

# A year of mixed fortunes

By Amjad Hussain

**This past year has been a challenging year in Qatar. Turbulent conditions in the region and the substantial decrease in oil and gas prices have had an appreciable impact on the Qatari market. Such is the concern that, once the powerhouse of the Qatari economy, Qatar Petroleum canceled projects worth more US\$15 billion dollars to carry out a remarkable redundancy program.**

## Review of 2015

Earlier this year, the Ministry of Finance announced that the fiscal year 2014/15 for the State of Qatar will be extended until the end of 2015 as a transitional period prior to the harmonization of the fiscal year with the calendar year, starting in January 2016. Budget estimates of revenue and expenditure for the fiscal 2014/15 budget will be extended until the end of 2015, on a pro rata basis. However, Qatar's minister of finance indicated that the next nine months will be considered as an extension of the 2014/15 budget, such that the current fiscal year will cover a period of 21 months, adding that the budgeted average oil price for this period will remain at US\$65 per barrel. He explained that the estimated revenue for the extended nine months is QAR169.3 billion (US\$46.45 billion), with total revenue during the full 21 months at QAR395 billion (US\$108.38 billion). The estimated expenditure for the next nine months is QAR163.8 billion (US\$44.94 billion), with total expenditure during the full 21 months estimated at QAR382.2 billion (US\$104.87 billion).

In June 2015, the government of Qatar predicted that it is likely to run a fiscal deficit of 4.9% of GDP next year, and 3.7% of GDP the following year. The government earlier predicted a budget surplus of 4.7% of GDP next year. Nevertheless, in October 2015, the IMF announced that Qatar's fiscal reserves are sufficient to meet the country's requirements for the next 20 years. The IMF also reported that Qatar is likely to report a surplus this year and, although inflation rates will drop down to 1.6%, it is expected to increase to 2.3% in 2016.

Interestingly, Islamic banks in Qatar, led by Masraf Al Rayan and Qatar International Islamic Bank (QIIB), have been recognized as being the most efficient in the global Islamic finance industry in terms of the cost-to-income ratio. Masraf Al Rayan's cost-to-income ratio was 20.6%, QIIB's was 24.47%, Qatar Islamic Bank (QIB)'s was 31.78% and Barwa Bank was at 39.56%.

Islamic banks have also started to publish their third quarter results. QIIB saw growth in net profit to QAR657 million (US\$180.26 million) for the July-August period of 2015, up 5.1% from the prior corresponding period. This suggests that the bank is moving in tandem with the Qatari economy. Earnings per share reached QAR4.34 (US\$1.19) over the period compared to QAR4.13 (US\$1.13) achieved in 2014. QIB also announced the results for the nine-month period ending the 30th September 2015 with net profit attributable to shareholders of the bank amounting to QAR1.4 billion (US\$384.12 million) representing a growth of 24.8% over the same period in 2014.

Islamic banks have remained active in transactions during the course of the year. In February, Qatar First Bank (QFB) announced the acquisition of a 49% stake in Food Services Company (FSC). FSC is a leading food and beverages company that operates a 16-branch network of five brands: Opera Patisserie, Opera Café, Opera Catering, Take Away and Kanafji. The acquisition marked QFB's second investment in the food and beverages sector and the fourth in the Qatari market. In September, The First Investor, the investment arm of Barwa Bank, announced the acquisition of a



49% shareholding in Shater Abbas Restaurants International Group, a local restaurant food company operating the restaurant chain Shater Abbas. Finally, in October, QIB, rated 'A-' by S&P and 'A+' by Fitch (both with a stable outlook), priced a highly successful US\$750 million five-year Sukuk offering. The Sukuk was issued at par with a profit rate of 2.754%, representing a spread of 135bps over five-year midswaps. The final orderbook closed in excess of US\$1.75 billion, representing an oversubscription of 2.33 times from 105 accounts. Despite changing conditions in the market, Fitch granted Qatar an 'AA' rating (stable outlook), one of the highest investment grade levels. Fitch has highlighted Qatar's strong economic performance despite the dip in oil prices. Fitch's rating is in line with those issued by other major credit rating agencies such as S&P ('AA') and Moody's ('Aa2').

## Preview of 2016

Going forward, despite the difficulties in the oil and gas sector, Qatar has announced its commitment to continue spending on projects ahead of the World Cup in 2022. The claw back in the oil and gas sector will stimulate new projects in different sectors. Qatar is also pressing ahead full speed with its diversification drive as seen by the focus on the economic and logistics zones in Qatar. These are likely to open for business in 2016.

The dynamic landscape of the Islamic banking sector in Qatar is bound to transform following the recent announcement by Sheikh Abdullah Saud Al-Thani, the governor of the Qatar Central Bank, recently announced that the Central Bank shall grant licenses to banks in the GCC to establish branches in Qatar. Licenses for the new banks will be given according to criteria set by the Central Bank. It is likely that this will lead to further entrants coming to the already crowded Islamic finance market in 2016, a development which should be kept on the radar.

## Conclusion

Overall, 2015 has been a tough but productive year for Islamic banks in Qatar. They have showed continued resilience to the geopolitical uncertainties of the wider region and the economic challenges that have visited the doors of hydrocarbon-dependent countries. However, with its relatively small population and prudent management of cash reserves, Qatar is unlikely to suffer the consequences that other global energy players will be worrying about. The drive toward diversification is continuing in earnest and this will pan out further next year. 2016 is therefore likely to continue to be a solid year for the local banks. (2)

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