

# Investors may shift Gulf exposure on political unrest

REUTERS, Dubai

Revolts in the Arab world may prompt investors to cut exposure in wealthy Gulf oil producers in the short term but more stable countries such as the United Arab Emirates and Qatar may benefit from a shift in capital flows.

Massive protests have swept through Arab countries that face crippling poverty and unemployment, unseating military-backed leaders in Egypt and Tunisia, threatening Muammar Gaddafi's four-decade-old grip on power in Libya, and also triggering protests by members of Bahrain's Shi'ite majority against their Sunni rulers.

Weeks of spreading unrest have sent debt protection costs and yields on government debt up across the Gulf, the world's top oil exporting region, while stocks and currencies -- most of them pegged to the US dollar -- have been volatile.

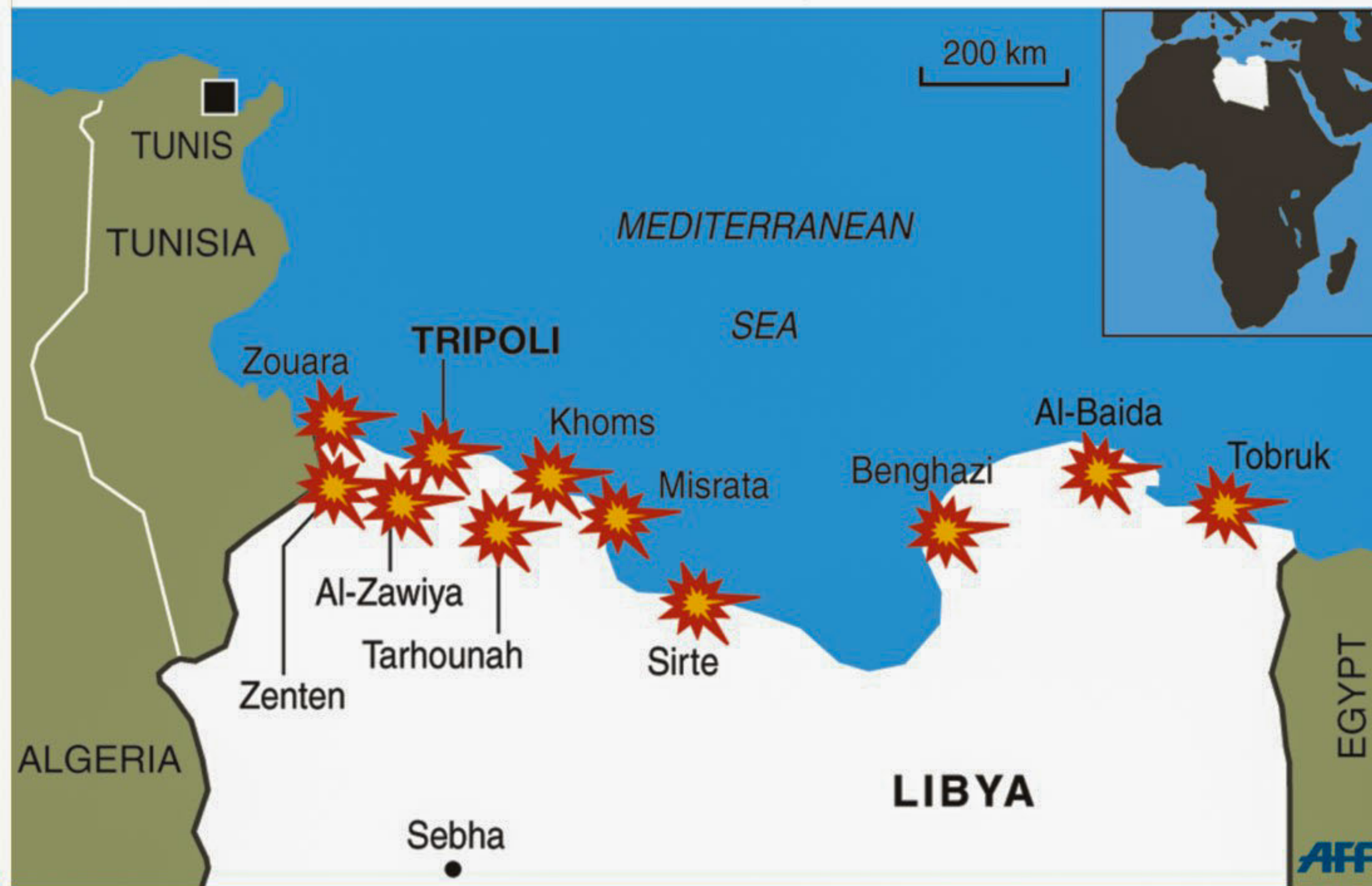
"The region as a whole has a degree of capital outflows," said Dina Ahmad, CEEMEA strategist at BNP Paribas in London. "It is quite difficult to estimate because data are very lagged."

At the peak of Egypt's political turmoil, Citi has estimated capital outflows from the most populous Arab country at \$500 million to \$1 billion a day.

However, in the Gulf that benefits from robust crude prices, even the unrest-hit tiny Bahrain has not seen large outflows since anti-government protests began a week ago, mar-

## Uprising in Libya

Death toll estimated at 200 to 400, as protesters overrun cities



ket players say, partly due to a lower investor presence.

"There is a moderate risk of modest outflows," said Gabriel Sterne, senior economist at London-based Exotix. "We have seen yields on the Bahrain bonds rise a bit."

The yield on Bahrain's Islamic bond, due in 2014, has shot up to 3.9 percent, its high-

est level since last May, while bankers have said the kingdom's planned \$1 billion sovereign bond issue was likely to be delayed.

Debt insurance costs for Bahrain, a regional financial hub and home to some \$10 billion in mutual funds, hit fresh 18-month highs of 300 points on Monday, Markit said.

Concerns that the political unrest and demonstrations in Bahrain will persist prompted Standard and Poor's to lower the country's sovereign credit ratings on Monday.

Even for Qatar, which enjoys one of the world's highest economic output per capita at nearly \$75,000 and saw no anti-government protests, five-year

credit default swaps rose to a new one-year high of 113 points on Monday.

"Although their (investor) concerns will be focused on states that have seen unrest, I suspect that some will have put their plans for much of the region on review," said Simon Williams, chief economist at HSBC Bank in Dubai.

Gulf Arab stocks have been edgy, heading back towards January lows, as popular unrest spread to Bahrain and Libya, while currency forward markets have been on a roller-coaster ride.

Traders expected pressure on currencies to increase if bloody turmoil in Libya continues and with a planned passage of Iranian naval vessels through Egypt's Suez Canal.

But high political risks in some parts of the Arab world and solid oil prices around \$90 a barrel, could also make some investors shift their exposure to more stable Gulf states.

"Our view here is that obviously a premium for political risk has gone up throughout the region. But we do differentiate quite strongly between places like the UAE, where the political system is broadly much more stable, and Qatar as well," said a London-based fixed income investor.

"If you want to stay in the Middle East, you switch from Bahrain into the UAE or into Qatar but I am not sure you want to switch altogether," he said.

Benchmark bond yields have climbed for both Qatar and the UAE's emirate of Abu Dhabi despite staying insulated from unrest as their small local populations are pampered by petrodollars.

"We are certainly getting some inquiries about shifting money outside to other parts of the Gulf, mainly from expat investors," said a top banking executive in Bahrain.

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# Life on the margin: Iraqis grapple with poverty

AFP, Baghdad

Faleha Hassan lives in a tiny house in central Baghdad with 11 other family members and, like thousands of protesters across Iraq, does not believe her leaders have done anything to make her life better.

"The politicians and the officials and the leadership, they don't care about us -- they have a lot of money but they don't think about others," laments the 67-year-old, surrounded by her grandchildren, sitting on the floor of the home in which she has lived for decades.

"No one thinks about us. Not the officials."

Hassan, her children and her grandchildren suffer from what has proved a persistent problem in Iraq since the 2003 US-led invasion to oust Saddam Hussein: poverty.

The elderly woman's only surviving son, Wissam, sells food to visitors entering the nearby Abdul Qader al-Gailani shrine in the centre of the capital, but usually earns a meagre 5,000 Iraqi dinars a day, or about \$4. An Iraqi MP, by contrast, makes more than 80 times as much.

Her husband has become too frail to continue helping Wissam, and another son, Mohammed, was killed in a suicide bombing at the shrine in January 2007. A ration programme, that during the Saddam-era included so many goods that Hassan said the family would sell the excess, has since been dramatically reduced.

That puts the family firmly below the government-defined poverty line of \$2.2 per person per day, along with more than a fifth of all Iraqis, an estimated seven million people, a number that would rise were it not for the ration programme received by about six million families.

And while ministers have ambitious plans to slash that figure in the coming years, experts and, crucially, the people affected, are unconvinced.

"Poverty in Iraq is shallow," Deputy Planning Minister Mehdi al-Alak says during an interview in his office on the



An Iraqi woman sells fruit at the Friday market in Baghdad's impoverished district of Sadr City.

banks of the Tigris river. "Most people are close to the poverty line... so if policies and procedures are followed, the rate will decline."

"It is not very difficult (to reduce poverty) in Iraq."

On paper, he would seem to be correct: the country's vast energy stores -- Iraq has the fourth-highest level of proven oil reserves in the world -- all but guarantee it will have a steady and increasing source of income for decades to come.

The country was not always grappling with such a problem.

A UN report released at the beginning of the year notes that, "In the past, Iraq was regarded as one of the most developed countries in the Middle

East," but the organisation's Arab Human Development Report rated Iraq 17th out of 21 regional countries in

terms of human development in 2005.

"Wars and sanctions have contributed to a marked deterioration in Iraqis' standard of living in recent years," this year's UN report noted.

But experts lament that Iraq still has glaring problems that make it difficult to envision poverty levels declining at the rate the government hopes, from 22 percent now to 16 percent by 2015.

"Even though it is shallow and a wide segment of the population could be brought out of the poverty margin, unless there are sustainable measures, they will easily fall back," says Khalid Muhammed Khalid, an Amman-based Iraq programme analyst with the United Nations Development Programme.

Khalid notes widespread graft -- Transparency International rates Iraq as the world's fourth-most corrupt

country -- and insufficient expertise among officials, especially at local and provincial levels, mean poverty alleviation could take longer than expected.

He adds that wider reforms will be needed rather than simply increasing people's incomes to better combat poverty.

"If you do not provide proper health, education and infrastructure services, then what is the meaning of more money?" he asks.

The UN's Iraq Briefing Book, for its part, calls for greater economic diversification, noting that the oil sector accounts for 65 percent of the economy, but just one percent of jobs.

Iraq has made some progress, with the government adopting a "National Strategy for Poverty Reduction" in late 2009, though Alak concedes that the plan pays scant attention to budgetary

issues, and ministries are responsible for implementing recommendations, with little oversight yet carried out.

That plan outlines six key goals, from raising incomes by creating jobs for the needy, to reducing inequality between men and women, and improving health and education levels.

Alak says it is unclear if the recommendations have been adopted by officials in other ministries or not, but a preliminary report on the plan's effectiveness due in May will provide insight.

The issue has been brought to the fore by protests in recent weeks across the country against high levels of unemployment and poor basic services such as clean water and electricity.

In response, the government has pledged to delay the implementation of a law that would raise tariffs on imports, and thereby increase prices of goods at markets, while MPs have cut politicians' pay and upped funding for the ration card programme by \$1 billion, a 25 percent increase.

Like Hassan, however, few of Baghdad's poor are convinced by government assurances that it is tackling the issue.

"We don't have hope," says Sabiha Umm Ali, or Sabiha mother of Ali, who lives in a make-shift house in the middle of a waste dump in Zafaraniyah, east Baghdad. "I don't have hope."

"It has been like this for many years. There is no water, no electricity, no schools. I don't have confidence (in the government), it is impossible to trust them -- they care only for themselves, they live in their houses and villas, and forget about us."

As she speaks, another woman, Nehad Shalah begins to accost an Iraqi soldier assigned to guard the refuse site.

"Why don't you help us?" she shouts at him. "Why don't you help us? Look at me! Am I a dog?"

Sabiha, a 60-year-old mother of eight children, only one of whom has a job, adds: "Don't we live in a country of oil and of wealth? Why, then, do we live like this?"

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