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Qatar edges closer to an end of blockade with Saudi Arabia – MENAT Weekly Comment

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Qatar is reportedly edging closer to an end of its blockade with Saudi Arabia, but the relationship between the two nations remains fractious, market participants told *Debtwire*.

The expected deal comes as the Trump administration attempts to secure a number of foreign policy wins in the dying days of his presidency, with Jared Kushner, son-in-law and senior adviser to the President, visiting the Gulf this week to broker a deal.

The agreement between the countries is anticipated to be either a parting gift from the Trump administration or an easy win for incoming president-elect Joe Biden in six months' time, said Gordon Bowers, associate research analyst at Columbia Threadneedle Investments.

Despite this, the agreement does not reportedly include the other three Arab countries which had also severed trade and diplomatic ties with Qatar in 2017– the UAE, Bahrain and Egypt.

"The Saudis are less of a roadblock here compared to the Emiratis. The UAE had been more antagonistic and has projected more external chest thumping," said Bowers.

But major differences between Qatar and Saudi Arabia persist and more work will be needed before meaningful reform is met, said Thierry Apoteker, Chairman of TAK Economics.

"The challenges between the UAE and Saudi versus Qatar are structural and deep, and I don't believe that they will be healed anytime soon," said Apoteker.

This is in part since Qatar has close political ties with Turkey and Iran, which is likely a point of contention with Saudi Arabia, he continued.

"I believe that Saudi and the UAE have begun to see Turkey as a significant and regional threat," Apoteker added.

Qatar's USD 6bn 5.103% 2048 bond has traded relatively flat on news of an expected end to the blockade, with prices currently indicated at 142.99-mid, according to *IHS Markit*.

"Whether the blockade ends is not material from Qatar's point of view. In terms of its credit implications, it's a slight positive and certainly beneficial. But it's a strong credit regardless of a breakthrough," said Bowers.

"The blockade has almost backfired for Saudi and the UAE. Qatar has weathered it well, with its central bank bringing in deposits to liquidate the banking system. It seems to have come out stronger," he added.

Qatar is rated Aa3 stable by Moody's in light of its economic resilience, exceptionally high per-capita income and access to robust

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Government

Issuer
Government Of Bahrain

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Government Of Egypt

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Government Of Qatar

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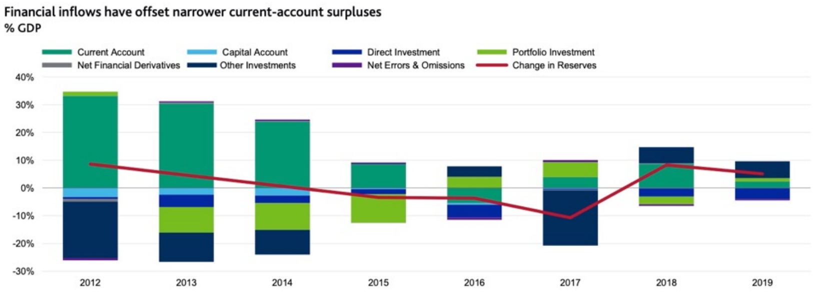
contingency financial buffers which significantly exceeds its level of debt, said a report by the ratings agency on 28 October.

Financial inflows in recent years for example have offset narrower current-account surpluses in Qatar, leading to a positive change in its reserves for the two years following the blockade for 2018 and 2019, as shown below.

Qatar credit profile - % of GDP



Source: Moody's report (28 October)

The great divide

Meanwhile, heterogenous fiscal responses across the GCC in relation to the coronavirus pandemic will further entrench a divide in economic growth across the region, said Scott Livermore, chief economist at Oxford Economics.

His comments come following a report published by Oxford Economics yesterday (2 December) which had concluded that, "the GCC has implemented less direct fiscal support than elsewhere in the world and therefore risks greater economic scarring."

Others agreed, with Bowers adding that, "there has definitely been less space for GCC countries to respond to the pandemic, with Saudi spending 2% of GDP, the UAE 2% of GDP and Qatar just 0.2% of GDP. This is compared to 12% in the US and 11% in Japan, for example."

But sovereign investors should look beyond just direct fiscal measures, and into other indicators such as lending guidance to banks and deferred payments, if they are to better understand the total response to the pandemic, said Apoteker.

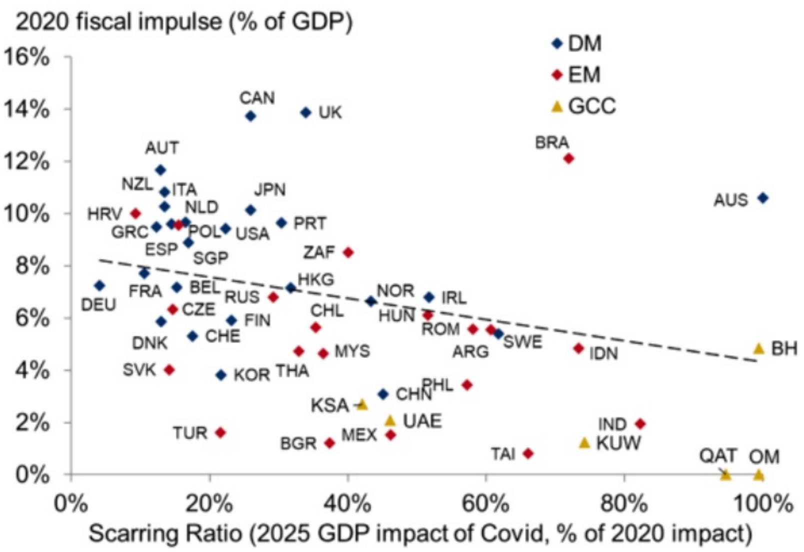
"For most of the GCC figures, if you combine the different elements of support, the response has been quite substantial. The responses to the pandemic which have been weakest are Saudi Arabia and Kuwait. Saudi's [total] macro financial support package had been in the region of 5%-6% of GDP," Apoteker said.

"But at the other end, you have the UAE with 27% of GDP, which is dealing with a decline in oil revenues like the others but also a substantial impact from the fall in revenues from tourism, trade and financing sectors [...] The next highest is Bahrain at 25% of GDP, and then Qatar at 10% of GDP," he added.

Differences in the level of response across the GCC is what will provide differing growth rates across the region going forward, said the Oxford Economics report.

This is since the report had shown the negative relationship between fiscal impulse and a country's scarring ratio, which had been defined as the expected 2025 GDP impact from the coronavirus pandemic compared to the impact in 2020, as shown below.

World: Fiscal support and long-term scarring



Source: Oxford Economics report (2 December)

Speaking of the ensuing divergence in growth rates, Livermore said that, "the degree of government support [during the pandemic] will be critical for aiding the recovery in the non-oil economy over the next couple of years, but also for promoting diversification over the longer term."

"I think the big winner will be the UAE, but Bahrain, Qatar and Saudi Arabia are also on a good track. For different reasons, Oman and Kuwait risk being left behind a little over the next few years," he added.

But others downplayed the importance of pandemic-related spending on medium-term growth rates, with Apoteker noting that, "the most important element for GCC country-specific growth is oil prices, and these are much more relevant than a country's pandemic reaction."

by Alex Dooler