

BUSINESS CASE STUDY

The effect of macroeconomic policy intervention on businesses

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According to Forbes, Emirates Airlines has recently become one of the biggest and most successful commercial carriers in the world. In addition to the acquisition of the latest planes and being always equipped with the most advanced technology, every year new routes are being added.

What is the main reason of this enormous success after the 2008 crisis? A combination of monetary and fiscal policies of the government that helped Dubai recover promptly after the 2008 global financial crisis, and led local companies such as Emaar real estate and Emirates Airline to experience an enormous boom.

During the financial crisis, Emirates Airlines initially fell into significant debt and was unable to repay its investors. Local real estate companies were also on the edge of bankruptcy, and investors were threatening to take their money and leave. However, the UAE central bank started injecting money in the market by selling bonds and adjusting the inter-bank discount rate to stimulate investments. The reduction in the inter-bank discount rate enabled banks to borrow more money from other banks to meet liquidity requirements. In addition, the government also played a critical role in supporting the economy by introducing "The Dubai financial support fund" under the supervision of Dubai's Supreme Fiscal Committee. This program helped fund government and governmental entities by issuing financial instruments including bonds and *sukuks* (an Islamic financial instrument that is similar to a bond but that abides by the Islamic laws which prevents lending money for interest), investing in commercial projects, establishing investment funds, and providing liquidity for strategic projects. This

government intervention on the macro level, as well as Dubai's extensive investment in its infrastructure, made the city a magnet for businesses.

In addition, taking into consideration the multiplier-effect, governmental spending in infrastructure reduced unemployment from 10.7% in 2005 to 2.6 % in 2015 (arabianbusiness.com), created business opportunities, increased consumer spending and created a significant supply of money in the market, which has acted as a stimulus for the economy.

On the other hand, too much intervention from the government and central bank might cause inflation and hence cause a new bubble to burst. Fiscal and monetary policies should be used only as temporary stimulants, but not as a permanent solution.

Sources

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