

# High asset prices, oil's fall to hurt Gulf banks: expert

By Pratap John

**DOHA:** Qatar has not yet seen an "asset bubble" that has become a major problem in many Gulf countries, a prominent UK banker has said.

John R Wright said inflated asset prices have become a "major challenge" for some Gulf countries though Qatar is better off because it is rich in resources and the government is earning a substantial revenue from its energy trade.

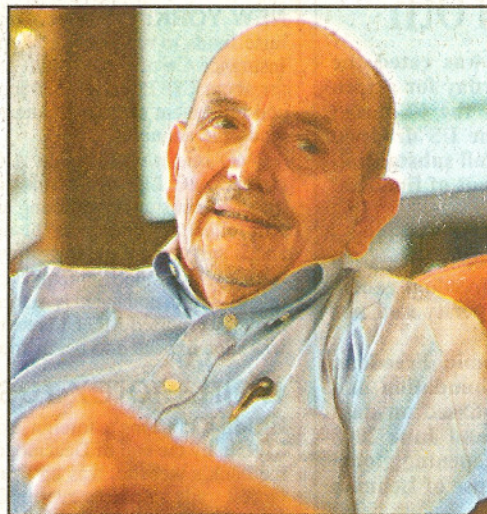
"But because the asset prices have scaled up in Qatar, there ought to be some adjustments down the road," he said in an interview with *Gulf Times* yesterday.

Wright said inflated asset prices and sharply reduced revenue from oil and gas would land regional banks in a double whammy situation. These will impact their balance sheet to a greater degree this year.

Gulf banks' exposure to the property sector is "hitting them badly" in the current economic crisis.

"What we see now is an adjustment in the real estate sector, after a period of explosive growth. Property correction has begun in the region and will continue. During my April 2008 presentation in Doha, I had cautioned regional banks against their exposure to real estate. Those chickens have now come home to roost," said Glasgow-based Wright, who has worked as the CEO with two major banks in Oman and Kuwait.

"There is a certain risk emerging out of the double whammy situation being faced by the regional banks. As they run into difficulties, the first



**Wright ... Qatar better off on rich resources.**

thing they may do will be to stop doing anything. They will then put all lending proposals under the microscope. Every single proposal will slow-down, be reviewed, and repriced. The chief risk officer in a bank thus becomes very powerful," he said.

But, Wright said, it would be very detrimental to the smooth running of the economy. "The borrowing cost will go up even as the lending avenues get narrowed," he said.

The region's lenders face the same liquidity issues which banks face elsewhere, said Wright,

who has some 43 years of international banking experience. "In spite of the government investing in three major and three smaller banks in the UK, and guaranteeing its inter-bank market, they still have got some liquidity issues to tackle. It will be a while before confidence comes back to the market again," he said.

Wright said declining oil prices mean the Gulf governments will have only less money to spend this year.

"Obviously, they will complete the projects they have already rolled out. But the Gulf governments may not be able to make any new commitments in these testing times," he said.

This, Wright said, would be "bad news" for companies that have geared up in terms of manpower and equipment and positioned themselves to do business in the region.

"They may have to wake up to the reality that those business opportunities have gone for now," he said.

Wright does not see the prospects of a major global economic recovery before 2012. "The problem started in your region only recently. It first hit the US and then Europe. I think the tight market conditions may persist until 2011-end. By then some toxic assets will have been written down and written off," he said.

The social consequences of people losing jobs are "huge", he said. The governments world over will have to tackle them somehow.

The regulators, policymakers and administrators must sit together, take stock of the situation and prevent such situations from occurring again, he added.