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Dubai in deep water

Debt crisis hits world stock markets and currencies

Patrick Hosking, David Robertson

Fears of a dangerous new phase in the economic crisis swept around the globe yesterday as traders responded to the shock announcement that a debt-laden Dubai state corporation was unable to meet its interest bill.

Shares plunged, weak currencies were battered and more than £14 billion was wiped from the value of British banks on fears that they would be left nursing new losses.

Nervous traders transferred the focus of their anxieties from the risk of companies failing to the risk of nation states defaulting. Investors owed money by Mexico, Russia and Greece saw the price of insuring themselves against default rocket.

Although the scale of Dubai's debts is comparatively modest at \$80 billion (£48 billion), the uncertainty spooked the markets, with no one sure who its creditors are. Several banks rushed out statements to reassure investors that their exposure was small.

The FTSE 100 plunged by 171 points to 5,194 — its biggest one-day fall in eight months in one of the most jittery days in the financial markets since the depths of the banking crisis.

The Treasury, the Bank of England and the Financial Services Authority were monitoring events closely and



£14bn
Value lost by UK banks
From Jan to yesterday's close

are demanding figures from UK banks on their loan exposures to Dubai.

According to a senior government official, Dubai's crisis is regarded as modest and manageable for Britain, but there were growing fears that Abu Dhabi, the oil-rich neighbouring emirate that has in the past given rescue loans, would leave Dubai to its fate.

Dubai World, the state-owned corporation that began the panic on Wednesday by demanding a standstill



Work has been halted on the artificial islands and Dubai World owes £36 billion. The World, top, was sold off-plan but not built. Palm Jumeirah, centre, has been sold and is partly built. Palm Jebel Ali, bottom, is also undeveloped

on its interest payments, worsened the mood when it postponed a *tele* conference for its bond holders, saying the phone lines were overwhelmed.

Gerard Lyons, chief economist with Standard Chartered, said: "The market reaction shows how vulnerable some economies are to the aftermath of the debt binge. This highlights how fragile confidence is."

The Eid al-Adha religious holiday in the Middle East, and the closure of



171pts
Lost by the FTSE 100
From Jan to yesterday's close

financial markets in the United States for Thanksgiving, exacerbated the sense of uncertainty in markets that were open for business.

A computer crash at the London Stock Exchange, which by coincidence is 21 per cent owned by the Dubai Government, left dealers unable to trade for three and a half hours.

Shares in HSBC slumped by 5 per cent, wiping £6.2 billion from its value. According to the United Arab Emirates Banks Association, HSBC has £11 billion of loans outstanding to the UAE, of which Dubai is one of seven emirates. HSBC declined to comment.

More than £2.6 billion was slashed from the value of Barclays, while Lloyds and Royal Bank of Scotland, both partly owned by the taxpayer, saw their values fall by £1.7 billion and £1.5 billion respectively.

One analyst said that the fears were overdone because Abu Dhabi would eventually come to the rescue to save the UAE from embarrassment. Dubai World has liabilities of £36 billion, about three quarters of Dubai's total state debt. Its subsidiary Nakheel built The Palm Islands development, but the property bubble in the emirate burst a year ago, leaving buildings unfinished, debts unpaid and paper fortunes erased.

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Ian King, page 61

IN THE NEWS

Relief for the City

Hopes were rising in Britain that France would be denied influence in how the City is run when José Manuel Barroso, the head of the EU Commission, unveils his new executive today. News, page 5

Nato general quits

A Nato general has been forced to quit after dozens of Afghan civilians were killed in an air raid. The scandal throws a spotlight on Germany's strategy towards Afghanistan. World, page 47

Iran seizes prize

Iran's hardline regime has confiscated the Nobel peace medal and diploma of the human rights lawyer Shirin Ebadi, one of its most potent critics, and frozen her bank account. News, page 3

Water bills to rise

Millions of households will see their water bills rise by 29 per cent over five years after Ofwat, the regulator, rowed back on its tough stance against the water companies. Business, page 60

Buy-to-let returns

Professional landlords are reporting higher demand from tenants and improved rents and those with money in the bank are taking the opportunity to snap up bargains. Bricks&Mortar, inside

Inside today

'Film premieres are like Dante's Hell'

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