

al khaliji Business Banking Forum

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Ladies and Gentlemen,

Welcome to the first Business Banking Forum organized by al khaliji, in partnership with KPMG.

I would like first to introduce myself. I am Charbel Cordahi, Head of Investor Relations, in charge of Economic Research in al khaliji.

2008 was certainly the year of the global financial crisis which has reached its peak on September 14th with Lehman Brothers collapse. The crisis affected banks and companies across the world, leading to an unprecedented recession in terms of retreat in economic indicators and uncertainties.

The reasons are initially financial and economic, as the assets developed and traded during the pre-crisis period were much more risky than bankers and economists imagined. The real impacts of these risks appeared upon the occurrence of the crisis. In addition, securitization by financial institutions in favor of banks and companies generated assets that are difficult, if not impossible, to be valued, and thus multiplying the risks and spreading the crisis. The third main reason for the expansion of the crisis worldwide is the dependencies among global financial markets, as well as the increase of interbank bounds and interests. This has affected first the regional economies and constituted the channel of transmission of the global crisis through liquidity squeeze, withdrawal of foreign funds to cover losses aboard, block of business' and construction projects' financing, and book squaring within the Arab bourses.

The crisis signs appeared first in Europe, Japan and the USA in 2007 and then in the Arab World by mid 2008. Governments, however, took action quickly to absorb the financial and economic impacts. The quick action of governments is largely attributed to the experience the world has historically witnessed upon the 1929 Crisis and the successive crunches.

Officials were aware of the fact that the absence of liquidity injection and absorption of banks' losses would leave no room for banking finance, which means successive bankruptcies in the banking sector and subsequent crunches in different sectors of the real economy such as industry, agriculture, real estate, etc.

Policies applied globally and in the Gulf – and particularly in Qatar – succeeded indeed to establish the financial stability, protect banks, refresh lending, and limit the degradation of demand through sequential and coordinated measures.

Does this mean that the crisis and its impacts are now behind us?

Certainly Not. Risks, although receded, still exist :

- The situation of the global financial sector, as the growth rate of loans to the private sector remains weak, affecting negatively private investment and growth rates. Companies and institutions are also facing difficulties in accessing bank credit according to their respective size, quality of assets, and sectors they invest in.
- Concerns raised by investors regarding the ability of governments to honor their long-term debts, in particular due to the increase of the American debt to unprecedented levels.

Therefore, what are our expectations for growth and how do such expectations impact the activities of the companies and institutions operating in GCC and Qatar?

- Recent economic studies reveal that the regional economies are overall robust. They have successfully overcome the successive shocks of the global turmoil. Fiscal, monetary and financial policies widely succeeded in controlling market disorders.
- In Qatar, for instance, the International Monetary Fund (IMF) expects the gross domestic product (GDP) growth rate to reach – in constant rates – 18 percent in 2009 and 16.4 percent in 2010, provided that it continues to grow at a slower pace to record 8.9 percent in 2011 and 3.3 percent in 2012 and onward.
- The IMF also expects the inflation rate to decrease starting from 2009, from 15 percent in 2008 to 9 percent in 2009, 7.5 percent in 2011, 6.3 percent in 2012, 5.3 percent in 2013 and 3 percent in 2014.

You may ask about the reasons behind the growth of 18 percent in the GDP in 2009, although it is a hard year during which the global economy has witnessed a sharp contraction in demand, affecting the countries in the region. Moreover, why would the GDP grow at a slower pace in 2010, while the global economy would have overcome the consequences of the turmoil and the governmental policies would have fully met their intended purposes. Shouldn't the annual growth rate increase, and not decrease ?

To answer this question, two factors must be considered :

- The first is the leading role the public sector and Qatari Government are playing in the development of the economy and in the investment in fundamentals to reach the potential output, i.e. the total GDP that could be produced by the economy if all resources were fully employed.
- The second is linked to growth, its grounds, and the means for its sustainability on both long and medium terms.

First, what if Qatar reaches the potential GDP, and what happens then?

- Multiple factors have made Qatar a high-profile leading economic power. The production and export of oil & gas helped the country achieving large budget surpluses and gave its economy a big push. Public investment plans have mainly contributed to the development of the general economic and financial situation, as the components of the economic activity witnessed unparalleled growth whether in industry, energy production, water distribution, construction, trade, tourism, transportation, telecommunication, financial & banking, real estate, insurance sectors, and other businesses.
- This situation is called the “Big Push”. The term is usually used to describe an economy that shifts from one to another more advanced position through large investments in infrastructure, education, and private sector so it achieves a steady growth in both public and individual productivities. The answer to the first question comes within this context. The push to Qatar's economy, supported by bold investment plans and the increase in productivity, helped the country overcome the negative impacts of the global financial turmoil. This clears up the high growth rates despite the global economic difficulties.

- The continued growth, even in lower rates, in 2012 is due to the fact that any economy that reaches its potential output would establish for its citizens a high-level of well-being, where the productivity would increase to reach a trigger point. Consequently, other factors would intervene to underpin the growth starting from the achieved level.

What are these factors and how will they affect Qatar economy in the future ?

- **One: Demographic Growth and human capital**

- Economic growth is related to demographic growth. Demographic growth means more consumption and more production. It contributes to the raise in demand of services and commodities on the long run and creates new economic opportunities through the multiplier, which consequently increase the profitability of companies and corporations.
- Ibn Khadoun was the first to raise this point (in his *Prolegomenon*). Later on, in the twentieth century, an economic theory was born, which has adopted and documented this point of view.
- According to the IMF, Qatar's demographic growth will continue in the upcoming years and population will go beyond 2.1 million in 2014. This means that growth related to demography will continue.

- **Two: Ongoing Economic liberalization**

The conclusion of commercial cooperation agreements, encouragement of foreign investments, and other agreements contribute to the establishment and sustainability of growth via trade exchanges, capital and good flows, and decrease of production costs by importing cost-effective products and efficient equipments.

- **Three: Entrepreneurship Spirit of Qatari Investors**

A credit goes to Joseph Schumpeter in the development of such concept that links entrepreneurship to creativity and dynamism in production and industry, leading to sustainable growth on the long run. This explains further the reason for which the growth of Qatar's economy would continue on both medium and long terms, as a

community that is active and bold in trade and business would always look for new means to increase its profitability and expand its business.

- **Four: Saving**

Saving is one of the most important reasons investment. If we look to the financial indicators in Qatar, we see that banks' and external assets, along with private and public deposits, are increasing. Economists expect saving rates to keep their increasing trend in upcoming years, underpinning growth opportunities linked to investment and making the "continuous productivity growth" more reliable.

- **Five: The Weather !**

- Recent economic studies reveal that growth is related to warm climates. Statistics show large dependencies of weather and growth. In Ancient History for example, the economic and cultural development was concentrated in Egypt.
- Some economists go as far as to say that the growth periods witnessed by countries with cold weather are nothing but exceptions !
- In all events, whether the link between growth and weather is true or not, the other factors described above are real fundamentals for long term-growth, along with oil and gas reserves, including the liquefied natural gas which is considered as a source of green and clean energy to be greatly used worldwide in the future.

Thank you for your attendance,

Yours faithfully,

Dr. Charbel Cordahi