yet to come."

(Source: GULF business)