GCC debt market developments

Large sovereign maturities issues hold back net debt growth in Q1

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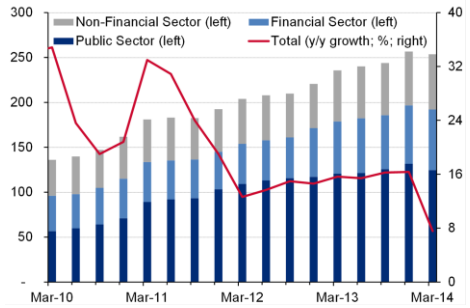
- **GCC debt markets experienced modest growth in 1Q14 on weaker private sector issuance and large maturing sovereign debt.** New prudential regulations and capital standards are likely to continue to encourage banking sector issuance. Sovereign GCC yields have declined over the last quarter on the back of lower US rates, and healthier credit and financial conditions, particularly in Dubai.
- **Growth in the total stock of bonds slowed to 8% year-on-year (y/y) during 1Q14, almost half its two-year average of 15%.** Outstanding bonds declined by $3 billion to $254 billion, partly due to the maturing of $15 billion in Qatari sovereign debt. Qatar's stock of total outstanding debt contracted by $9 billion to reach $69 billion, though it remains the second highest in the GCC, after the UAE. The year will continue to see the maturing of large sovereign debentures, most of which were issued in response to the financial crisis.
- **Weak non-financial private sector issuance was behind the modest performance in 1Q14.** Of the $15 billion issued in the quarter, non-financial companies only contributed $1.5 billion. Meanwhile, the public sector, led by Qatar, experienced its strongest quarter in two years and accounted for two thirds of total issuance. Qatar's ambitious development goals are expected to continue to feed issuance growth.
- **Financial sector issuance remained healthy and on par with previous quarters.** Its stock of debt grew to $67 billion, up $2 billion from the last quarter and $9 billion from a year ago. Global liquidity standards and balance sheet mismatches will continue to push issuance in this sector, not to mention the pick-up in GCC economic growth.
- **Authorities across the GCC are expected to continue to encourage the development of a deeper and more mature debt market, in part to enhance financial stability.** New regulatory measures to be implemented in the coming year, including new capital adequacy rules and bank loan concentration limits, should encourage both public and private issuance.
- **The average maturity of outstanding debt in the GCC edged higher to 5.9 years, thanks to new medium term issues by the public sector.** The average life of public debt is currently estimated at 5.1 years, from 4.8 years. Non-financial debt retains the longest average tenor at 8.7 years.
- **GCC optimism and receding geopolitical tensions saw yields decline further in 1Q14.** Dubai yields saw the largest decline, as confidence in Dubai's economy pushed the yield on its 2020 sovereign issue down by 108 basis points (bps). Qatari yields declined by 39 bps despite a political dispute with its neighbors which caused a temporary increase. Yields on Abu Dhabi debt remained stable, dropping by 20 bps. Continued accommodative monetary policy by the US Fed and the ECB and a benign political environment are expected to keep the downward pressure on rates in the GCC.

Chart 1: GCC outstanding debt securities

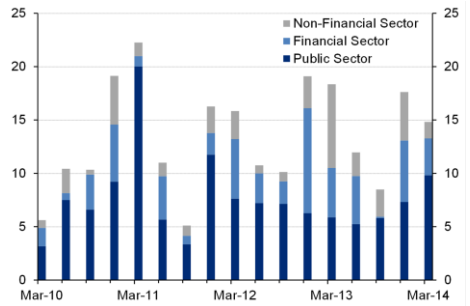
($ billion)



Source: Zawya, NBK

Chart 2: Gross GCC issuance of debt securities

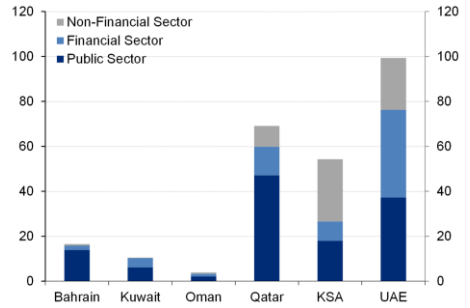
($ billion)



Source: Zawya, NBK

Chart 3: Outstanding debt securities by country

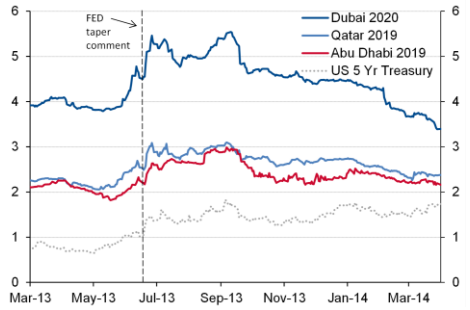
($ billion)



Source: Zawya, NBK

Chart 4: GCC sovereign yields

(%)



Source: Thomson Reuters Datastream, NBK

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