Qatar – an unexpectedly tough year

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Another year has flown by, a turbulent year that has not been shy of crises and controversies in Qatar. It cannot be denied that the change in the geopolitical situation in the GCC as a result of a number of countries severing all diplomatic ties with Qatar and blocking all borders (air, land and sea) has raised some concerns and has had an adverse impact on the Qatari economy. However, the State of Qatar's key decision-makers in the banking and finance sector have made reassuring statements about the Qatari economy and have backed those statements with actions that have allowed the economy to remain on a steady course.

Both the governor of the Qatar Central Bank (QCB), Sheikh Abdullah Saoud Al-Thani, and Ali Sherif Al Emadi, the minister of finance, have repeatedly conveyed and affirmed the message that Qatar's banking sector is functioning normally, without disruptions to any domestic or international transactions. They have reiterated that the value of the reserves and investment funds of Qatar are more than 250% of GDP and that there is no reason that people need to be concerned about the future of Qatar during these difficult times. In short, the crisis couldn't have come at a better time.

Qatar's economy was given a boost due to local activity undertaken to fill the gaps created by the untimely exit of regional players. As such, the local sentiment remains strong. The drive toward increasing foreign direct investment has been fast-tracked with entities like the Qatar Financial Center, Qatar Development Bank and the Economic Zones Company taking the lead in pulling in investors to Qatar. There has also been an announcement that Qatar will increase its liquefied natural gas production to 100 mega tonnes per annum (an increase of 30% on current capacity).

Review of 2017

Although the performance of companies listed on the Qatar Stock Exchange (QSE) has been affected year to date, the impact has not been significant. The combined net profit of all companies as of the 30th September 2017 amounted to QAR29.3 billion (US$7.59 billion) versus QAR31.1 billion (US$8.06 billion) for the corresponding period in 2016, a decrease of 5.79%.

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Nevertheless, there were a number of key transactions that occurred on the QSE this year. The IPO of the Investment Holding Group was announced at the end of 2016 and was completed in August 2017, marking the second listing on the QSE in the last eight months following the listing of Qatar First Bank back in May 2016. It is expected that more entities will complete their IPOs during 2018, a trend that will be much encouraged by the local authorities.

The Islamic banking community in Qatar has been following the proposed tripartite merger between Masraf Al Rayan, Barwa Bank and International Bank of Qatar, which will create the largest Shariah

compliant bank in the State of Qatar and the third-largest Shariah compliant bank in the Middle East, with assets worth more than QAR160 billion (US$41.45 billion) and a share capital of more than QAR22 billion (US$5.7 billion). The proposed merger remains subject to internal approvals and permission from the Qatar Central Bank, the Qatar Financial Markets Authority and the Ministry of Economy and Commerce.

Qatar Islamic Bank (QIB) issued a US$750 million five-year RegS only Sukuk offering. The Sukuk facility was issued at par with an annual profit rate of 3.25% (payable semi-annually), representing a spread of 135bps over five-year midswaps. QIB also announced the launch of its second series of certificates of deposit, which will be available for individuals and corporate customers in the Qatari riyal and US dollar for different tenors of one and two years. The annual profit of QIB's certificates of deposit in the Qatari riyal is expected to be 3.25% for one year and 3.75% for two years.

Qatar International Islamic Bank (QIIB) recently announced the acceptance by Bank Al Maghrib, the central bank of Morocco, of QIIB's submission for the establishment of a bank in the Kingdom of Morocco in partnership with CIH Bank (Credit Immobilier et Hotelier), a Moroccan bank. QIIB also approved the establishment of a Sukuk program of up to US$2 billion as well as an extension of its approval to issue additional Tier 1 Sukuk nonconvertible into ordinary shares of up to QAR3 billion (US$777.14 million) and approved the increase of the cap of its Tier 1 additional Sukuk from QAR5 billion (US$1.3 billion) to QAR7.5 billion (US$1.94 billion). QIIB also recently announced that it has established a US$2 billion trust certificate issuance program, which was approved by the UK Financial Conduct Authority (FCA) (and is expected to be admitted to the official list of the FCA and the London Stock Exchange soon). The program has been assigned a provisional rating of 'A2' by Moody's Investors Service Cyprus and an expected rating of 'A' by Fitch Ratings.

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The Commercial Bank of Qatar (CBQ) has entered into negotiations with Tabarak Investments for the sale of the Commercial Bank's stake in United Arab Bank, a publicly listed entity on the Abu Dhabi Securities Exchange. The CBQ owns a 40% share in United Arab Bank. If the current geopolitical situation does not improve, then we expect to see further divestments from local businesses.
During the year, QInvest launched the Magnolia Real Estate Fund and stated that the fund is focused on investing in the fast-growing, income-generating multifamily residential market in the US and it has completed an acquisition of an outstanding asset in Denver, Colorado. QInvest also completed an investment into OneOcean Port Vell in Barcelona, Spain. The investment was made through its wholly-owned subsidiary BOH, and was made in conjunction with an investment partner.

During the year, Qatar National Bank (QNB) announced the successful completion of a Formosa bond issuance under its euro medium-

term note program and listed on the Taipei Stock Exchange. Under this program, a US$630 million tranche was issued with a maturity of 30 years callable every five years. This was a Reg S issue. QNB also launched its operations in the Republic of India by opening its first branch in Mumbai.

Preview of 2018

Despite the turbulent year and recent reports and events in the region, the banking sector has largely remained intact and stable. The Qatari market continues to transform and evolve to deal with the regional headwinds faced and it is expected that the banking sector will continue to grow and adapt to the new strategy of the State.

It is hoped that 2018 will see the Qatari economy become more mature, versatile and diverse and the banking sector increasingly resilient. The key developments to watch are the impact of the Qatar blockade and wider regional politics on the whole in the GCC. This will have an impact on the landscape locally and will also dictate priorities for the State. We expect government spending will continue to drive forward the economy and that the mega projects that have played a key role in the growth of Qatar will continue to provide opportunities for local and international investors. What is uncertain is the level of regional investment that may occur next year and this can only be judged as time goes on.

Conclusion

Qatar has had an unexpectedly challenging year in 2017. While oil prices have stabilized and it was felt that the economy would strengthen, external geopolitical events have posed a great threat for all economies in the region.

Things are stabilizing and it is expected that, as is the case elsewhere, Middle Eastern economies will continue to develop such that they become more resilient to political turmoil. Next year should see the gradual easing of tension as some of the political issues are resolved. This will help to reinvigorate the local economies and the Islamic finance sector in Qatar and its neighbors.