Qatar smoothly navigating turbulent waters

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The market in Qatar continues to be strong beyond expectations and the economy continues to prosper despite the ongoing geopolitical events in the region. The banking sector has remained strong and stable and State entities are paving the way for more diversification in the market.

The Qatari banking sector in general has found its feet more so this year than last as local financial institutions reached out to secure global capital to compenstate for the the impact of the blockade, which saw regional banks pull back from Qatar. This has increased local market liquidity.

Yousef Al-Jaida, CEO of the Qatar Financial Centre (QFC), confirmed that Islamic financing remains a core focus area for both the State of Qatar and the QFC. The Qatari authority continued to develop its ties with Muslim countries in the Southeast Asian region, particularly Pakistan and Bangladesh. The QFC is looking to spend a US$2 billion to create a leading financial services hub that will rival any in the region. This level of focus and drive on the Islamic finance industry makes Doha a city to watch in 2019.

Review of 2018

The performance of companies listed on the Qatar Stock Exchange (QSE) shows that liquidity and confidence have returned to the markets. The combined net profit of all companies as of the 30th September 2018 amounted to QAR31.1 billion (US$8.5 billion) versus QAR29.1 billion (US$7.94 billion) for the corresponding period in 2017, an increase of 6.74%.

One of the most significant highlights of the year for the Qatari Islamic banking sector was the listing of Al Rayan Qatar ETF (stock exchange ticker: QATR) on the QSE. This marked the listing of Qatar's first Shariah compliant exchange-traded fund and the largest single-country Shariah compliant ETF in the World.

State spending continues to drive forward the economy and Qatar issued a US$12 billion sovereign bond, which represents amongst the largest placement by an emerging market sovereign in the year. That was followed by the acquisition of more shares in Credit Suisse by Qatar Investment Authority, the sovereign wealth fund of Qatar, making the Authority the largest investor with a 5.21% stake.

It is encouraging to see that confidence in the local market is on the rise. Moody's upgraded the Qatari banking sector outlook to stable from negative. The sector reported 3.5% growth in credit year-on-year and a rise in deposits from non-residents and the private sector. This demonstrates the strong performance of the banks in Qatar despite the ongoing regional geopolitical tension.

The Islamic banking sector in the State received a further boost from the IFSB as their data showed that Qatari Islamic banks are growing despite the Gulf crisis. Qatar Islamic Bank, Masraf Al Rayan, Qatar International Islamic Bank, and Barwa Bank held a combined QAR358.6 billion (US$97.98 billion) in assets in the first quarter of the year, an 8.8% increase from 2017.

Negotiations concerning the much-talked-about tripartite merger between Masraf Al Rayan, Barwa Bank and International Bank of Qatar came to a dead-end in 2018. However, towards the third quarter of the year, Barwa Bank and International Bank of Qatar

announced the confirmation of the merger of the two banks to create a leading Shariah compliant financial institution. The combined entity would have total assets of QAR80 billion (US$21.86 billion). The deal is pending approval from the bank's shareholders and regulators. If successful, the enlarged entity would have a 6% share of Qatar's overall banking market.

Masraf Al Rayan announced earlier in the year that Al Rayan Bank UK, which is 68.84% owned by Masraf Al Rayan, will be completing the first-ever issuance of a Sukuk valued at GBP250 million (US$319.45 million) utilising residential mortgage-backed securities; making it the first bank to issue Sukuk outside an Islamic country. The Sukuk will be the largest-ever pound sterling issuance of a Sukuk by a UK entity.

Qatar Islamic Bank (QIB) sold its full stake of 60% in Asian Finance Bank, an affiliate in Malaysia, to Malaysia Building Society with QIB receiving cash proceeds of RM357.2 million (US$85.05 million). QIB also increased the limit of foreign ownership its share capital to 49% and this marked a significant step forward in the diversification of ownership in the Qatari banking sector and financial markets. The bank's financial strength rating went up in 2018 to 'A' with a stable outlook by Capital Intelligence Ratings and has been recognized as 'Qatar's Best Consumer Digital Bank of 2018' by the Global Finance Magazine.

Preview of 2019

It is our view that the Qatari economy will get stronger and busier in 2019 as the World Cup nears and projects reach completion. Many of the infrastuture development that was earmarked for completion before the 2022 deadline has made good progress and is likely to be delivered before the critical deadlines. The Metro is one such example.

The delivery of infrastucture will free up further liquidity in the banking sector and local family offices and business will benefit from this. This sector has previously had to compete with mamoth, low risk government projects for bank attention.

Conclusion

The blockade of Qatar by some of its regional neigbours has had a massive silver lining for the State as it has been forced to forge new alliances globally. This has improved Qatar's internal efficiencies and has also meant that local institutions have started to gain traction globally. This can only be good for Islamic finance in Qatar next year. We are optimistic that 2019 will bring greater opportunity for Islamic banks in the State who are looking to deploy capital in country and abroad.