

## **Consumer splurge threatens UAE economy**

June 29, 2008

DUBAI (Reuters) - Rampant consumerism in the United Arab Emirates -- home to Dubai, the self-styled capital of conspicuous consumption -- could damage the economy and hinder the Gulf oil producer's efforts to become self reliant, a government report said.

Consumer spending in the second-largest Arab economy jumped 17.7 percent to 319.87 billion dirhams (43.7 billion pounds) in 2007 -- more than double its level five years earlier, the Abu Dhabi Department of Planning and Economy said in a report.

Per-capita spending in the country of 4.1 million people is about \$27 a day, some eight times higher than average daily spending in the rest of the Arab world, the department said. The UAE imports about 85 percent of consumer goods, it said.

"The expansion of consumer spending at the expense of savings and investments has, and will continue to have, adverse effects on the local economy," the department said.

"This alarming consumption rate could, in the future, constitute a big hurdle in the face of any plans to transform the country from being a consuming to a producing nation."

In Abu Dhabi, the UAE capital, families spend about 60 percent of their monthly salaries, according to a survey conducted last year, the department said.

The world's fifth-largest oil exporter has been investing windfall revenues from a seven-fold rise in oil prices since 2002 to diversify its economy away from a reliance on oil, building infrastructure, financial services and real estate.

Dubai, home to palm frond-shaped islands and a mall featuring an indoor ski slope, has become a business and retail hub, known across the region for boasting designer fashion labels and holding an annual Dubai Shopping Festival that attracts flocks of regional tourists.

"Some of the woes that have beset the UAE's economy have to do with this pervasive culture of consumer spending," the department said.

The consumer culture has led to "hidden poverty" in the country, "where a certain segment of the society seek to possess luxurious items at the expense of essential goods," it said.

Consumer lending in the UAE has doubled in the last four years, soaring almost 47 percent in the year to March as the country, which pegs its dirham currency to the dollar, slashed interest rates in line with the United States.

Real interest rates in the UAE -- which reflect the official rates changed by banks minus inflation -- are negative, spurring demand for credit. Inflation in the UAE hit 11.1 percent in 2007, its highest level in at least 20 years.

"The combination of easy loans in addition to advertising and media propaganda have all combined to plunge consumers into a quagmire of spending," the department said.

**Source: Reuters UK**

<http://uk.reuters.com/article/companyNewsMolt/idUKL2959468920080629>