



Active GCC-bond market to support infrastructure boom

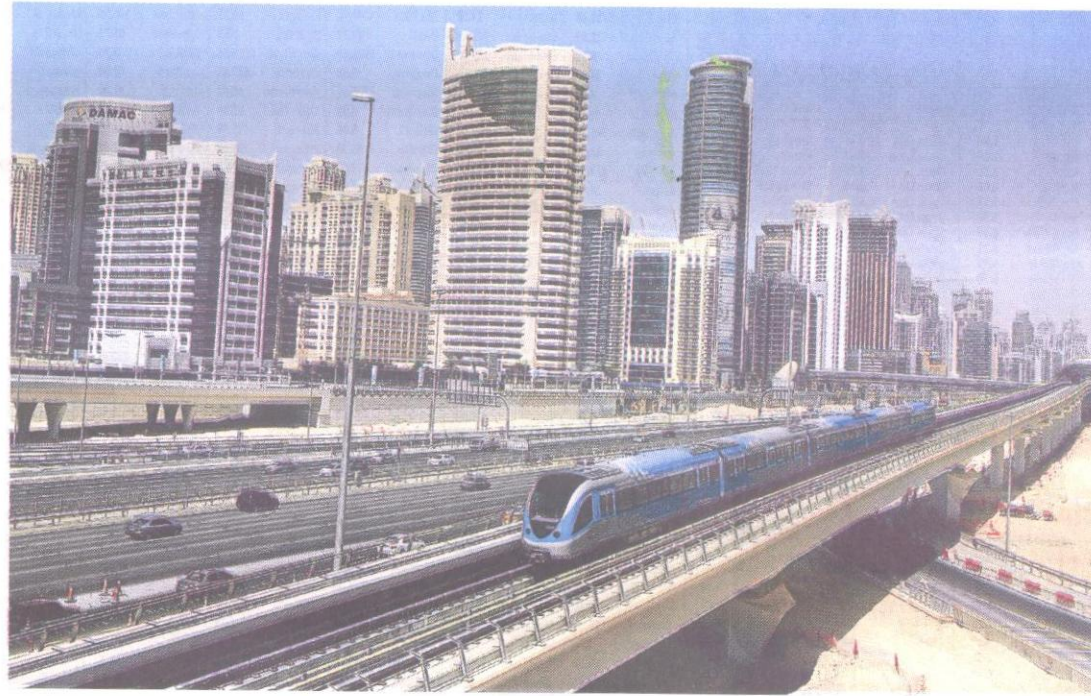
INFRASTRUCTURE FINANCING can come from various sources such as government fiscal measures, long-term and short-term financing. Regional banks are becoming more active in project finance given the size and volume of projects in the region, as evidenced by active deals in short-term financing and an increased appetite for longer-term facilities.

The annual budget of Qatar 2012-13 has given increased the budgeted expenditure for projects by 25 per cent over previous year to QR62 billion. Also the 2011-12 budget of Qatar had set 41 per cent to finance public projects including the new sea port, railways and completion of new Doha international airport and sewage. According to the National Development Strategy, Qatar plans to invest over QR130 billion in 2011-2016 through its state-linked companies. Non-hydrocarbon investment driven by spending from largely

government linked Q-companies such as Barwa, Qatari-Diar will contribute to infrastructure development. Saudi Arabia's 9th 5-year development plan has allocated 15.7 per cent to economic resources, 7.7 per cent for transport and communications and seven per cent for municipal and housing services. The 2011 and 2012 budget of Saudi Arabia has given importance to infrastructure. Oman's 8th five-year plan of 2011-15 plans to spend RO12 billion in a phased manner, which includes new projects worth RO5.6 billion and carry forward projects worth RO6.4 billion from seventh five-year plan. The spending in infrastructure is to the tune of RO8.1 billion. Oman's budget for 2012 also increased the civil development expenditure by 16.67 per cent on yearly basis to RO1.4 billion.

In 2012 Dubai's budget focus on 41 per cent of expenditure is for infrastructure, transportation and economic development sectors. Government also issues sovereign bonds to support infrastructure. Saudi Arabia has come with sovereign sukuk in first quarter of 2012 for its aviation agency for \$4 billion. Qatar has issued Ijara sukuk worth \$4 billion, which was based on leasing assets such as building and land. QP is also planning a sukuk in the second half of 2012.

Projects prevail in Qatar non-hydrocarbon sector mainly in real estate and infrastructure. In Saudi



Dubai's budget focus on 41 per cent of expenditure is for infrastructure, transportation and economic development sectors. — AFP

Arabia the major projects in non-hydrocarbon sector include King Abdullah Economic City and Jizan Economic City. Major projects in the UAE are witnessed in Jebel Ali area. Major projects in Oman include Duqm New town and Deep water Gas line worth \$24 billion. In Kuwait the major projects include "City of Silk". The ambitious

\$19 billion Masdar City is already six years into production and has been set a completion date of between 2020 and 2025. Bahrain was set to build two new 'hybrid' power plants for solar and wind energy at a cost of around \$8 million, which will produce five megawatts of energy. The GCC states would invest close to \$100 billion for in-

rastructure development and explore new ways to ensure uninterrupted supply of drinking water to its residents in the next five years.

Conventional bonds and Islamic sukuk can be an important source of financing for infrastructure projects in the GCC. The generally high ratings on the GCC sovereigns provide the backbone of

reassurance that the markets seek to keep funding these companies and transactions. The crisis in March 2011 also provided opportunities to enter bond market when yields arose in the GCC countries. The region is still under-represented in institutional portfolios and hence provides opportunities for international investors. Developing the bond market is critical to support infrastructure funding in GCC. The GCC Bond market was quite active in first half of 2012 with both Conventional bonds and Islamic sukuk issues exceeded when compared to same period in 2011. We also need to develop an active secondary market and encourage bond trading which will improve liquidity. Qatar is working towards such initiatives. At the heart of every bond market is a benchmark yield curve, which is constituted by government bonds of various maturities and we need to benchmark corporate against various government bond issues. We also need to improve transparency to attract different investors, improve transparency in the trading system and enhance regulatory frameworks towards bonds to promote transparency. An active GCC bond market will support the next infrastructure boom.

The writer is the Group CEO at Doha Bank. Views expressed by the author are his own and do not reflect the newspaper's policy

25%
increase in
Qatar's budget
for uplift projects

