QATAR: Setting new course for growth
Out of adversity, comes opportunity, goes the saying. No-one would pretend that things have been easy for Qatar. But the Gulf state has demonstrated that in the face of some challenging conditions, its economy has prospered. Rather than sit back, Qatar has taken the initiative and significantly expanded its international trading relationships.

As Economy Minister Sheikh Ahmed Bin Jassim Bin Mohammed Al Thani told Bloomberg in early September, the embargo may even have been a “blessing” for the gas-rich nation’s economy.

The IMF has attested to the country’s resilient growth performance, underscoring how the direct economic and financial impact of the diplomatic rift between Qatar and some regional countries has been manageable for Doha.

After its Article IV consultation with Qatar that concluded in May, the Fund said that considerable buffers and sound macroeconomic policies had helped Qatar successfully absorb shocks from lower hydrocarbon prices and the diplomatic rift.

The near-term growth outlook is broadly positive. Overall, GDP growth of 2.6% is projected for 2018 – though other analysts put it higher still. Public finances remain in a robust position, with the underlying fiscal position continuing to improve. The fiscal deficit is estimated to have narrowed to about 6% of GDP in 2017 from 9.2% in 2016, says the IMF. National Bank of Kuwait’s research team forecast the fiscal deficit to decline further to just 1.2% in 2019.

The stronger foundations follow government-backed measures aimed at fiscal consolidation, with reductions to subsidies and the introduction of a series of government efficiency measures. This helped bring public expenditure down by 12% in 2017. Additional support has come with the strengthening of oil prices this year, and additional non-hydrocarbon revenue streams, such as VAT, which is on course to be implemented next year.

Since the boycott began, Qatari exports have risen 19%, while its global trade climbed 16%, Sheikh Ahmed told Bloomberg. “The blockade on Qatar from an economic point of view is behind us,” he said.

Qatar’s economic diversification strategy has helped it deal with dislocation in the supply chain caused by the embargo. The embargo’s impact in suppressing imports was mostly transitory, noted the IMF, and new trade routes were quickly established. The rerouting of trade led to a significant recovery in imports. And the implementation of key infrastructure projects was unaffected due to the availability of inventory of construction materials and alternative, and competitive, sources of imports, it said.

Although bank deposits and inter-bank placements fell by about $40bn (11% of total liabilities) in the wake of the blockade, the decline was offset by liquidity injections by the central bank and public-sector deposits, particularly from the Qatar Investment Authority (QIA), the country’s sovereign wealth fund.

“I take solace from the fact that the local economy has all but weathered the negative effects of the economic blockade,” says Adel Mustafawi, Group CEO of Masraf Al Rayan, a Qatari commercial bank. “In fact, local economic growth in Qatar has picked up from the second quarter onwards, benefitting from increasing construction activities in anticipation of finishing 2022 World Cup projects. The hydrocarbon sector has also been positively contributing to the growth story with increased output levels. As a result, the consensus is that Qatar’s GDP growth rate can reach above 3% in 2019-2020.”

Ratings agencies have lauded the Qatari...
authorities’ use of the country’s large fiscal and external assets to mitigate the impact of the boycott. S&P expects the authorities to continue the key macroeconomic policies of the QR461bn ($127bn) infrastructure development plan for 2015-2024. It said the Qatari authorities’ policy response to falling oil prices since 2015 has been relatively strong, covering the reining in of current expenditures, merging line ministries, and implementing numerous cost-saving initiatives within its core government-related entities. Fiscal deficits have been modest as a result.

The past year has also provided an opportunity for Qatar to broaden its horizons, diversifying its trading and commercial relationships well beyond the confines of the Gulf Cooperation Council. Rather than losing “a 110-million market, Qatar had opened a 400-million market,” Sheikh Ahmed told Bloomberg – taking in countries including Turkey, Azerbaijan, Armenia, Pakistan, Iran and central Asia.

Turkey remains a close trading partner, with Qatari-Turkish trade growing by 30% in H2 of 2017. Turkish companies are heavily involved in the Qatar economy, working on some $11bn worth of projects including those related to the FIFA 2022 World Cup. In light of the Turkish lira’s recent problems, Qatar pledged to invested up to $15bn in Turkey to support Ankara’s effort to shore up its financial system.

Back home, Qatar has worked hard to capture foreign investor interest. “Qatar’s economy has been enriched with different investors taking interest in the country due to the 2022 World Cup and a number of billion-dollar mega projects related to the National Vision 2030,” says Bassel Gamal, Group CEO of Qatar-based QIB Group. “The economic diversification, strengthening foreign investments and upgrade of Qatar’s financial capabilities are key factors pointing to further domestic business growth and opportunities for all banks present in the country.”

Prospects for 2019 have been boosted by stronger growth, due in part to rising LNG production and the stronger oil prices.

“The government has renewed its commitment to spending on major projects in the build-up to the 2022 FIFA World Cup and in realisation of the National Vision 2030 which presents financing opportunities. The economic blockade has also resulted in new types of opportunities with government-led initiatives related to economic self-sufficiency, such as transport and logistics, food production, tourism and LNG downstream industries using abundant feedstock,” says Joseph Abraham, Group CEO of Commercial Bank of Qatar.

Qatar National Bank (QNB), the country’s largest lender, has revised its average oil price forecast up to $72bn 2018 and $69bn in 2018. “Strong global demand and various supply disruptions will keep prices firm heading well into 2019 before slowing global GDP growth and increased US shale supply damp prices somewhat,” says Ali Ahmed Al-Kuwari, QNB Group CEO. He projects Qatar’s GDP growth to gain by a solid 2.6% in 2018 as headwinds from the hydrocarbon sector abate and the booming construction sector drives non-hydrocarbon growth.

“Government policies to promote private-sector development are also lifting domestic demand,” says Al-Kuwari. “We anticipate non-hydrocarbon GDP growth of 5% in 2018, rising to 5.3% in 2019, and hydrocarbon GDP at a modest growth of 0.2% in 2018, which would end four years of declines. Overall GDP growth is seen at 3.2% in 2019.”

Qatar is benefiting from the judicious completion of key infrastructure projects, notably the $74bn Hamad Port, which as finished at the end of 2018 and which will bolster Qatar’s plans to become regional transport hub.

Looking forward, there is a growing attention on the country’s hydrocarbons sector, particularly its prize asset – its natural gas industry. Qatar has the world’s third-largest proven natural gas reserves. By the end of this year, the 1.4bn cubic feet a day Barzan gas facility will come on stream, providing gas feedstock to a series of domestic downstream industries. Plans also call for Qatar to expand its gas liquefaction capacity by 30% to 100m tonnes a year (t/y), with state energy company Qatar Petroleum planning to add three 78mm-t/y LNG trains by 2023. This will help Qatar maintain its position as the world’s leading liquefied natural gas (LNG) exporter, amid increasing competition from new market entrants.

Last year, QP announced an end to the 12-year moratorium on drilling in its giant North Field. That will pave the way for more gas to be diverted to LNG exports over time. More recently, Qatar struck a major deal to supply 3.4m t/y of LNG to China over a 22-year period.

The government is meanwhile keeping its foot on the reform pedal, for example announcing legislation to end the system of exit visas which had required almost 2 million expatriate workers to obtain their employers’ permission to leave the country. Another recent law allows children and spouses of Qatari women married to non-Qataris to acquire permanent residence status.

This year, the International Labour Organization (ILO) inaugurated its first project office in Qatar to support the implementation of a comprehensive programme on working conditions and labour rights in the country. Qatar’s Minister of Administrative Development, Labour and Social Affairs Issa Saad Al-Jafali Al Nuaimi, reiterated Qatar’s commitment to the implementation of this programme which he said is fully in line with international standards and best practices, as well as with Qatar's National Development Strategy 2018-2022.

Other measures have made it easier for non-Qataris to obtain visas to visit the country. According to the World Tourism Organization, Qatar has become the most open country in the Middle East and the 8th most open in the world in terms of visa facilitation. Nationals of 88 countries can enter Qatar visa-free and free-of-charge, including Indians, Chinese and Russians.

The IMF has supported the Qatari authorities’ efforts to enhance economic diversification and promote private sector development, welcoming reform efforts related to the labour law, privatisation, special economic zones, and increased foreign ownership limits. The Fund noted that laws promoting equal remuneration and discouraging gender-based discrimination would help contribute to inclusive growth. Additional measures to improve the business environment, including contract enforcement and reform of the insolvency mechanism, will boost private sector growth prospects.

All this will give additional confidence to local business leaders, as they look to build for growth. “The future is bright for Qatar with or without any regional political bickering. It has always been,” says Masraf Al Rayan’s Mustafawi.
Governor steers a steady course for Qatar

Qatar Central Bank Governor Sheikh Abdullah bin Saud al-Thani says that after showing the country’s resilience last year, it is poised for a new phase of growth.

In June of this year, Qatar Central Bank governor Sheikh Abdullah Bin Saud Al-Thani saw his term of office extended for a further five years – recognition perhaps of his assured handling of a sometimes challenging brief over recent years.

Sheikh Abdullah played a key role ensure that the imposition of an embargo by some Gulf states last year left little collateral damage. Indeed, as he notes, Qatar’s economy has been thriving.

The latest data shows some impressive metrics. Real GDP growth expanded by 1.4% in Q1-2018, primarily driven by the strong performance of the non-hydrocarbon sector. Strong growth in construction, manufacturing and others emerged as key drivers of economic growth.

Although Qatar’s hydrocarbon sector recorded a marginal decline – a result of the production cut under the OPEC+ agreement – nominal GDP growth expanded at a much higher rate of 7% due to pick-up in global crude oil prices.

Other economic indicators also remained supportive to the overall growth performance. Leading indicators point towards a gain in momentum in Q2 2018.

“Industrial production during April and May 2018 shows successive month-on-month gains in both mining and manufacturing. Inflation has meanwhile remained benign at around 0.4% during 2018 so far. With the substantial recovery in exports and oil prices, the current account balance increased progressively and stood at 7.3% of GDP in Q1 2018,” says Sheikh Abdullah.

With the further increase in trade surplus in the second quarter of 2018, the current account surplus is set to expand.

“We have been continuously strengthening our regulatory and supervisory systems to ensure that the financial system remains safe, stable and solid”

Governor Sheikh Abdullah bin Saud al-Thani

The overall economic outlook remains positive for 2019. “In view of the present global and domestic demand conditions, real GDP growth is expected to grow higher than the trend level in 2019,” Sheikh Abdullah predicts. "Inflation is expected to remain stable and conducive to growth and development. With the recovery in global oil prices, fiscal and current account balances are also expected to improve further and will bring stability to the economic outlook.”

What explains this strong performance? The resilience shown by the economy is a combination of factors including policy measures by QCB, the recovery in oil prices and economic diversification strategy followed over years.

“The strength of non-hydrocarbon sector growth reflects the importance of our diversification strategy to encourage the domestic manufacturing base, construction sector and others. The impact of stronger oil prices can be seen on exports, which played the major role in boosting current account surplus,” says Sheikh Abdullah.

Proactive approach

The improvement in the current account balance has somewhat eased pressure on the fiscal balance. The governor says that the stability of banking sector mainly reflects the impact of the proactive measures taken by QCB to deal with the situation of withdrawal of non-Director deposits after the economic blockade.

Qatar’s success story reflects a variety of issues, says Sheikh Abdullah. "It is difficult to highlight one factor that played the major role in contributing to the resilient performance of the economy since the blockade imposed in June 2017."

So has the Bank’s policy of pumping liquidity into the system now been completed? Or is further action needed to ensure the banking system and economic are sufficiently supported?

"QCB’s active liquidity management with the support of the government has brought back banking system liquidity to complete normalcy,” says Sheikh Abdullah. "The primary liquidity in the banking system (as measured by deposits of banks with QCB and excess reserves) at end-July 2018 was more than five times the level at end July 2017, when liquidity..."
tightened sharply following the economic blockade. Provision of liquidity to banks by QCB through repo transactions has been minimal and intermittent since April 2018, with the outstanding amount being nil during the first half of August 2018.”

“The strength of non-hydrocarbon sector growth reflects the importance of our diversification strategy”

Governor Sheikh Abdullah bin Saud al-Thani

Dealing with the blockade
From the outset, QCB adopted a proactive approach to the embargo imposed in June 2017. First, it created a special task committee that meets daily to assess the impact of the blockade on the financial sector and the overall economy by monitoring high frequency data. However, as the impact was limited and addressable by normal conventional measures, major non-conventional measures were not adopted.

There was liquidity infusion into the banking system through public sector foreign currency deposits, while QCB provided foreign and local currency liquidity through liquidity windows including repo.

“The initial disturbance from outflows of non-resident deposits was well absorbed by the banks through proactive liquidity management with the guidance and support of QCB,” says Sheikh Abdullah. "Strong communications to market participants about our commitment to the currency peg and our deep reserves were used to ward off speculative and motivated attacks on the currency.”

Frequent stress tests were undertaken to assess the ability of the banking sector to withstand various stress scenarios. Further, banks, in consultation with QCB, drew up contingency plans to meet various stress conditions.

As the governor points out, non-resident (NR) deposits have already recovered substantially. After declining in the second half of 2017 to around QR 137bn in January, 2018, NR deposits have been secularly increasing to exceed QR 150bn by end June 2018 and are currently hovering a little below QR 170bn.

“A positive aspect of the recent rise in NR deposits has been the diversification of its sources as lot of these deposits are coming from Asia, Europe and the US. Thus, the concentration risks posed by NR deposits are less than those during the pre-blockade days. With economic diversification, the private sector deposits are also expected to pick up. In such a scenario, the share of government deposits in the bank deposits is expected to decline over time,” says Sheikh Abdullah.

Following best practice
Under Sheikh Abdullah’s watch, QCB’s focus in its regulatory actions has been to maintain financial stability through implementation of international standards and best practices.

A key part of this strategy is ensuring that the benefits are shared as widely as possible. “While the banks have the flexibility to pursue their own strategies for revenue generation, QCB is encouraging banks to pursue financial inclusion. A key element of this strategy is to nurture and promote the SME sector with the objective of economic diversification and promoting greater private participation. At the same time, QCB is focusing on developing a fintech strategy to create a ‘fintech hub’ in the country,” says Sheikh Abdullah.

Qatar’s April 2018 sovereign bond issuance met with a strong response, raising $12bn and was oversubscribed four to five times – despite the issuance of similar bonds by a neighbouring country earlier in the same week, with potential to tighten liquidity in the international debt market.

“The yields on the $12bn bonds were also lower than the similar issue by the neighbouring country and from our own expectations. Undoubtedly, it indicated international investors’ confidence on the strength of the Qatar economy despite the unjust economic blockade. Since then, our sovereign rating has also been upgraded by rating agencies,” says Sheikh Abdullah.

So will there be further approaches to the debt capital market?
“We had tapped dollar-denominated bonds from the international market to finance our infrastructure development, taking advantage of easy financial conditions and low interest rates. With the substantial rise in energy prices, there has been significant improvement in the fiscal position. Some rating agencies have even forecast a return to fiscal surplus of the general government this year itself. Thus, any further approach to the debt capital market would depend on the evolving circumstances though we are aware of the rising yields in the international debt markets,” says Sheikh Abdullah.

Sticking with the peg
Monetary policy is geared around ensuring that the exchange rate is targeted at the most appropriate framework. Given the nature of Qatari economy – still largely dependent on hydrocarbon exports – this approach has the IMF’s backing. “Our sufficient reserves and huge buffers from the past surpluses also provide comfort in adopting the framework without any constraints. The central component of our monetary policy framework continues to be maintaining the currency peg of 3.64QR = 1 US dollar so as achieve price and financial stability and support economic Growth,” says Sheikh Abdullah. Interest rates remain the main instrument of monetary policy, with which it guides short-term interbank interest rates and other deposit and lending rates of banks through liquidity management.

"While our policy rates largely respond to the policy rate moves of the US Federal Reserve, we give due considerations to evolving domestic economic conditions and try to ensure enough systemic liquidity that is consistent with the real economy,” he says.

In December 2017, QCB published the Second Strategic Plan (SSP) for Financial Sector Regulation 2017-22. The SSP will focus on guiding the State of Qatar in its future endeavours towards building a sound and resilient financial sector in order to ensure sustainable and inclusive economic growth.

Consistent with this objective, QCB has been focusing on two key initiatives. On the one hand, it is considering financial inclusion strategy that will seek to broaden the financial sector through both supply and demand side measures.

“A key element of this strategy is to nurture and promote the SME sector, consistent with the Qatar National Development Strategy (QNDS 2) objective of economic diversification and promoting greater private participation,” says Sheikh Abdullah.

QCB is also focusing on developing a fintech strategy to create a ‘fintech hub’ in the country. “We have been continuously strengthening our regulatory and supervisory systems to ensure that the financial system remains safe, stable and solid and is resilient enough to address unforeseen challenges,” says Sheikh Abdullah.
Q&A – Ali Ahmed Al-Kuwari, Group CEO, Qatar National Bank

Profits at QNB grew 7% in H1 2018. What is the main contributor to this performance, and do you expect the full-year to also show a positive earnings performance?

QNB’s strategy is to pursue sustainable profitable growth. QNB’s objective is to capture relevant share and risk-adjusted returns in markets that demonstrate strong macroeconomic and banking sector growth, higher than average net interest margins (NIMs) and a good mix between interest and non-interest income. We continue to experience strong growth in all our three core markets Qatar, Turkey and Egypt as well as from the rest of international network.

How do you explain the strong asset growth that QNB has recorded (up almost 13% in 2017)?

We continue to experience strong growth in all our three core markets Qatar, Turkey and Egypt as well as from the rest of international network. In H1 2018, Turkey accounted for 15.2% of group profits and 15% of group assets while Egypt accounted for 8.2% of group profits and 5.8% of group assets.

We stand out as a strong international bank, operating as a full-service financial institution in our core markets of Qatar, Turkey and Egypt, and as a wholesale commercial bank across a range of frontier and emerging markets in Middle East, Africa and South East Asia. We also have a growing presence in more developed economies, such as UK, France, Switzerland and Singapore. By doing so, we help to grow and protect wealth for all our clients through our range of banking services.

What has QNB done to ensure good asset quality?

QNB’s non-performing loans ratio was 1.8% as at 30 June 2018 reflecting the high quality of the group’s loan book and the effective management of credit risk. Additionally, our strong recovery efforts help reduce the net impairment charge on QNB’s loan book demonstrating strong credit quality of the bank’s asset base. Moreover, we maintain our conservative policy in regard to provisioning with coverage ratio at 110% during the same reporting period.

What measures is QNB undertaking to ensure improved efficiency of its operations?

QNB’s focus is on continuous improvement. Our drive for operational efficiency is yielding cost-savings in addition to sustainable revenue generating income streams. We target efficiency enhancement by leveraging technology and streamlining our processes to ensure better customer experience.

Furthermore, we have started a new programme to identify additional levers to generate revenue and cost synergies across the group. The primary objective of this initiative is to extract value across all business lines by leveraging capabilities, streamlining our global product offering and consolidating operations to improve efficiency.

Integration activities encompass aligning the acquired entities with the overall Group’s strategy, business and operating model as well as the brand. The roll-out of QNB’s global operating model across the network has improved QNB Group’s efficiency to better serve customers and provide a consistent level of service across all segments and geographies. This has enabled to strengthen our client proposition as the financial gateway to Middle East And Africa (MEA) – as exhibited by improvement in the efficiency ratio to 27.2%, as at June 30 2018. This is considered one of the best ratios among large financial institutions in MEA.

You conducted some fund raising on the international market in Q1 of this year. Can more such capital raising moves be anticipated?

At QNB, we always maintain a very healthy liquidity buffer, both in local and major currencies in the domestic market and remain opportunistic in the international markets with respect to our wholesale funding platform. This is to ensure the group’s capital adequacy ratio is higher than the regulatory minimum requirements of the Qatar Central Bank and Basel Committee as well as to sustain the continued growth of our book.

We have a well-established and diverse international wholesale funding platform. QNB’s funding base is spread across various geographies in terms of currencies, tenors and product mix. As demonstrated by our successful funding from the international markets during the first six months of 2018 which includes, amongst others, (1) capital market issuances of $560m with a 5 and 10-year maturity in Australia and (2) $720k bonds with 30-year maturity in Taiwan.

This reflects the group’s success in diversifying funding sources by entering new debt markets, sourcing sustainable long-term funding, extending the maturity profile of funding sources and the trust of international investors in the strong financial position of QNB and the strategy it pursues.

What about QNB’s operations in overseas markets?

International expansion is one of the cornerstones of QNB Group’s strategy to achieve its vision of becoming a leading bank in MEASEA by 2020. As at June 2018, the international share of profit, loans and deposits represented 36.7%, 30.8% and 44.1% respectively. These results substantiate that our increasing geographical diversification positively contributes to growth.
Q&A: Bassel Gamal, Group CEO, QIB Group

QIB showed robust profit growth in H1 2018 of almost 14%. What is the source of this strong showing?

QIB’s innovative financial solutions together with prudential risk management practices have helped us to achieve a 13.8% growth rate in the first half of the year. The strong performance of the local economy as a whole, driven largely by the non-hydrocarbon sector, is another key factor to this success. According to all latest reports, the overall GDP growth in Qatar for 2018 is projected just under 3%, the highest forecast in the GCC.

At QIB we have managed to increase our market share significantly to become the second largest bank in the country, holding approximately 11% of total banking assets. In addition, we were able to maintain the ratio of non-performing financing assets to total financing assets at 1.1%, one of the lowest in the industry, reflecting the quality of the bank’s financing assets portfolio and its effective risk management framework.

As part of our long-term strategy, in the last few years we have been focusing on transforming QIB into a fully-fledged modern bank meeting all the financial needs of a diversify base of customers. We continue to invest in modernizing our infrastructure and the way we provide services while upgrading information security systems and controls to ensure secure banking operations for all our customers.

How do you view the Qatar economy’s prospects and recent performance? Has the Qatar Central Bank’s interventions proved effective in insulating the country from damage?

Despite the recent challenges, Qatar’s financial market remains one of the most powerful and competitive ones in the region. The Qatari economy is supported by its strong financial position and future development plans.

Following the recent geopolitical developments, Qatar’s financial sector, supported by actions initiated and coordinated by the Qatar Central Bank, demonstrated its ability to maintain stability amidst the past period. The initial pressure on the financial sector, especially on the liquidity front, has been mitigated by an increase of public deposits and available funds at the Central Bank. Banks are now proactively focusing on raising additional long term funding at competitive prices for their future operations. Moreover, non-resident deposits are returning having grown by QR 13bn (+9.5% YTD) since December 2017.

International financial credit rating agencies such as Moody’s and Fitch have upgraded ratings of Qatari financial institutions. At QIB, Moody’s recently affirmed QIB’s deposit ratings to A1 with a “stable” outlook, Fitch affirmed QIB at ‘A’ with a stable outlook, S&P affirmed the bank’s credit rating at ‘A-’, and CI affirmed QIB’s Financial Strength Rating (FSR) at ‘A’.

What measures has QIB undertaken to improve its capital and liquidity positions?

As per our latest published financials in June 2018, at 17.5% QIB has a strong capital adequacy ratio while 65% of our assets are funded by customer deposits. Having said that, one needs to consider that Islamic banks have relatively stable deposit bases. In addition, in recent years, Islamic banks and QIB in particular have been successfully raising long-term funding from international markets to support long term growth, supporting both liquidity and capital structures.

At QIB, we have built strong and diversified relationships with a large number of financial institutions and institutional investors so as to raise liquidity in the international interbank and debt markets. The objective is to secure relatively low-cost funds to support the bank’s growth and to maintain QIB’s strong capital adequacy ratio.

What about the Islamic banking sector in Qatar? How has this developed, and do you expect further growth within the Shariah-compliant sector?

Islamic banking has been a growing sector in Qatar. QIB, being the first Islamic Bank in Qatar founded in 1982, has shown impressive growth and progress over the years of service. As of June 2018, QIB is the leading Islamic bank in Qatar with a 42% market share among the Islamic banks. Today, more than ever, we remain committed to creating innovative and comprehensive Sharia compliant products and offer convenient services in favor of our corporate and individual customers.

Over the past decade, the regulatory authorities have enacted several changes to further improve governance standards in Islamic financial services in the country. Qatar’s solid Islamic financial industry is built upon fully-fledged Islamic banks with conventional banks not being allowed to operate Islamic windows. This has provided interested customers the assurances they were looking for that there is no mix between Islamic and conventional assets.
Q&A: Joseph Abraham, Group CEO, Commercial Bank

Commercial Bank reported a substantial increase in Q2 net profits. What is behind this strong showing?

Commercial Bank reported a net profit of QAR 855m in July 2018, representing an increase of 376% compared to the same period in 2017. This growth demonstrates that the execution of our five-year strategic plan, initiated in 2016 to reshape our business for sustainable growth, is on track.

Several actions taken under our strategic plan led to the improved financial results. This led to us growing our loan book while simultaneously reshaping and de-risking our balance sheet through sector diversification. We also increased our focus on the government and service sectors to reflect current and future market opportunities.

We reduced our cost to income ratio by reducing waste and eliminating unnecessary expenditure. We also completed most of our legacy loan book provisioning. Reducing costs has not, however, come at the expense of investment in technology and our people, which are critical parts of our five-year strategic plan. This is especially true in terms of investment in digital technology, where we lead the Qatari market by continuing to introduce new and innovative products in retail banking as part of our digital agenda.

How successful has Commercial Bank been at diversifying its sources of income over the past year?

Over the past year, Commercial Bank has successfully continued its diversification agenda. We continue to focus on re-shaping the profile of our loan book, which has seen growth of 4.3% year-on-year. Corporate customers represent 77% of our total loan book and we are diversifying risk across a range of sectors. One way we are doing this is by decreasing our exposure in the real estate sector and increasing our exposure to government and the public sector, which has driven our loan growth over the last year.

Our focus going forwards is to continue improving market share in loans to government and semi-government organisations, with a strong deal pipeline. We are also working towards geographic loan book diversification.

Although our loan book is strong, increasing fee income that is not lending-based is an important strategic aim of our Wholesale Banking division for more diversified and sustainable earnings. Trade finance and cash management has emerged as a priority area for Commercial Bank, due to its attractive returns, low risk, self-liquidation and high level of customer loyalty.

Recently, the Bank has upgraded its back-end trade system (Trade Innovation) which allows the smooth processing of transactions and improved TAT. The Bank is now capitalizing through innovative products and services supported by new capabilities such as our state-of-art customer facing ‘trade portal’ that allows the issuance of all types of trade transactions: from customers’ desktops connected directly to Commercial Bank’s back end system, to Supply Chain Finance, Alerts, Notifications and an e-transaction trade tracker.

The Bank has also revamped CIB, our mobile banking solution, to offer our customers a multi-channel approach and cheque digitization solutions through Remote Cheque Deposit. Our direct debit solution is the first by any bank for corporate customers, and we are market leaders with our cash centre and cash collection proposition. The implementation of these changes has cemented our place ahead of the competition in Qatar and on par with MNC banks. In Retail Banking, we are diversifying through our wealth management and remittance initiatives, and in remittances alone we have completed over a million digital transactions since launch.

Commercial Bank was the first Qatari lender to issue a public bond since the embargo was launched. Why is this important, and will you be making further moves on the debt capital market?

Qatar’s banking sector has fully bounced back after the short-term initial disruption of the economic blockade and this includes a return to the public bond market. In May 2018, Commercial Bank successfully issued a USD 500m five-year bond – one of the largest of its kind in the region from a financial institution.

Demand from investors was strong and the bond’s attractive pricing is a clear indication of the continued confidence of international investors in the strength and economic stability of Qatar, as well as Commercial Bank’s strategy, financial strength and prudent management.

This bond has a high quality, diversified investor base from the Middle East, Asia, the UK and Europe, which is indicative of the global interest of the investment community in the Qatari financial sector.

Ongoing fundraising is a part of Commercial Bank’s normal business operations, with the proceeds used to support our five-year strategic plan. In addition to the USD 500m five-year bond under our European Medium Term Note Programme, this year we also successfully signed a USD 250m syndicated loan in the Asian market and issued CHF bonds in Switzerland.

Overall, what are your views about the Qatari economy’s prospects for the remainder of this year and in 2019? What are the main opportunities – and challenges – for major Qatari lenders like yourselves?

Qatar’s economy, and in particular the banking sector, has demonstrated impressive resilience in the face of the illegal blockade that began in June 2017 against the backdrop of economic conditions that remain challenging. The Ministry of Finance anticipates that Qatar’s economy will grow by 2.6% in 2018, with prospects for 2019 looking better with growth at 3%, due in part to increased LNG production and a higher forecast oil prices.

Our key business areas are aligned with this new economic environment, with less concentration in real estate and an increasing share of high quality government and public sector loans. Public sector loans are a strategic priority for Commercial Bank, not only in terms of overall growth, but also to diversify our loan book.

The government has renewed its commitment to spending on major projects in the build-up to the 2022 FIFA World Cup and in realisation of the National Vision 2030, which presents financing opportunities. The economic blockade has also resulted in new types of opportunities, with government-led initiatives related to economic self-sufficiency such as transport and logistics, food production, tourism and LNG downstream industries using abundant feedstock.
Q&A with Doha Bank
CEO Dr. R. Seetharaman

In terms of Doha Bank’s performances, H1 2018 profits were hit by loan loss provisions. Is this a one-off hit, and is the underlying trend a positive one?

The bank’s H1-2018 profit was affected mainly due to the required significant additional provisions in relation to its GCC branches. The reserves for impaired loans to impaired loans coverage stands healthy at 171%. The bank is closely monitoring these accounts with a special focus on regularizing them and consolidating its position to avert possible shocks.

How are Doha Bank’s core revenue streams looking?

Doha Bank’s core revenue streams are two-fold and comprise of interest and fee incomes. Through initiatives such as changing the asset allocation model, periodic re-pricing of its portfolio, and managing low-cost deposits, the bank continues to maintain its net interest margin, which is currently the highest among all the Qatari banks.

In line with its innovation strategy, the bank launched Qatar’s first Exchange Traded Fund (QETF) as a tool for investment. In a continuation of its international expansion strategy, after the successful establishment of Mumbai and Kochi branches in India, Doha Bank inaugurated its third dedicated branch in Chennai. This is in addition to its branches in Dubai, Abu Dhabi and Kuwait.

The bank further augmented its large representative office network of Japan, China, Singapore, Hong Kong, South Africa, South Korea, Australia, Turkey, the United Kingdom, Canada, Germany and Bangladesh by adding Sri Lanka and Nepal. This will further help the bank to capture the synergistic opportunities within its network. Over the years, Doha Bank has diversified its business strategy with a focus on fee income to add more value to its shareholders.

What new products and services is Doha Bank launching? What impact has the QETF had, and can other innovations be expected?

As a leading financial institution in the region, Doha Bank continually looks to set the industry standard and explore innovative financial instruments that drive maximum value for investors in Qatar and around the world. Several products have been identified as “First-in-Qatar” – QETF, Ladies Banking package, Al Dana Savings Scheme, to name a few. The QETF has come at a time when global fund houses are increasingly showing interest in the country’s capital markets in view of its macroeconomic potential and is expected to bring in huge inflows from global investors.

Will Doha Bank be focusing on expanding the retail segment? Will new products be forthcoming in this area?

The retail lending growth in Qatar’s banking sector was more than 4% YTD in August 2018. To maintain its competitive advantage, Doha Bank will continuously innovate to introduce new products and services to its customers. In addition, the bank will also look to expand its retail banking operations in overseas markets and contribute to the bottom line.

What about capitalisation and liquidity issues? What measures are you taking to boost capital and liquidity?

As at end-June 2018, the bank’s capital ratio stands strong at 16.63% against the minimum requirement of 12.875%. The loan to deposit ratio of 112% compares to the local banking system of 114%. The bank maintains the holding of QAR 14.4bn SOQ bonds which it could repo with QCB. Besides, the bank maintains sufficient credit limits from other local and international banks which it can enjoy at any time.

How is loan demand holding up from the Qatar private sector? Is this something you expect to solidify in the coming years?

As at YTD August 2018, overall lending growth in Qatar was more than 1% and growth in private sector increased by more than 6%. Given the various reforms and initiatives being introduced in the country, along with key projects in line with the FIFA World Cup, demand for loans is expected to be stable over the years.

What effects has the embargo had on Qatar’s economy and on banks? While resilience has been demonstrated, are there any lasting negative impacts to highlight?

Amid the embargo, Qatar has emerged strong and has brought various reforms to transform itself into a self-reliant economy. Some of these reforms include a landmark residency bill, relaxing entry visa requirements for citizens of 80 countries and enhancing food security. Qatar will also raise LNG production by 30% to 100mtpa within five to seven years after lifting a moratorium on gas development earlier in 2017. Qatar has been ranked 25th in ‘the Global Competitiveness Report 2017-18. Furthermore, the banks have filled the liquidity gap by tapping international markets and temporary support from its sovereign wealth fund. The country is well positioned to grow by 2.6% in 2018.
Q&A: Adel Mustafawi, Group CEO, Masraf Al Rayan

How do you see banking conditions in Qatar this year? What are the main challenges and opportunities?

Banking conditions in Qatar are strong and resilient. The financial sector is strong because banks are well capitalized and have also reported a combined 78% net profit growth in the first half of 2018, despite the country being placed under an economic blockade. The sector has also shown a great deal of resiliency in the face of economic blockade by replacing all the regional deposits from neighbouring countries with more stable and geographically diversified sources of funding. In the words of H.E. the Governor of Qatar Central Bank, the country has now returned to “business as usual.”

First-half profit was up 4.5% while assets grew almost 8%. What are the main contributors to this performance?

During this period, financing increased by QAR 4.8bn which is mostly to government and government-related entities, resulting of which profitability has also improved. Secondly, there is significant increase in FX during the period.

How important is it for Masraf Al Rayan to give support to infrastructure projects and other schemes of national value?

Masraf Al Rayan (MAR) bestows a great deal of importance upon its relationship with the State of Qatar entities, as the bank dedicates close to a 60% of its financing book for the government sector. As one of the foremost banks in Qatar, it is incumbent upon MAR to support the government complete the infrastructure projects on time, which would help the country to meet its international sporting obligation in 2022, maintain economic growth and realize Qatar Vision 2030.

What new products and services is your bank launching?

Masraf Al Rayan is keen to create a flexible and agile product portfolio adapted to customer segment, conduct customer segmentation using a dedicated group that supports strategy development across and provide its retail customers competitive products and services using recent technologies to meet local and regional competition. We have developed a range of credit cards for all segments, from Platinum to Signature and Infiniti. We have also launched a prepaid Card “Eqtisadi card” in collaboration with ministry of Economy & Commerce.

While MAR market share for cards usage reached 8.36% for credit card at year end, VISA July summary report states a remarkable YoY growth in MAR cards as follows: POS Transaction has grown by 91%, 123% for X border POS transaction and 96% in terms of E-Comm transactions.

In addition to existing customer segments, Premier Banking has been added as a new segment, targeting a range of defined customers by either their high salaries or minimum deposit maintained.

How do you see deposit growth holding up this year, and how is liquidity looking in 2018-2019?

The deposit growth picture in 2018 is much better than that of 2017. This picture has largely been helped by three key factors: (1) Higher oil prices have helped the local market to receive more and more liquidity by the day; (2) The country’s trade surplus jumped by 43% in July, y/y, according to the official statistics, despite the economic blockade, and this is another major factor that is helping Qatar to thrive; and (3) the credit rating agencies have restored investor confidence on the Qatari economy, in the aftermath of the blockade, by removing their negative outlook views on the sovereign ratings. As a result, local banks have been able to receive foreign deposits, issue debt, get capital financing through club deals, and contract bilateral loans from their global counterparties. They have also been able to diversify their sources of funding in this exercise. Therefore, the deposit growth picture in the local market will, by our estimation, get brighter in 2018-2019.

Will Masraf Al Rayan be looking to the overseas market?

Masraf Al Rayan is already operating in the overseas markets. We have a full-fledged Islamic bank in the UK (Al Rayan Bank, UK), whose operations have been successful. Now we intend to expand that model to continental Europe.

The proposed merger with Barwa and IBQ did not succeed, but would you consider any new acquisitions? Is there still scope for more consolidation?

MAR’s twin growth strategic objectives have, since inception, been to grow both organically and through M&A. Organically, we have already established our franchise name in the local market with 17 branches in key strategic locations of the country. We are also always open to an acquisition idea, if the price is right. And, with the country of 2.7 million and 18 banks, there is scope for consolidation in the future.

How do you view the Islamic banking market developing in the next few years?

Islamic banks play an important and integral part in the progress and the development of the local Qatari economy. Together, the local Islamic banks command between 25-27% of the total banking assets in the country and these banks fully contribute to the economic story of Qatar. The trend is one only way: up. Islamic Finance is no longer a niche market. Instead, it is the fastest growing sector in the financial services industry in many parts of the world, including Qatar. And it is expected to remain so in the foreseeable future.
Q&A with Khalid Al-Subeai, Group CEO, Barwa Bank Group

The Bank reported strong profit growth in the first half of 2018. What is behind this performance, and are you confident it can be sustained?

Absolutely, Barwa Bank Group has recorded a net profit of QAR 418.5m, an increase of 7.6% compared to the same period in 2017. The Group has succeeded in achieving strong and steady results for the first six months of the year by taking advantage of the extensive customer base that it has built over past years. This also reflects the management’s ability to adapt to current market conditions by working with dynamism and flexibility, coupled with the robust economic performance of our home country, Qatar.

Our business model and the diversity of our income sources, along with the variety of innovative products which suit all our customer segments, have enabled the customers to increase its financing revenues by 9.5%, exceeding QAR 517m. Commission revenues exceeded QAR 55m, representing an increase of 41%.

In addition, the Group’s total assets have increased by 9.5% to more than QAR 48.8bn. This was supported by a significant 6.6% rise in customer deposits, which reached QAR 31.5bn. We are confident of delivering on our responsibilities by working hard to strengthen our position across the Islamic banking sector in Qatar, as well as exerting greater efforts to support the national economy in achieving the Qatar National Vision for 2030.

Where do Barwa’s strengths lie? What are your core areas of growth?

We remain committed to meeting our customers’ expectations, therefore customer satisfaction and product innovation are essential components of our brand DNA. We believe that this is our strength and we strive to be customer-centric.

Regarding growth, given our diversified business model – which covers banking, consumer finance, investment banking and leasing services – we are uniquely positioned to meet our customers’ requirements. This includes everything from ensuring that their day-to-day banking requirements are being met to offering investment and wealth management solutions. The number of new clients is increasing on a monthly basis and that is a positive sign of our continued growth and allows us to invest more in our products and services.

Another strength we are proud of is the talented and diverse workforce we have at Barwa Bank Group, who have contributed tremendously to our growth story.

How do you view the Qatari economy’s performance and future prospects?

We are quite bullish on the Qatari economy, it is expected to grow 2.6% this year, as per IMF estimates. The banking sector, and Barwa Bank in particular, had a good financial performance in 2017. New sectors have opened up, such as agribusiness, light industries and basic commodities. The wheel is definitely moving faster in terms of our strategy to diversify away from the hydrocarbons sector. This is in addition to the projects and services that are required and currently being executed as part of preparations for the World Cup in 2022.

Qatar’s natural gas expansion drove GDP growth of between 10% and 27% annually from the 2000s until 2012. Since the end of the gas expansions in 2012, Qatar has remained resilient and diversified its economy with hydrocarbon compromising one third of GDP in 2017 vs. more than half in 2014. This resilience has allowed the banking market to outgrow GDP growth, growing over 25x since 2002, making Qatar the fastest growing banking market in the GCC over the last decade.

We at Barwa Bank continue to support public and private sectors diversification initiatives, as we firmly believe that Qatar has a solid and robust economy. We also look forward to providing continued support to foreign companies based in Qatar and to entities looking to do business in the state.

Are you confident that the domestic market will offer you sufficient growth and lending opportunities?

Going forward, the economy is without a doubt being supported by higher oil and gas prices in 2018, as well as by the government’s infrastructure investment push in the run-up to the 2022 World Cup.

Backed by buoyant investment sentiments and the government’s continuous thrust on steering growth, we will keep our eyes on expansion plans across the Qatari market, given the significant opportunities the market provides. Furthermore, we will spare no effort to gain the largest possible share of financing opportunities for infrastructure projects and provide all support to contribute to the growth of the country’s economy and in backing the Qatar National Vision 2030.
Resilient banks chart a course for growth

Qatari lenders are confident about the future and remain among the region’s most efficient financial institutions

Qatar’s 18 domestic banks have consistently shown their resilience in the past year, and many have shown that even in the face of the blockade, they can remain profitable and build assets. Much of that can be attributed to the strong support shown by the Qatar Central Bank (QCB). Outflows of non-resident deposits from banks totalled about $13bn at year-end 2017, but liquidity injections by QCB and public-sector deposits to support the banks more than compensated for that at $40bn.

According to ratings agency Moody’s, government deposits accounted for 38% of total deposits in the system as of March 2018, up from 26% just before the beginning of the regional dispute, offsetting foreign funding outflows.

QCB Governor Sheikh Abdullah Bin Saud Al-Thani says foreign currency deposits by government institutions, which supported liquidity in the banking system, has been largely stable during 2018. On the other hand, non-residents deposits are steadily returning.

Looking forward, Qatari lenders see renewed opportunities for growth. For example, the government remains committed to large infrastructure projects in the build-up to 2022 FIFA World Cup, and rising oil prices translate into stronger economic activity – and therefore more credit requirements.

“Qatar’s economic foundations remain strong, with stable triple A credit ratings, large sovereign reserves, and an economy demonstrating sustained GDP growth,” says Joseph Abraham, Group CEO of Commercial Bank of Qatar. “As banks’ activities closely follow the performance of the nation, the banking sector is benefitting from Qatar’s growing economy,” says Joseph Abraham, Group CEO of Commercial Bank. “As banks’ activities closely follow the performance of the nation, the banking sector is benefitting from Qatar’s growing economy.”

Q&A with Al Khaliji Commercial Bank CEO, Fahad al-Khalifa

How is Al Khaliji maintaining strong asset quality and good capital buffers?

Our business strategy has remained consistent and focused on our domestic market in Qatar. The local economy continues to grow and Qatar’s sovereign rating of AA- reflects the inherent strength of the country. This focus on Qatar, has allowed us to grow our business across the wholesale and private banking franchises whilst preserving strong asset quality.

The quality of our portfolio remains strong as we deal primarily with the government and its related entities in addition to supporting the strongest private sector names. In recent years we have also been heavily involved in financing key aspects of the government’s infrastructure program, which also involves lending to the private sector where the paymaster is the government – thereby providing a strong covenant.

Our invitation-only Personal Banking franchise means that we are clear on the strength of our clients before they are onboarded. Our focus is on HNW and UHNW individuals and the emphasis on this high-end segment reduces the credit risk.

We remain a highly capitalized bank with a CAR 16.7%. This high level of capital allows the bank to support our growth plans, and we will continue to ensure we are adequately capitalized.

How has the bank’s recent performance been in terms of profit? What are the bank’s main growth lines?

In 2017, Al Khaliji generated increased profits of QAR 551 million, improved the net interest margin, strengthened its funding base and delivered greater cost efficiency. Our solid results reflect our Qatar-centric strategy and the close alignment of our business teams with our valued client base. We are a specialist bank built to service a small number of preferred clients primarily local Corporates including Government and GREs, the Private and Premium Personal segments and entrepreneurs in the private sector through the Al Dhameen program. We will continue to support and build scale in these core segments.

Al Khaliji reported a growing and consistent set of results for the first half of 2018, as we carefully navigated and capitalized on opportunities in the domestic economy during 2018. The results are reflective of our focus on growing operating income, efficiently managing our cost base and deploying our balance sheet in line with our risk appetite. With these efforts, we are pleased to report a half-yearly net profit of QAR 335 million, which is 5% higher year on year. In line with our strategic objective of delivering long-term sustainable revenues, we have been selective in growing our balance sheet, despite our interest-bearing assets being lower than at the same period last year; our overall yield on those assets has improved. In addition to that, growth in non-interest income has led us to report higher operating income year on year.
Liquidity and assets positions have been strengthened under guidance from the QCB. The central bank introduced new loan-to-deposit requirement of 100% that came into effect in January 2018. As the IMF noted in its May 2018 Article IV assessment of Qatar, even under severe shock scenarios, Qatari banks meet the relevant regulatory standards. QCB’s stress tests for December 2017 suggest that the banking system is resilient to severe shocks.

That leaves Qatari bankers in confident mood. Ali Ahmed Al-Kuwari, QNB Group CEO, sees healthy loan growth of 10% in 2018 and 2019, reflecting higher credit demand in both the public and the private sectors. “Government policies targeted to strengthen the private sector and on-going infrastructure projects will support credit demand,” says Al-Kuwari. “QNB is committed to invest in Qatar’s future and it continues today with significant financing support deployed on major projects that aid the continued diversification drive. We remain focused on four primary areas: utilities, transport, 2022 FIFA World Cup infrastructure, and real estate.”

Governor Sheikh Abdullah notes that private sector loans have been growing at a steady rate, in a sign of the non-oil sector’s underlying health. “The y-o-y growth in private credit at end-June 2018 stood at over 10% while that of public sector credit was almost half at just over 5%. There is no crowding out of private credit. Moreover, with the current thrust towards promotion of SMEs and diversification of the economy, the share of private credit should rise,” he says.

Qatari banks are doubling down on improving efficiency levels, for example by raising long-term funding at cheaper rates. A report issued by consultants KPMG found that listed banks in Qatar enjoy some of the lowest cost-to-income ratios in the region, with Qatari institutions making up five of the top six banks in terms of cost to income, as at end-2017. According to Bassel Gamal, Group CEO of QIB Group, most banks’ focus in the future will be to “manage the increasing funding cost (following the Fed’s recent interest rate increases), look for efficiencies across the entire organization and make sure to target high quality assets as they keep on growing their portfolios”.

Qatari lenders are increasingly looking beyond their domestic market, with overseas opportunities emerging as means of ensuring continued growth. For example, Commercial Bank’s growth has been supplemented by its Turkish subsidiary Alternatif Bank’s strong top-line performance in the first half of 2018, which has been revitalised by a recent change in leadership and a rebranding exercise, according to Abraham.

QNB meanwhile aims to strengthen its presence in markets where it has already entered. “We plan to continue to strengthen our contribution from our previous acquisitions in Egypt and Turkey. In both these markets, we see further growth potential along with a pickup in economic growth,” says Al-Kuwari.

QNB is specifically targeting the ASEAN economies – export-oriented economies that exceeded global economic growth in the last two decades. Growth in these markets is expected to continue. “In 2017, we opened our first branch in India,” says Al-Kuwari. “The Indian economy is the seventh largest in the world and one of the fastest growing major economies. It has expanding trade and population ties with Qatar, the Middle East, Africa and Southeast Asia more broadly.”

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