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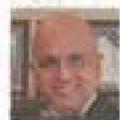
GCC banks can weather lower oil prices



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Analysis

THE International Monetary Fund (IMF) recently downgraded its growth forecasts for global growth by 10 basis points for 2016 and 2017 to 3.1 per cent and 3.4 per cent for 2016 and 2017 respectively.

The IMF highlighted the outcome of Brexit in uncertainty from political front resulting in lower confidence and investment sentiment globally. As per April 2016 report by the IMF, Kuwait, Oman, Saudi Arabia, the UAE and Qatar is expected to report growth of 2.4 per cent, 1.8 per cent, 1.2 per cent, 2.4 per cent and 3.4 per cent respectively during 2016.

Abu Dhabi, Qatar and Kuwait sovereign rating is at AA, this helps the government in raising the debt at lower cost. — *KT file*

The fall in oil prices has directly resulted in liquidity drain from GCC banks, this was due to higher proportion of government deposits in form of bulky time deposits. The pain reduced once oil prices recovered from January lows and firmed up to $50, the banks partially offset deposit withdrawals by tapping the international markets. The deposit growth in the UAE and Qatar came in at 1.9 per cent and five per cent for the first five months of 2016. Saudi Arabia, Oman and Bahrain are the most affected region in the GCC on account of lower oil prices as the growth diversification towards non-oil economy is lower when compared to the UAE and Qatar. Oman issued $2.5 billion five-year and 10-year bonds and Bahrain issued $600mn this year to meet the funding requirements. As per the media reports, Saudi Arabia has lined up banks for $15 billion bond sale, there could be several tenors which could be tapped. Qatar raised $9 billion by selling bonds while Abu Dhabi raised $5 billion from first bond sale in seven years. Abu Dhabi, Qatar and Kuwait sovereign rating is at AA, this helps the government in raising the debt at lower cost as compared to countries like Saudi Arabia, Oman and Bahrain.

The banks in the UAE and Qatar have diversified their revenue streams during the last two-three years by acquiring banks and opening branches in emerging markets oil importing nations. These nations have benefitted from lower oil prices and has seen a pickup in consumption activity. The UAE banks have seen change in funding profile inclined towards international markets as government finances dried due to lower oil prices. Saudi Arabia Central Bank has offered domestic lenders $4 billion in discounted, one-year loans to ease liquidity constraints. We see current pause stance of US monetary policy as positive for the GCC banks as it gives time to build up liquidity buffers at lower rates. The banks in the UAE have capital adequacy ratios much above 12 per cent requirement by central bank to meet the lending for upcoming Dubai Expo 2020.

We see the growth outlook remaining strong for the UAE and Qatar on account of Expo 2020 and Fifa 2022 nearing. The awarding of projects which needs to be completed have to begun given the two large events. As per the Ministry of Qatar Development Planning and Statistics, 2016 and 2017 growth will be supported by hydrocarbon economy, it expects new Barzan gas field to come on stream in the latter half of this year and reach full capacity in 2017. A new integrated power and water plant (Umm Al Houl) is expected to start operations in 2017 and reach full capacity in 2018. The growth outlook and completion of projects for Qatar and the UAE will continue to benefit the banks. Saudi Arabia has also outlined National Transformation Plan which will transform the economy's reliance from oil to non-oil. The GCC sovereigns have lower debt to GDP ratio when compared to advanced and other economies, this provides them further headroom to raise debt. We see the liquidity measures taken by government as positive for GCC banks. The GCC banks are well placed to cushion lower oil prices.

The writer is group CEO of Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.