

# Dubai says Dubai World is on its own

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'The company is not guaranteed by the government,' official says

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DUBAI, United Arab Emirates - The Dubai government disclaimed responsibility for the debts of Dubai World on Monday, dealing a blow to creditors' assumptions that the Arab emirate would guarantee the conglomerate's liabilities.

"Creditors need to take part of the responsibility for their decision to lend to the companies," said Abdulrahman al-Saleh, director general of Dubai's department of finance. "They think Dubai World is part of the government, which is not correct."

United Arab Emirates stocks plunged on Monday as investors waited for clarity on Dubai's request for a delay until May 2010 on repaying billions of dollars in debt issued by Dubai World and its Nakheel unit, developer of three distinctive palm-shaped islands in the emirate.

Saleh's remarks in an Arabic-language interview to Dubai TV, a station owned by the ruler of Dubai, came after UAE markets closed.

"They have confirmed there is going to be a restructuring and are doing what they can to differentiate between the government and companies," said Mohieddine Kronfol, managing director at Algebra Capital.

"It doesn't take away from the fact that you have a major potential event that is unraveling. People's expectations aren't going to be met with this announcement."

Pledges of financial support have come from the UAE's central bank, helping to steady global markets.

The central bank promised additional liquidity to local banks and an official in Dubai's oil-exporting neighbor Abu Dhabi said on Sunday it would offer selective support to Dubai firms.

But Michael Ganske, head of emerging market research at Commerzbank in London, said a default, which could ultimately benefit the region, "is becoming more likely."

"At the end of the day it should be positive for Dubai, Dubai's sovereign risk should go down," he said.

Dubai World — which had \$59 billion of liabilities as of August — shocked investors last week with news of the standstill request while it restructures, along with its property developer Nakheel. The agreement would affect about \$5.7 billion of debt due to mature before the end of May.

Nakheel earlier on Monday asked for three of its Islamic bonds, worth a total of \$5.25 billion, to be suspended on Nasdaq Dubai until it was in a position to "fully inform the market."

## **Not the guarantee of government**

Saleh made clear on Monday that while the government owned Dubai World, the conglomerate had long operated as a standalone entity and was never guaranteed by the emirate's government.

"It deals with all parties on this basis and it borrows based on ... its projects and not the guarantee of the government," Saleh said.

When contacted by Reuters and asked whether Dubai could still repay its Nakheel bond, Saleh declined to comment.

Dubai World Chairman Sultan Ahmed Bin Sulayem also declined to comment on Monday. Other Dubai World officials could not immediately be reached.

John Sfakianakis, chief economist at Banque Saudi Fransi-Credit Agricole Group, said the distinction between the Dubai government and the flagship company appeared minimal.

"What role does the sovereign play? This continues to create uncertainty," he said from Riyadh. "Their motivation is to make a distinction between the two, but the difference ... is nebulous."

Saleh said he believed the market reaction to last Wednesday's announcement by Dubai World, which initially shook global financial confidence, was exaggerated.

"The restructuring is a wise decision that is in the interest of all parties in the long-term but might bother creditors in the short term," he declared.

He doubted the extra liquidity promised by the UAE central bank would be required.

"I think banks are not at a stage where they need any extra liquidity from the central bank," he said.

Dubai World is one of the emirate's big holding firms, along with Dubai Holding and Investment Corporation of Dubai.

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