

High consumption hurts UAE economy

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Dubai: A relatively high consumer spending that accounts for almost half of the UAE's gross domestic product (GDP), could have adverse affect in the country's economy, said a latest report issued by the Department of Planning and Economy (DPE) in Abu Dhabi.

The UAE's GDP rose by 122 per cent during the last five years from Dh144 billion in 2002 to Dh320 billion in 2007.

"This means consumer spending has been on the rise at the average annual rate of 18 per cent, a rate that is twice as high compared to the overall economic growth rate of the country during the same period," DPE said.

Semi-official statistics indicate that per capita consumption in the UAE is seven-fold higher compared to the average spending in the rest of Arab countries.

"The expansion of consumer spending at the expense of savings and investments have, and will continue to have adverse effects on the local economy, particularly in view of the fact that 85 per cent of consumer goods are imported from foreign countries," it said.

"This trend obviously affects the trade balance of the country. More importantly, cash flow from the UAE to international markets would continue unabated," the DPE said.

"Local economic institutions would merely be turned into importing rather exporting institutions for consumer goods and services. This trend has already plunged the UAE to the top of Arab consumer spending," the department added.

Higher spending means lower savings.

"This is alarming," Dr. Amzad Hossain, Assistant Professor of Economics and Finance at Al Ain University said.

"Disposable income is consumption and savings. The more you spend, the less you save, thus lower investment, which is not good for the economy," Hossain said.

Source: GulfNews

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