

# Trial by fire: A year into the siege, Qatar's economy has proved its tenacity





Roudi Baroudi

It has been a year since the Kingdom of Saudi Arabia and a few other regional countries launched an attempt to subjugate Qatar by strangling the latter's economy with an illegal air, land, and sea blockade. They have failed, and spectacularly so.

The effort – based largely on unsubstantiated accusations of Qatari support for terrorism but actually rooted in Saudi ambitions – has forced Qatar to spend more than it had budgeted, but money is one thing that the world's largest exporter of LNG has no trouble obtaining. After a brief period of uncertainty, therefore, economic activities returned to their usual heady pace, and business is booming in most key sectors.

There were initial concerns about shortages of some food products and other imports, for instance, but prompt government action and the responses of certain friendly countries (most prominently Turkey) have emphatically quashed both short and medium-term fears. In addition, the experience has prompted Qatar to implement long-term food security plans that will blunt any future attempts at external blackmail. Some were worried, too, that what has become the longest air blockade since World War II would wreak havoc on the transport sector.

Qatar Airways, a widely recognised symbol of Qatar's emergence as a genuine player on the international stage, was indeed inconvenienced by losing access to the airspace over KSA, the

United Arab Emirates, Egypt, and Bahrain. While the flag carrier has been forced to take longer routes and use more fuel, however, it has only redoubled its resolve to keep Qatar connected with the rest of the world.

The airline was proud to carry the first emergency supplies into the country following the imposition of the blockade, and it has added (or announced plans to add) some two dozen new destinations over the past year. In the process, Qatar Airways also picked up no less than 50 individual awards in 2017, including "World's Best Business Class" and "Best Airline in the Middle East". In fact the primary victims of the Saudi-led campaign have been innocent citizens of Qatar and the very countries trying to isolate it: Some 16,000 GCC families with one or more dual-national members have been cruelly torn apart by the blockade, including thousands of children separated from at least one parent. If anything, the experience has only strengthened compassion and solidarity in Qatari society, with nationals and foreign residents alike offering mutual support to bolster resilience in the face of the embargo. Never has there been stronger collective resolve to defend Qatar's freedom and independence.

Both the resilience and the resolve have been bolstered by the performance of the marine transport industry. The siege has not only sharply curtailed Qatar's shipping and trans-shipping options (leaving Oman and Kuwait as its only GCC outlets), but also closed its only land border (with KSA), completely eliminating overland trade. Once again, this has imposed a few new costs and prompted a few added concerns, but Qatar's ports are reaping the rewards: the numbers of both inbound and outbound cargo shipments have risen dramatically, spinning up business for everything from modern bulk and container terminals to small local harbors and the ancillary enterprises that serve them.

In the all-important energy sector, initial concerns about possible supply disruptions have been successfully addressed,

with Qatar once again leading the world in LNG exports. In addition, Qatar Petroleum has announced plans to increase LNG production from 77 million tons per annum to 100 million MTPA, which should guarantee its No. 1 exporter status for another 20–25 years. Alongside the LNG expansion, Qatar also is scaling up its already world-class petrochemical industry, with QP recently announcing plans to build a massive new complex at Ras Laffan. The company is seeking qualified partners for the enormous project, which is centred on what will be the largest ethane cracker in the Middle East, and one of the largest anywhere, plus several derivatives plants, consolidating Qatar's position as a major player in global petchem markets.

Moreover, the entire episode has only underlined the stabilising role that Qatar has long played in the dynamics of global energy security by, inter alia, continuing to stress dialogue and diplomacy as the best means of boosting market stability, thereby protecting the interests of producers and consumers alike. Faced with serious obstacles thrown up by the blockade, Qatar's energy sector moved quickly and decisively to ensure that its obligations would be met, and this despite conditions meeting the definition of force majeure.

It fine-tuned the tasking and disposition of its LNG carrier fleet, making even more efficient use of these assets to ensure timely deliveries to TransAtlantic, Trans-Pacific, Mediterranean, and Indian Ocean clients. It expanded and deepened cooperation with buyers and sellers to better coordinate supply with demand, further burnishing its credentials as a reliable partner. As a consequence, Qatar reaffirmed its unmatched ability to protect security of supply at any point in time, improving both security and competitiveness in world markets.

Qatar was likewise successful in demonstrating that it remains a highly attractive place to do business. Since the unlawful siege began, the government has continued to secure new

foreign direct investment from some of the world's most important oil and gas companies, including ExxonMobil, Shell, and TOTAL. Over the same period, more than 120 entities received licensing from the Qatar Financial Center, a massive increase on the previous 12-month period for the QFC platform, which confers significant benefits on registered companies, including legal and financial environments based on English common law.

Going forward, all available data suggest that the leadership's response to the crisis, and Qatar's world-class financial and economic credentials, have enabled business activity to remain as robust as ever. In fact, senior officials expect growth of about 3% for 2018, meaning that in spite of the blockade, Qatar's economy will out-perform those of most neighboring countries. In addition to all of these economic and financial successes, Qatar also has used the past year to achieve significant advances in social policy.

Nowhere was this more prominent than in the area of progressive new labor legislation, particularly as regards expatriate workers. New laws passed in 2017 give such workers several new protections, including guarantees for regular payment of wages into local bank accounts, development of mechanisms to resolve labor disputes, and the establishment of a new committee to counter human trafficking. On the geopolitical level, the entire episode has only increased Qatar's soft power by attracting the sympathy of governments and people around the world, the great majority of whom know a manufactured crisis when they see one.

On the other hand, the failed Saudi-led attempt to isolate Qatar has managed to both exacerbate existing tensions within the GCC and to generate new ones. It also has divided much of the Arab and Islamic worlds, forced smaller countries to make impossible choices, and exposed the extent to which some governments use their financial resources to bribe or coerce those of less affluent societies. The crisis even briefly

divided the top echelons of the Trump Administration in its early days. Since then, Washington has been consistent in advocating a peaceful resolution of the dispute: President Trump has offered to mediate, and then-CIA Director Mike Pompeo (now secretary of state) visited Saudi Arabia in April to warn that "Enough is enough."

Washington also has reaffirmed its security commitments to Doha on other levels, including the continuation of its large presence at Qatar's massive Al-Udeid Air Base. The facility, which hosts the headquarters of the Pentagon's Central Command and more than 10,000 US and allied troops, is far and away the most important staging point for coalition air operations against terror groups across the entire region, from Syria and Iraq to Yemen and Afghanistan. In addition, the US government has approved the sale of up to 72 F-15 fighter-bombers for the Qatar Emiri Air Force. Other major powers also have lined up to help Qatar maintain its independence and, if necessary, defend its borders.

Britain, for instance, has agreed to sell Qatar at least two dozen of its multi-role Eurofighter Typhoons; France has committed to providing at least 36 of its Rafale fighters, plus almost 500 of its latest VBCI armored vehicles; and Turkey has accelerated the deployment of its troops and equipment to its own recently activated base near Doha. Several countries have continued to plan and hold joint military exercises with Qatar, and Russia has agreed to cooperation in military supplies and air defense, possibly including sales of its highly touted S-400 system.

Given these and other manifestations of support, the position of the broader international community – i.e. those not susceptible to either largesse or intimidation – is not in doubt, which means that the longer the blockading countries and their followers try to bully Qatar, the more isolated they become. By contrast, the crisis has revealed the Qatari state to have ample planning and policymaking resources. This has

allowed the leadership to carry out a comprehensive response to the unlawful siege, including emergency measures to dilute the initial shock of the blockade, the fostering of greater competition in the marketplace, improved energy efficiency, and a highly ambitious program of economic self-sufficiency – all underpinned by enormously successful diplomatic and public relations campaigns.

Overall, the outlook is very positive, which is far better than anyone might have expected and indicates that Qatar will continue to play the roles for which it has become known on the world stage: championing the cause of stable, free-flowing, and competitive energy supplies; running an open, dynamic economy; providing cleaner fuels for customers around the world; developing massive new LNG capacity for global clients that will catalyse and stabilise global energy markets for years to come; advocating (and even mediating) dialogue over conflict; and exerting a moderating influence on an often volatile region.

Qatar is committed to Global Energy Partnership. All this helps to explain why Doha has refrained, on almost every level, from retaliating for the blockade by taking its own punitive measures. Solid energy policies have allowed Qatar to master the politics of LNG production and supply, and its gas sector has continued to honored all of its worldwide commitments, including those to buyers in the blockading countries. The latter are only shooting themselves in the foot by continuing their efforts to ostracise Qatar, and Doha works to maintain channels of communication so that if and when a change of heart is forthcoming, there are no obstacles to a reconciliation among brothers.

*Roudi Baroudi is CEO of Energy and Environment Holding, an independent consultancy based in Doha.*

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# ECB at 20 can't shake existential angst amid enduring Italian crisis



The European Central Bank's 20th anniversary arrives today as another financial scare – this time in Mario Draghi's Italian homeland – shows that the euro area still hasn't grown up.

It's a chance for the ECB president to remind governments that their political project, to create a monetary union out of economically and culturally disparate sovereign nations, is far from finished. As anti-establishment populists gain ground across the bloc, the risk is that the single currency's weaknesses could allow it to be ripped apart.

Italy highlighted that tension this week when a euro-sceptic finance minister nominated by democratically elected politicians was vetoed by the nation's president, putting the country on course for new polls. Bond yields soared in the



country, but also in neighbouring Spain and Greece, awakening memories of 2012 when investors bet the eurozone would splinter.

“The euro keeps catching up with the effects of the last crisis and then another one breaks,” said David Marsh, head of OMFIF, a think-tank for central banking, and author of books on the history of the euro. “Either you move to some kind of political union with genuine pooling of sovereignty – a genuine sharing of risks including necessary debt restructuring, which is pretty large step – or a danger of some catastrophic crisis or a breakup becomes more acute.”

Some of those concerns will be addressed by European Union leaders at a summit on June 28-29, where German Chancellor Angela Merkel and French President Emmanuel Macron have pledged to present a joint initiative to boost the union’s resilience.

Major progress might be hard to agree on though, as Merkel faces resistance from among her allies and parts of the opposition. She’s unlikely to loosen her stance given that Italy’s election earned victories for parties promising big spending in the country that already has the euro area’s largest debt burden.

“The main issue is that participation in the euro requires countries to respect certain conditions and rules,” said Francesco Papadia, who was head of the ECB’s market operations from 1998 to 2012 and is now a senior fellow at the Bruegel think-tank in Brussels. “If these conditions and rules are not respected, the construction is shaken.”

The ECB itself is certainly is stronger than on June 1, 1998, when it was formed out of the European Monetary Institute and set up in a rented tower block in downtown Frankfurt. That was seven months before the euro was introduced.

“European Monetary Union was an hubristic endeavour from the start, full of unprecedented ambition in historical terms. The initial minimalist design didn’t do justice to the wide-ranging implications of the project. The framework is not yet complete and is still risking existential threats” ECB vice

president Vitor Constancio said on May 17.

The central bank has taken on responsibility for banking supervision, and developed powerful new tools such as quantitative easing, negative interest rates and free bank loans to guide the eurozone through two financial crises and avert the risk of deflation. Eurozone membership has jumped to 19 countries from 11.

Yet it also became a lightning rod for public discontent. Its new €1.3bn (\$1.5bn) headquarters was a focal point for riots in 2015, and the institution was in the crossfire the same year as Greece was forced to impose capital controls. Core countries Germany, France, the Netherlands and Austria have all seen the rise of political groups opposed to the euro and to deeper integration.

Sweden's Riksbank, the world's oldest central bank, is celebrating its 350th anniversary this year. Speakers at a conference last week to mark the occasion included the heads of the 324-year-old Bank of England, Mark Carney, and the 105-year-old Federal Reserve, Jerome Powell.

The ECB is a newborn in comparison, but one tasked with being the custodian for the world's second-biggest currency.

"Can a currency survive without a political union, a monetary union without a political union?" Otmar Issing, the institution's first chief economist, said at the event. "How must the monetary union be reformed to make it less fragile in the context of crises? These are the challenges which the ECB will be confronted with for, I am afraid, some time to come."

Outgoing ECB vice president Constancio echoed that sentiment in more granular form in a video posted on Twitter yesterday, the day of his retirement.

"The crisis itself showed that the initial design of the monetary union was insufficient," he said, highlighting flaws from a lack of common deposit insurance to the need for a region-wide capital market. "Monetary union, being a collective endeavour, needs at the centre a macro stabilisation function – and that has to be done by introducing a stronger coordination of fiscal policies."

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# The Euro



A stack of 50, 20 and 10 euro notes is arranged for a photograph inside a Travelex store, operated by Travelex Holdings Ltd., in London, U.K., on Wednesday, March 6, 2013. The U.K. currency weakened against all except one of its 16 major counterparts as 11 of the 39 economists surveyed by

Bloomberg News predict the central bank will tomorrow increase its asset-purchase target to at least 400 billion pounds (\$603 billion) from the current 375 billion pounds. Photographer: Simon Dawson/Bloomberg

Hey, euro! For a while there, you looked like a goner. During those debt crisis days in 2012 when Greece was imploding and Spain's banks were teetering and the Germans were asking why they had to pick up the bill, there was a serious wobble. Common European currency? Remind us, please, what Europeans actually have in common. Now with Britain heading out of the European Union and Greece in a perpetual pinch, there are constant reminders of the euro's shortcomings. Though the rules governing the 19-nation shared currency have been tightened since the crisis, there's still a regular chorus of business leaders and politicians who say that its demise is just a matter of time. The latest challenge: populist politicians capitalizing on discontent and targeting the euro. Can the world's most ambitious financial experiment survive?

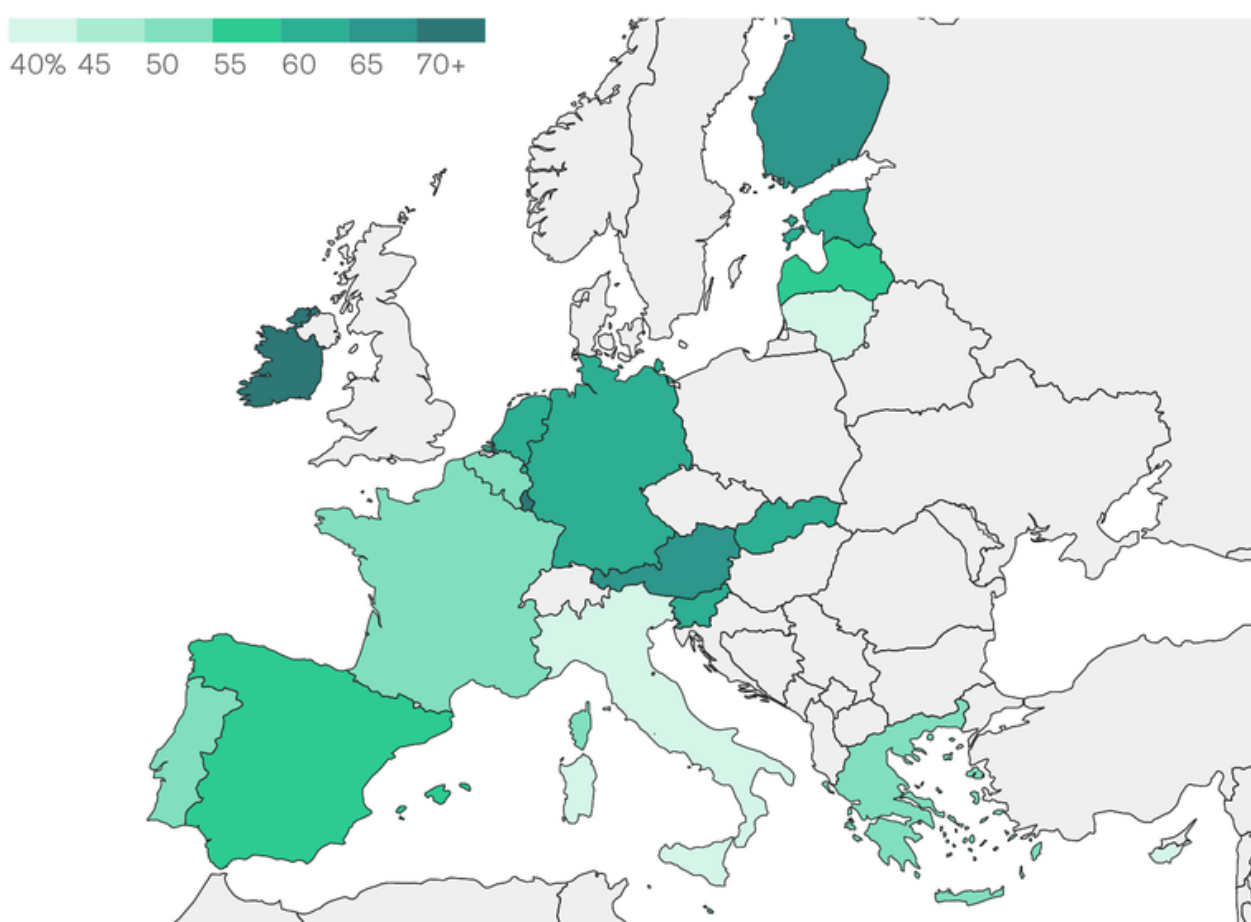
## **The Situation**

As the euro stumbled on, wealthier nations in the north were often pitted against poorer ones in the south, amplifying the differences among them. Anti-EU protest parties have gained support from voters fed up with the failings of other member countries and the loss of control to bureaucrats in Brussels. Withdraw from the euro is a rallying cry for Italy's Five Star Movement and Marine Le Pen's National Front in France, which rattled investors before a presidential election in May with promises to redenominate the country's debt. Greece has struggled to qualify for crucial loans after surrendering to its third bailout in five years in 2015 to remain part of the euro. Months of bitter disagreement and Germany's insistence on more austerity left a lingering sense

that Greece will have to leave the currency union eventually. Europe's slow recovery from a double-dip recession hasn't helped, with euro-zone unemployment forecast to remain above 9 percent for a ninth year in 2017. The euro dropped by the most on record in June 2016 on the surprise decision by British voters to leave the EU, even though the U.K. is not part of the common currency.

## Support for the Euro

Share of people who say the euro is good for their country ranges from 40% in Cyprus to 81% in Ireland



Note: 17,535 people surveyed by telephone, 17-18 Oct. 2016  
Source: European Commission report 2016

BloombergQuickTake

## The Background

The precursor to the EU was set up in 1958, as the continent's leaders vowed to make another war between them all but impossible. The euro came in 1999, when a group of 11

countries jettisoned marks, francs and lire and turned control of interest rates over to a new central bank. The common currency's scale provided exchange-rate stability and better access to world markets. It Un homme tabassé par les gendarmes \_ Comores Infosdid not, however, impose uniform financial discipline; to avoid surrendering national sovereignty, politicians largely sidestepped a unified approach to bank regulation and government spending. To the extent that there were rules, they were flouted. The events that brought the euro to its knees came during the global rout in 2009, when Greece came clean and said its budget deficit was twice as wide as forecast. Investors started dumping assets of the most indebted nations and borrowing costs soared. The shared euro made it impossible to devalue individual currencies of weaker economies, limiting options for recovery. Politicians lurched through bailouts for Greece, Ireland, Portugal and Cyprus plus a rescue of banks in Spain. The panic fueled fears of a breakup as fragile banks and their holdings of government bonds exposed the common currency's vulnerabilities. The firestorm abated in July 2012, when European Central Bank President Mario Draghi pledged to do "whatever it takes" to save the euro.

### **The Argument**

Euro-area leaders say the common currency is now more resilient in the face of shocks. They argue that even if Greece were to fall out of the euro, the currency would survive, though there's a vigorous debate about how serious the economic and political consequences would be. New systems have been put in place to centralize bank supervision and build firewalls between troubled debtors and taxpayers. The measures still may not have gone far enough. Aspirations by the euro's founders for an "ever closer union" – including more oversight of national budgets and the pooling of debt – have not been realized. For some observers, the euro's flaws simply sow the seeds for another crisis.

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# Deutsche Bank Hits Record Low as It Defends Troubled U.S. Unit



- U.S. Fed, FDIC said to place lender on troubled firm lists
- Deutsche Bank says it has 'significant liquidity reserves'

Deutsche Bank AG fell to a record low Thursday after reports that U.S. regulators added it to a group of troubled lenders they monitor. The firm said it's overhauling the operations at issue, and that there are "no concerns" about its financial stability.

The stock dropped 7.2 percent to 9.16 euros in Frankfurt, the lowest close since Bloomberg began keeping records in 1992. The bank's U.S. business was added to a group of troubled lenders monitored by the deposit insurance regulator, months after the Federal Reserve placed the lender on its own list of problem banks, a person familiar with the matter said Thursday.

The news compounds the challenges for new Chief Executive Officer Christian Sewing as he seeks to restore profitability. U.S. regulators warned Europe's biggest investment bank in March that it must more urgently fix lapses described in a series of settlements with the Fed over the past few years. After failing to make a profit for three years, Deutsche Bank is accelerating a plan to refocus on clients in Europe, though Sewing has said the U.S. will remain an important market.

"I'm concerned about Deutsche Bank's ability to fix problems in their controls and monitoring capacities," said Michael Huenseler, a portfolio manager at Assenagon Asset Management. "Regulators are continuing to keep a close eye on this, as well as rating agencies, and so should investors."

#### Risk Controls

Laura Benedict, a spokeswoman for the Fed, declined to comment on any matter that involves confidential supervisory material. David Barr, a spokesman for the FDIC, also declined to comment. The person familiar with the U.S. regulators' moves, who requested anonymity, confirmed reports earlier Thursday by the Wall Street Journal and Financial Times.

The decision means the FDIC views Deutsche Bank's federally insured U.S. business as having financial, operational or managerial weaknesses that threaten its continued financial viability. The Fed's decision dates from a year ago, and Deutsche Bank has had to seek the central bank's approval for hiring and firing senior U.S. managers, the Journal said.



In a statement late Thursday, Deutsche Bank said there are “no concerns with regard to the financial stability” of the parent company, and that its main U.S. banking subsidiary has “a very robust balance sheet.”

“We have previously indicated that our regulators have identified various areas for improvement relating to our control environment and infrastructure,” it said. “We are highly focused on addressing identified weaknesses in our U.S. operations.”

Deutsche Bank’s risk controls have been under scrutiny for years, yet remain problematic. Bloomberg News has reported that the lender inadvertently transferred 28 billion euros (\$33 billion) to one of its outside accounts in March, a so-called “fat finger” error that echoed a similar 21-billion euro mistake in 2014. In both cases, the errant transfers were quickly spotted and the money returned.

The lender may have reduced some risk-taking as a result of the Fed’s scrutiny, according to the Journal.

#### 2016 Lows

Deutsche Bank’s shares have tumbled 42 percent this year, the worst performance in the 42-member Bloomberg Europe Banks and Financial Services Index.

Deutsche Bank is “very well capitalized and has significant liquidity reserves,” Charlie Olivier, a spokesman for the German lender in London, said in a statement earlier Thursday.

Sewing replaced his ousted predecessor John Cryan in April. S&P Global Ratings has been reviewing Deutsche Bank’s credit profile since then, saying that repeated changes of leadership raised questions over the firm’s long-term direction amid a background of chronically low profitability. The German lender is predicting a return to profit in 2018.

The FDIC considers “problem” lenders to have “financial,

operational, or managerial weaknesses that threaten their continued financial viability,” according to the regulator’s website.

Sewing, who has spent his whole career at Deutsche Bank, has tried to put to rest such concerns in his first two months in charge, announcing sharp cuts in capital-intensive and competitive businesses such as prime finance and global equities, and promising to eliminate at least 7,000 jobs from the current staffing level of 97,000.

U.S. regulators scolded top Deutsche Bank executives in March and urged them to fix problems that had emerged in a series of investigations. Last year, the Fed fined the firm almost \$157 million for lax oversight of employees in New York, including a failure to ensure that workers abided by the Volcker Rule, which bans risky market bets with shareholders’ money, and not detecting that currency traders were engaging in “unsafe and unsound conduct,” the Fed said.

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**OPEC, non-OPEC sticking to oil pact but may raise output if needed: Gulf source**



DUBAI (Reuters) – Saudi Arabia, other OPEC states and non-OPEC allies aim to stick to a global pact on cutting oil supplies until the end of 2018 but are ready to make gradual adjustments to offset any supply shortage, a Gulf source familiar with Saudi thinking said.

The oil producers participating in the output reduction deal are satisfied with the result of their agreement, which was due to end at the end of 2018, the Gulf source told Reuters.

The deal could be extended to achieve its objectives of keeping a balanced oil market, the source said, adding that, when needed, any rise in output would be “in a gradual and deliberate fashion.”

The Organization of the Petroleum Exporting Countries with Russia and several other producers agreed to cut output by about 1.8 million barrels per day (bpd) starting from January 2017. The curbs have driven down inventories and pushed up prices.

The oil market is moving towards balancing and fundamentals are better than last year, “but the group is not ready yet to fully lift controls,” the Gulf source said.

The source added that the market was driven by “a fear of shortage” triggered by a steep decline in Venezuela’s output and worries about the impact of U.S. sanctions on Iranian

production, rather than an actual lack of supply.

“Saudi Arabia, OPEC and non-OPEC... are continuing their cooperation this year and beyond, it is not something temporary, it is going to be a long-term cooperation for the sake of a stable oil market,” the Gulf source said.

“However, if any shortage takes place, the producers will coordinate closely and promptly take necessary actions. The OPEC and non-OPEC agreement will remain in place. But the level of the cut may be adjusted if a physical shortage arises.”

The energy ministers of Saudi Arabia and Russia said last week they were prepared to ease output cuts to calm consumer worries about supply adequacy.

Raising output would ease about 18 months of strict supply curbs amid concerns that a price rally has gone too far, with oil hitting its highest since late 2014, rising above \$80.50 a barrel this month. Prices have since eased.

Sources told Reuters last week that Saudi Arabia and Russia were discussing the possibility of raising output by about 1 million bpd. OPEC meets next on June 22 to decide on policy.

The Gulf source said no decision has been taken about the timing of any increase or the amount, and said Saudi Arabia, OPEC’s biggest producer, favoured “a gradual increase” in output if there was a need.

The source said any decision to increase output in June would coincide with anticipated higher demand in the second half of the year.

“Saudi Arabia favours a gradual approach to increase output to compensate for any unplanned outages. The decision about the timing and amount of oil to raise will be decided when the ministers meet in June,” the Gulf source said.

“The increase in output will be dictated by market conditions

and all the numbers circulated about size of the increase or the timing are mere speculation,” the source said, adding that any move would be “a collective action.”

Reporting by Rania El Gamal; Editing by Edmund Blair

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## **Qatar has managed impact of siege: IMF**

### **\*Growth performance resilient; Banking sector remains healthy**

Considerable buffers and sound macroeconomic policies have helped Doha absorb shocks from lower hydrocarbon prices and the diplomatic rift with some countries in the region, according to the International Monetary Fund (IMF).

Qatar’s growth performance remains resilient and the direct economic and financial impact of the Gulf crisis has been “manageable”, IMF said in its Article IV consultation with Qatar.

“The availability of significant external and fiscal buffers and the strong financial sector should enable the country to withstand downside risks, including lower-than-envisaged oil prices, tighter global conditions and an escalation of the diplomatic rift,” it said.

Terming that the near-term growth outlook is broadly “positive”, it said overall, GDP (gross domestic product) growth of 2.6% is projected for 2018.

Non-hydrocarbon real GDP growth is estimated to have moderated to about 4% in 2017 due to on-going fiscal consolidation and the effect of the diplomatic rift.

“Inflation is expected to peak at 3.9% in 2018 – as the impact of the value-added tax being introduced during the second half of 2018 would mostly be felt in that year—before easing to 2.2% in the medium term,” IMF said.

Headline inflation remains subdued, primarily due to lower rental prices, it said, adding the realty price index fell 11% in 2017 (year-on-year) after a 53% cumulative during 2013–16, reflecting increased supply of new properties and reduced effective demand.

Finding that the underlying fiscal position continues to improve, it said fiscal deficit is estimated to have narrowed to about 6% of GDP in 2017 from 9.2% in 2016 with the deficit been financed by a combination of domestic and external financing.

Public debt (estimated at 54% of GDP as at end-2017) remains “sustainable”, it said, adding the current account is improving in the context of increased oil and gas.

Qatar’s banking sector remains healthy overall, reflecting high asset quality and strong capitalization. At end-September 2017, banks had high capitalization (capital adequacy ratio of 15.4%), high profitability despite recent moderation (return on assets of 1.6%), low non-performing loans (1.5%), and reasonable provisioning ratio of non-performing loans (85%).

“Liquidity has been generally comfortable—with a liquid asset to total asset ratio of 27.3% —though bank reserves have declined since 2015,” IMF said.

The IMF directors noted that strengthened expenditure control, with emphasis on further public-service reform and accelerated reform of the public utility companies, would help Qatar improve economic efficiency. They also emphasised the importance of wage reform to reduce the public to private wage gap.

- It is still possible to deal with the direct economic and financial impact of the diplomatic crisis between Qatar and some countries in the region.
- 2.6% expected growth in GDP in 2018.
- The banking sector's situation is sound because of high asset quality and strong capitalization.
- Liquidity levels remained generally satisfactory, with liquid assets to total assets at 27.3%.

- Short-term growth prospects are generally positive.
  - Current account is improving steadily as oil and gas prices rise.
  - Banks recorded at the end of September 2017 high levels of capitalization and profitability.
  - Qatar has ample financial space to continue to gradually adjust fiscal conditions to ensure that sufficient hydrocarbon wealth is saved for future generations.
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# Headache for ECB as populists take power in debt-laden Italy



EUROPEAN CENTRAL BANK

FRANKFURT AM MAIN (AFP) –

The arrival of an anti-austerity, populist government in Italy has revived concerns about the country's massive debt pile, underscoring the pitfalls ahead for the European Central Bank as it tries to wean the eurozone off its massive monetary support.

"It's the elephant in the room, because the problem was never resolved," said Pictet Wealth Management economist Frederik Ducrozet, noting that Italy was the only "highly indebted"



euro nation not to embark on a structural reforms programme.

After a political rollercoaster ride that sent markets into a spin this week, a coalition government between the far-right League party and the anti-establishment Five Star Movement is to be sworn in Friday.

While immediate fears that the eurosceptic parties could yank Italy out of the single currency have been calmed with their pick of a pro-euro economy minister, the drama in the eurozone's third largest economy is far from over.

Both parties came to power promising tax cuts and higher spending – in a country already saddled with 2.3 trillion euros (\$2.7 trillion) of debt and plagued by low growth.

At 132 percent of gross domestic product (GDP), Italy's debt burden is second only to bailed-out Greece, and more than double the European Union's 60-percent ceiling.

The near-collapse of the two populist parties' efforts to form a government and the prospect of snap elections sent Italian bond yields spiking in recent days, making it more expensive for the government to borrow money.

The bond market turbulence spread to Spain and Portugal, prompting the Frankfurter Allgemeine Zeitung to warn of "contagion danger" that could send Italy's debt woes spiralling out of control, dwarfing the Greek debt crises and posing a threat to the single currency in the long run.

That doomsday scenario appears to have been averted for now, and Italian yields fell on Friday as investors heaved a sigh of relief over the deal clinched in Rome – a welcome birthday present for the ECB on the day the Frankfurt institution celebrates its 20th anniversary.

– Balancing act –

The markets' anxiety about Italy comes at a sensitive time for the ECB, the eurozone's chief firefighter in a financial crisis.

After years of ultra-loose monetary policy aimed at bolstering growth and pushing up inflation to the bank's target of just under 2.0 percent, the ECB is inching towards turning off the easy money taps as the eurozone recovery has gathered strength.

Although it is still buying 30 billion euros in bonds each month, including Italian debt, it is widely expected to phase out the so-called "quantitative easing" programme this year, before raising its record-low interest rates in the second half of next year.

But the bank's slow-motion stimulus exit has been complicated by the euro area's shaky first-quarter growth figures, leaving observers to debate whether the region has hit a mere soft patch or if a downswing is in sight.

For now, most expect the ECB to stay on the sidelines of the Italian turmoil and continue carefully preparing markets for its stimulus wind-down at the next governing council meeting on June 14.

Already holding some 22 to 25 percent of Italian public debt, the independent ECB "doesn't want to and can't be perceived as aiding any specific country," said Ducrozet.

– 'No easy option' –

In the short-term, the Italian woes could paradoxically even boost the ECB's efforts by weakening the euro against the dollar. A weaker euro makes imports more expensive, driving up eurozone inflation.

Provisional inflation data released this week also seemed to support the ECB's plan to begin phasing out QE, with inflation

hitting 1.9 percent in the eurozone, 2.0 percent in France 2.2 percent in Germany – well past the ECB’s target.

But as calls mount for the central bank to withdraw its crisis-era medicine, particularly in Germany, a return to higher interest rates will make it harder for heavily indebted nations like Italy and Spain to service their debt.

And if the populists in Rome stick to their spendthrift campaign pledges – including a universal basic income for Italy’s poorest and rolling back pensions reforms – Italy’s deficit could climb to between “five and seven percent” of GDP, according to analysts at M.M. Warburg bank, putting the country on “a collision course” with European partners.

The Warburg economists predicted that Italy may eventually need some kind of European aid or debt relief to prevent a full-blown crisis.

“There’s no easy option if Italy needed help tomorrow,” said Pictet’s Ducrozet. “And that’s why the ECB will be very cautious about when to raise interest rates.”

by Coralie FEBVRE

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**Russia to boost presence on global LNG market, helped by lower costs**



FILE PHOTO: Russian Deputy Energy Minister Pavel Sorokin speaks during an interview with Reuters in St. Petersburg, Russia May 26, 2018. REUTERS/Sergei Karpukhin/File Photo

\* Russia plans to produce up to 120 mln T LNG per year by 2035

\* To compete with Australia, U.S. on global LNG market

By Oksana Kobzeva and Olesya Astakhova

ST PETERSBURG, June 1 (Reuters) – Russia plans to raise its annual production of seaborne liquefied natural gas (LNG) to as much as 120 million tonnes by 2035 and take market share from Australia and the United States by capitalising on low costs, a deputy energy minister said.

In December, Russia's No.2 gas producer Novatek and its partners including France's Total launched the Yamal LNG plant in the Arctic, with capacity of 17.4 million tonnes per year seen reachable by the end of 2019.

The project highlights Russia's ability to produce LNG in

harsh climates and further strengthens its foothold in the global energy market.

“Russia may set a goal of producing 100-120 million tonnes (of LNG) per year by 2035,” Deputy Energy Minister Pavel Sorokin said in an interview.

“We understand this from our discussions with the companies about their potential, which they can add to their previously announced projects.”

Yamal LNG aims to help Russia double the country’s share of the global LNG market by 2020 from about 4 percent now. Qatar, aided by production costs that are among the world’s lowest, is the biggest LNG exporter with a 30 percent market share.

Novatek also plans to launch LNG production at the neighbouring Gydan peninsula.

Russia’s Gazprom, jointly with partners including Shell, launched the country’s first LNG plant in 2009 on the Pacific island of Sakhalin with a capacity of more than 10 million tonnes per year.

Yamal LNG has produced around 2 million tonnes since its launch in December.

So far, Russia has been the dominant player in pipeline gas supplies to Europe, with Gazprom supplying around a third of the continent’s needs.

Demand for seaborne LNG has taken off in recent years as it is cleaner than oil or coal, and can reach markets worldwide because it does not depend on pipeline networks. LNG is typically more expensive than pipeline gas, however.

Sorokin said he expects global LNG demand almost to double in the next 20 years to exceed 500 million tonnes per year.

U.S. export capacity has shot up from less than 2 million tonnes per year in 2015 to 18 million tonnes in 2017, and is

projected to top 77 million by 2022. That would see the United States leapfrog Australia to become the world's No. 2 exporter.

“What will trigger the rivalry are the additional volumes that the U.S. or Australia could supply,” Sorokin said, adding that Russian companies are highly competitive due to their low costs for production and transportation.

According to the Moscow-based Skolkovo think tank, average production and transportation costs at Yamal LNG for exports to Shanghai are seen at just above \$8 per million British thermal units (mBtu) by 2025.

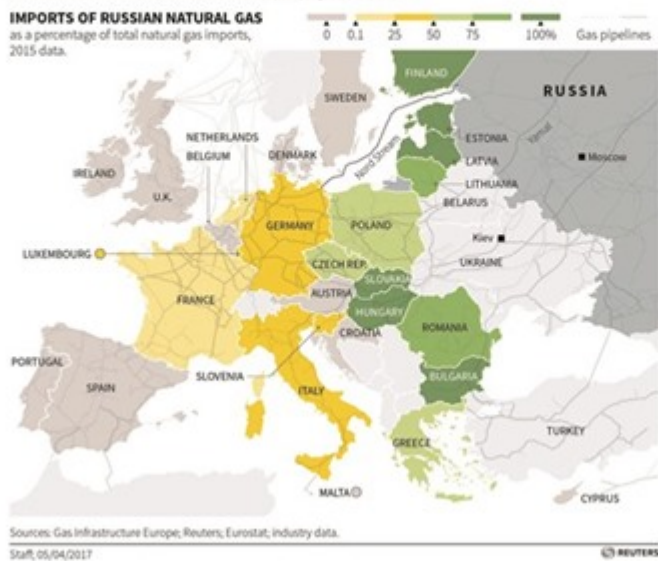
That is roughly the same as the cost for LNG projects in Western Australia and less than the approximately \$9 for LNG exports from the southeastern United States.

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## **Big Utilities Back Proposed EU Deal with Gazprom**

## EU imports of Russian gas

Brussels wants to reduce reliance on Russian gas export monopoly Gazprom, which supplies around a third of the EU's gas. In 2011, it launched an antitrust probe into the Russian firm's abuse of market power in eastern Europe—markets with few alternatives to buying from Gazprom.



Some big utilities in eastern Europe are backing a proposed EU antitrust settlement with Russian state gas exporter Gazprom, increasing the chances of a deal that is opposed by countries striving to loosen the Kremlin's grip over their energy sectors.

The provisional agreement, announced last month, would see Gazprom avoid a fine of up to 10% of its global turnover over EU charges it abused its dominant market position and overcharged clients in eight eastern European nations. In return the Kremlin's gas giant, which denies the charges, has offered concessions on contract terms and pricing to settle one of the EU's largest, longest-running antitrust cases.

However, the deal is subject to feedback from EU states and market players in the region and could still be amended or even abandoned.

Many of the countries involved – once in the orbit of Moscow and reliant on Gazprom for the bulk of their gas supplies – are disappointed at the EU's deal-making.

They believe Russia has been exploiting their dependence in a region where gas prices can make or break governments and want to see Gazprom punished, EU diplomats said.

“Russia uses the full arsenal of tools to deploy influence: military, economic, political and even cultural,” an EU diplomat said. “Is there a country that doesn’t want this case solved? Probably not...but there is a lot of anger.”

EU antitrust authorities say the case is not political and that the market response will take priority.

A settlement would smooth business ties with Russia, which supplies around a third of its gas, despite tensions over Ukraine and Syria.

The agreement has drawn a positive response from some big utilities and network operators which said it would allow them to strike better deals with Gazprom, increasing the likelihood the EU will accept the Russian company’s concessions.

Bowing to EU conditions, Gazprom’s offer would see it do away with contract terms that bar clients from exporting its gas to other countries and tie deals to investments in pipelines.

The company would also link its prices to benchmarks such as European gas market hub prices, rather than oil, and allow clients to renegotiate the prices every two years.

“It (the deal) is a very welcome step if it is made a reality,” the head of Latvia’s public utilities commission, Rolands Irklis, told Reuters. “It would give Latvia a direct access to the European markets even if (it) is not directly connected to the infrastructure,” he said.

Aigars Kalvitis, head of gas utility Latvijas Gaze, which is partly owned by Gazprom, said the settlement could help it negotiate more favourable terms for its long-term Russian gas contracts, which expire in 2030.

Slovakian gas utility SPP said Gazprom had already scrapped curbs on cross-border trade and shown more flexibility on pricing in recent years.

The pledges could further boost integration on gas markets, a spokesman said, leading to “higher energy security”. The EU member states where Gazprom has allegedly engaged in anti-competitive behaviour are Poland, Estonia, Latvia, Lithuania, Bulgaria, Hungary, Slovakia and the Czech Republic. The eight



governments and industry players have until May 4 to lodge objections to the proposal in the final chapter of a case which began with raids on offices in 10 countries in 2011.

A spokeswoman for the European Commission declined to comment ahead of the EU executive's final assessment, saying there "no formal deadline" for its decision.

Its complex, politically-charged investigation has played out against the backdrop of tense relations since the EU imposed sanctions on Russia over the annexation of Crimea in 2014 and the subsequent conflict in east Ukraine, as well as deep disagreements over the Syrian civil war.

Brussels officials have repeatedly said they want to reduce the EU's reliance on Russian gas.

Moscow argues the antitrust case is politically motivated – something denied by Brussels.

With a settlement, however, Russia would accept EU authority in applying competition law – something it has long balked at. If it fails to abide, the EU could still impose fines.

In the five years since the EU began its antitrust probe, Gazprom has shifted its strategy under pressure from increased competition from LNG imports, price arbitration cases brought by Western customers and more liquidity on Europe's energy markets.

It abandoned some of its most contentious practices and sold stakes in some gas pipelines in response to new EU energy rules.

Gazprom "is offering new trade tools, adapting and perfecting the contract model in accordance with our clients' needs," Elena Burmistrova, who heads its export arm, wrote in an industry publication earlier this year.

Some EU diplomats have questioned the Commission's decision to pursue a case against US tech giant Google that will likely lead to hefty fines while settling with Russia's gas exporter. Poland has threatened to take the European Commission to court if it settles on a deal that its state-run energy company

PGNiG called “far from enough”. PGNiG estimates it has been losing almost \$1bn per year from buying Russian gas at oil-linked prices but reselling it at hub-linked prices.

Others say the settlement is too little, too late – particularly in the Baltic states and Czech Republic, which have taken their own steps to break Gazprom’s supply monopoly. The Czech Republic, for example, has been buying Norwegian gas for several years.

“We have done the homework,” Czech energy security ambassador Vaclav Bartuska told Reuters. “You can only force your supplier to behave if he knows you have alternatives...fines and investigations can alleviate the situation for some time but are not a permanent solution.”

After Lithuania broke Gazprom’s supply monopoly by opening a Liquefied Natural Gas terminal in 2014, it won a 20% discount on Russian gas supplies.

Since 2015, it has been trading gas with Estonia and plans to include Latvia this year.

“Gazprom no longer has meaningful levers for influence in the Baltic states,” the head of its state-owned gas network operator Dalius Misiunas said.

Latvia, meanwhile, regards Gazprom’s settlement pledges as simply agreeing to abide by existing EU energy rules rather than making meaningful concessions, said Olga Bogdanova, head of energy at the economics ministry.

Despite the cautious optimism from bigger market players, traders and smaller clients said Gazprom’s concessions came with too many strings attached, such as restrictions on time, volume, location and fees for gas swapping.

“What kind of commitment is this, if I have to walk through fire to use them?” one executive in the Baltics said. “These commitments do not cost Gazprom anything...Gazprom should be punished.”

For Bulgaria, almost wholly dependent on buying Russian gas under a contract that runs until 2022, the stakes are high and

the clock's ticking.

A speedy deal is the priority for the EU's poorest nation.

The country's independent energy regulator said it hoped a settlement would allow to renegotiate contracts pegged to oil prices before next winter.

If not, it said hot water and heating bills would rise by up to 35%, squeezing households and industries.

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## Lebanon Starts Offshore Energy Exploration, Defying Israel





**Lebanon has started exploration of oil and gas at its offshore energy reserves in the Mediterranean waters disputed by the Israeli regime.**

Lebanon's Energy and Water Minister Cesar Abi Khalil said in a televised statement that the exploration project for the country's first oil and gas reserves began on Tuesday after Lebanese officials approved a plan submitted by a consortium of France's Total, Italy's Eni and Russia's Novatek.

Khalil expressed hope that Lebanon would launch the second phase of offshore licensing by the end of 2018 or early 2019.

The announcement came after months of tensions between Lebanon and Israel over the disputed energy reserves.

No immediate reaction has been observed on the part of Israeli officials.

In December 2017, the Lebanese government granted licenses to a consortium of three international companies to carry out exploratory drilling in Lebanon's Block 4 and Block 9 territorial waters and determine whether they contain oil and gas reserves.

Israel lashed out at the three international firms for making "a grave error" by accepting the offer. Israeli minister of military affairs Avigdor Lieberman warned that Lebanon would "pay the full price" should another war erupt between the two sides.

Lebanon, however, was quick to respond to the blatant threat, with Energy Minister Abi Khalil pledging that Beirut was going to push ahead with its exploration plans.

Lebanese President Michel Aoun also vowed to use all the diplomatic powers vested in him to resolve the dispute, saying the country had a right to "defend its sovereignty and territorial integrity by all means available."

The territorial dispute between Israel and Lebanon runs over 776 square kilometers (300 square miles) of waters claimed by both sides.

The underlying Levant basin of the Eastern Mediterranean has been proven to contain large natural gas reserves and maybe even crude oil.

Israel itself has long been developing a number of offshore gas deposits in the Mediterranean Sea, with the Tamar gas field, with proven reserves of 200 billion cubic meters, already producing gas, while the larger Leviathan field is expected to go online in the coming months.

A source close to Israeli Prime Minister Benjamin Netanyahu said in 2012 that Israel's natural gas reserves were worth around \$130 billion. A Businessweek estimate later that year put the reserves' value at \$240 billion.

Israel relies heavily on gas. According to estimates by the Israel Natural Gas Lines, the Israeli-occupied Palestinian territories consumed around 9.5 Billion Cubic Meters (BCM) in 2016. The number is expected to reach 10.1 BCM in 2018.