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Paris, November 15, 2017

Embargo on Qatar: Manageable for the Time Being, but not Long-term

On June 5, 2017, Saudi Arabia, the United Arab Emirates, Egypt, and Bahrain (known as the quartet) announced they were breaking diplomatic ties with Qatar due to the country's relations with Iran and accusations that it supports extremism. Although the embargo has had some impact on Qatar, the country has so far been able to soften the effects of the crisis. The biggest threat to the Qatari economy would be if this crisis is prolonged.

Situation Under Control Thanks to Government Support

Qatar, the world's largest exporter of liquefied natural gas, has been able to soften the effects of the embargo so far, mainly due to to its reserves of cash and gold. The government has taken immediate and effective measures, which - along with rising energy exports - have been able to mitigate the challenges arising from the crisis. Coface expects the Qatari economy to grow by 3.4% in 2017 and by 3% in 2018.

Support from the government, mainly in the form of billions of dollars of deposits into the local banking systems to sustain liquidity, has so far helped the Qatari economy to deal with the negative impacts of the crisis, even though Gulf residents have started to withdraw their deposits. Another measure has been to reorganize supply chains in cooperation with other regional and international partners such as Turkey. Meanwhile, Qatar's hydrocarbon exports are continuing to soar. During the first half of 2017, Qatar's natural gas exports rose by 19.3% from a year earlier, while its oil exports jumped by 31.6% during the same period.

Resilience of the National Banking System

Public deposits remain a key source of funding for Qatari banks. The share of public deposits rose from 32% to 38% from June to August as the government pumped money into the banking system to offset the decline in external funding. Funding from the Qatar Central Bank (QCB) to commercial banks is also playing an important role in sustaining liquidity in the banking system. Over the upcoming months, despite persistent outflows due to the unsolved diplomatic crisis, the asset quality of the Qatari banking system will remain high as banks are backed by the government's immense capital buffers.

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Challenges Could Arise in the Medium-Term if no Rapid Solution to the Crisis is Found

If it takes longer than a few months for the parties involved to reach a resolution, Qatar's import costs will escalate further. This would impede growth in key sectors including construction, where prices would be pushed up due to the higher costs of building materials. This would dampen the country's growth performance despite intervention from the government to reduce financial and fiscal risks. Continued political uncertainty would also drag down investments, particularly in non-hydrocarbon sectors.

Weaker economic conditions would lower investor sentiment and deposit outflows, making it important to monitor the liquidity of the Qatari banking system.

Any further deterioration in the current situation would result in greater costs to the Qatari economy. These negative impacts could be mitigated if energy prices continue to recover. Expansion in the construction sector and further infrastructure projects would also sustain momentum in other manufacturing activities. These developments would support growth in non-hydrocarbon sectors.

NORTH AMERICA MEDIA CONTACT:
Sue Hinton - (212) 389-6484, sue.hinton@coface.com

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