

# Scars of the financial crisis

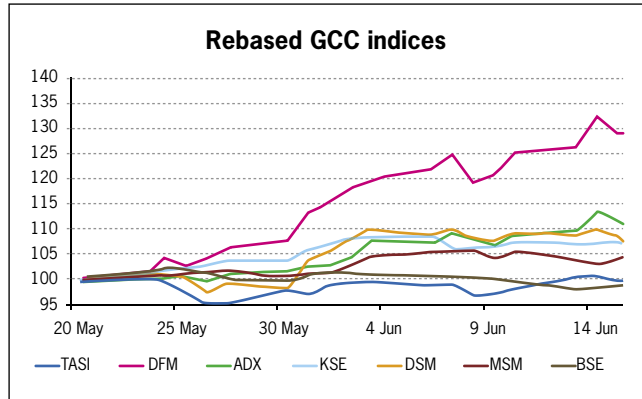
The global financial and economic downturn has finally caught up with some of the GCC's well-known businesses. **Snehdeep Fulzele** hopes that financial distress will not become a trend going forward.

Every crisis hides an opportunity. In today's world, it is also true that every crisis brings out many bankruptcies and also some major scandals. Until now, the GCC region had shown no great signs of distress from the tornado that hit financial markets all over the world. Now that the world economy is slowly inching out of depressing numbers, the GCC is slowly revealing its bruises.

Two big families from Saudi Arabia, Maan Al-Sanea (Saad Group) and Algosaiibi, suffered heavy financial casualties from tightened credit and declining asset prices, which paralysed debt repayment plans of their group entities. Early last month, the Saudi central bank froze the bank accounts of Al Sanea, one of the Kingdom's most powerful tycoons with interests in finance and construction. Sanea, who ranked number 62 on Forbes Magazine's billionaires list in March with a fortune estimated at US\$7 billion, has made large investments in international financial institutions including HSBC, Citigroup and the Bank of China. Algosaiibi, on the other hand, is a well-established Saudi group. The debt difficulties first came to light last month when The International Banking Corporation, a Bahrain-based affiliate of Saudi Arabia's AH Algosaiibi & Brothers, was unable to meet payments on its debt.

Reeling under a commodity prices crash and sandwiched between deteriorating financial assets, many investors have suffered the pain of moving from riches to rags. Terrifying tales of daily losses were just behind us when this news hit GCC bankers. Both the aforementioned groups have substantial borrowings from regional banks. Surprisingly, stock markets have taken the news stoically.

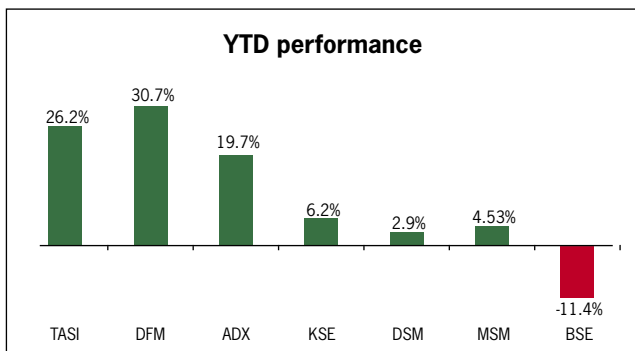
Most regional markets have maintained a sideways movement in the period from May 20 to the present. However, the Dubai Financial Market has suddenly moved up with almost a 30 per cent spurt over the period. Coming in the backdrop of the UAE government's decision to withdraw from the GCC Monetary Union over not getting to host the headquarters, this rally is remarkable and shows pent-up demand for stocks. Going forward, worries over impact from struggling big businesses in the GCC and damaged sentiments in UAE real estate are unlikely to support buying.



Kuwait, Oman and the UAE have so far acknowledged that the lending of local banks to Saad Group and Ahmad Hamad Al Gosaibi & Brothers Company is a worry. Let us also not forget the problems at Global Investment House and Investment Dar in Kuwait. Both companies are trying to reschedule debt and tide over difficult times. In yet another sign of trouble, Gulf International Bank in Bahrain laid off 59 employees towards the end of May, and there is talk of more retrenchments to follow. The GCC has a large population of expatriates. A recent survey shows that more than half of the expatriates staying in the UAE and Bahrain have serious concerns over jobs.

Such developments erode the confidence of the masses, and the immediate reaction of consumers is to save for the rainy day. This reaction further hampers quick recovery and instead pulls economies into a cycle of deflation. The Saudi Arabian Monetary Agency cut the reverse repo rate that it pays to banks on their deposits with it. On June 13, in a major move, Saudi Arabia launched a bonds market.

So far, the financial distress in the GCC has been limited to a few groups and has not become a trend. But given the secrecy shrouding the troubles, it would not be a surprise if such skeletons kept falling out of the cupboards at regular intervals. One can only hope that banks do not become more risk-averse and the measures taken by various central banks lead to more lending, spurring economic activity. There are also worries over swine flu. Few cases have been detected in the region. On the other hand, oil has steadied at around US\$70 per barrel. This is predominantly bearish news in a sideways market. Investors would do well to once again exercise caution, especially since second quarter results are around the corner.



The writer is head of research at FALCOM Financial Services in Saudi Arabia.

Opinions expressed in this article are those of the author and do not necessarily represent those of his employer or the MONEYworks group of magazines. This article should not be misconstrued as financial advice. Don't forget that investments can go down as well as up and you may not get back the amount originally invested.