



## **Update on risk status for Qatar one year after the start of the regional boycott**

### **Background**

On 5 June 2017, sixteen Arab and African nations cut off or reduced their diplomatic relations with Qatar. Four of which, Bahrain, Egypt, Saudi Arabia and the United Arab Emirates completely cut off all relations, including economic, media and travel boycott.

This advisory note aims to highlight the political and economic risks facing Qatar and the likelihood of risks over the coming months. Further details or sector specific analysis can be obtained by contacting Cornerstone Global Associates.

### **Current risk factors**

The full year of sanctions have had an adverse effect on Qatar's economy and global reputation. Qatar's economy has grown at its slowest rate since 1994. In particular:

- **Qatar Airways:** Qatar Airways is the government-owned airline of Qatar. It is considered one of the pillars of the Qatari economy and marketers of Qatar's global image. At the day the boycott started, Cornerstone Global Associates Founder Ghanem Nuseibeh predicted in a BBC interview that Qatar Airways will suffer from the boycott<sup>1</sup>. On 7 March 2018, Qatar Airways confirmed Cornerstone's prediction that it expects to make a "very large loss" due to the boycott<sup>2</sup>. Besides Qatar Airways, Qatar's main airport, Hamad International Airport, which opened in 2014 after costly delays, is expected to have suffered commercially.
- **FIFA 2022 projects:** Qatar has stated that it still hopes to host FIFA 2022 World Cup finals, despite acknowledged difficulties. However, the sanctions have substantially increased the political and economic risk to Qatar being able to host the games. In October 2017, Cornerstone Global Associates published a report highlighting the risks facing Qatar's hosting of FIFA 2022<sup>3</sup>. The report concluded that the sanctions have caused delays to ongoing work as well as substantial increase in costs of construction material due to the change in the supply routes. Further updates by Cornerstone have confirmed the difficulties reported earlier. In particular, sources within Qatar working on the delivery have confirmed to Cornerstone that delays on the transport systems due to be used during the



## RISK ADVISORY NOTE

games are “severely delayed” with serious question marks raised about its readiness for the games.

- **Qatar banking system:** The sanctions have put the Qatari banking system under severe strain with significant withdrawal of reserves.
- **Qatar foreign investments:** Qatar has been forced to liquidate some of its holdings around the world in order to prop up the local economy and local banks. Reuters reported that Qatar’s government had to deposit US \$30 billion in the first 6 months of the sanctions<sup>4</sup>. This represents 10% of Qatar’s sovereign investments. Whilst the Qatar authorities have conceded that they have indeed liquidated assets, they did not acknowledge they were liquidated in response to the sanctions.
- **Doha Stock Market:** Is down 8 % since the sanctions started, compared with a 12 % increase in other MSCI Emerging Markets Index.

## Outlook

We expect the sanctions to continue for the foreseeable future. They will likely add further pressure on the Qatari economy and further increase the overall political risks. In particular:

- **Qatar Airways** will continue to suffer losses and there will be an increased likelihood of the Qatari government stepping in to shore up the company. Qatar Airways will likely be looking at selling or leasing some of its jets.
- **FIFA 2022** projects will likely to continue to suffer delays in delivery and payments. It is expected more construction disputes will arise. Should the World Cup be withdrawn from Qatar, a risk that has only increased since the sanctions started, a substantial deal of construction disputes are likely to ensue.
- **Qatar foreign investments** Qatar will resist liquidating key assets particularly in strategic locations like the UK. However, as the sanctions continue, Qatar will be forced to consider liquidating those in order to shore up its local economy.

For detailed analysis on specific sectors please email [contact@cstoneglobal.com](mailto:contact@cstoneglobal.com)

1. <http://www.bbc.com/news/business-40156029>
2. <https://www.reuters.com/article/us-qatar-airways-outlook/qatar-airways-to-report-very-large-loss-for-current-fiscal-year-ceo-idUSKCN1GJ1VJ>
3. [https://s3-eu-west-1.amazonaws.com/cdn.webfactore.co.uk/7073\\_fifa+qatar+risk+report+updated+.pdf](https://s3-eu-west-1.amazonaws.com/cdn.webfactore.co.uk/7073_fifa+qatar+risk+report+updated+.pdf)
4. <https://www.reuters.com/article/qatar-funds/qatar-sovereign-fund-not-liquidating-assets-to-help-banks-ceo-says-idUSL8N1RT2WF>