

## Articles:

### **Qatar Banking System Outlook In the first half of 2008 By Sheikh Abdulla bin Saoud bin Abdel Aziz Al Thani**

Banking sector in Qatar has been one of the fastest growing sectors, expanding in line with economic growth of the country. Qatar banking sector consists of one development bank and 17 commercial banks with 210 branches and 546 ATM. Six of the seventeen are foreign banks while the others are Qatari banks. In the other hand, three banks are working according the Islamic rules while four of the conventional banks have Islamic branches. One more new Islamic bank has been established and will start his operation as a private bank by the end of 2008.

Development Bank is a specialized governmental bank that offer subsidized and long term loans to the small and medium projects in seven sectors such as education, health, agriculture, fishing and housing. In addition to the above mentioned banks that work under the control and supervision of Qatar central bank (QCB), about 70 branches of foreign banks are working under the umbrella of Qatar Financial Center (QFC. The dual system of supervision will come to the end soon as a new single regulatory body will be established and will take care of all the banking and financial system in Qatar.

In the time being, banks-outside the QFC are complied with the QCB's prudential norms and have started to implement Basle II successfully since the beginning of 2006. All national banks are adopting Standardized Approach for credit and market risk and Basic Indicator Approach to operational risk. Banks are required to hold no less than 10% as capital adequacy.

Banks are also required to follow international accounting standards. Therefore, high importance has been placed on protecting the risk profiles of banks by avoiding concentration of risks, solvency and liquidity of banks.

Macro-prudential indicators of the banking sector remain strong:

\* The average capital assets adequacy ratio of commercial banks increased to 18.9% at the end of 2007 compared with 15.1% one year earlier.

\* The gross nonperforming loan ratio declined to 1.5% by the end of 2007 compared with 2.2% at end of 2006.

\* The banking sector's profits increased by 50% from \$1.6 billion in 2006 to \$2.4 billion in 2007.

Qatar banking sector is highly matured in terms of corporate governance, regulatory framework and integration with other sector. Robust corporate governance standards are put in place, which are adequately supported by internal controls and audit. External audit of banks are undertaken. Prudential disclosure as required by Qatar Central Bank and are made by banks

The national banks operate under an open system. Banks follow the prudential norms on credit classification and provisioning. The prudential norms on credit classification and provisioning by the banks are based on the international norm of 90 days past due concept. Prudential concentration limits has been placed on lending by banks to individuals and companies, real estate financing, liquidity ratio, credit ratio and foreign exchange ratio. Regulations on anti-money laundering and terrorism financing are also in place. The IMF FSAP mission had outlined that the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision is being largely complied within the State.

Banks can lend up to a maximum of QR 2.5 million as a personal loan (PL). The period of the PL has been restricted to 7 years, and the maximum is limited up to 50% of the gross salary of the borrower. The definition of salary has been widened to include all the components of salary.

Other than banking activities, QCB licenses and supervises three kinds of financial companies namely, finance, investment and exchange houses. All finance companies licensed by Qatar Central Bank should perform finance business, which grant consumption loans for different categories of customers, whether individuals, institutions or companies. Finance companies are forbidden from receiving deposits or performing exchange activities, investment activities, represent banks and foreign financial institutions or any of the banking activities.

The business of the investment companies is constituted of investment for others, financial

mediation, finance, underwriting, corporate finance, investment consultation and custody.

**“Growth and Inflation in Qatar” An article to the Euromoney Yearbook Magazine By Sheikh Abdullah bin Saoud Al Thani -Qatar Central Bank’s Governor**

Qatar’s economy has strongly expanded over the past five years, and economic growth is expected to remain robust over the medium term. Qatar’s 2007 nominal GDP has increased by about 12.6% above 2006 GDP to reach \$63.7 billion and is anticipated to reach \$70 bn in 2008, i.e. more than threefold 2003 GDP. The soaring oil prices and the huge developments in the domestic gas industry were the main drive for growth in the mentioned period.

Qatar has adopted a diversified gas strategy consisting of four approaches: LNG exports, GTL Gas to Liquids products, Pipeline Gas Exports (via the Dolphin project to UAE), and as a feed to domestic petrochemical and power plants.

Away from the energy sector, big efforts were made to develop tourism and financial services and to turn Qatar into a regional centre for education and healthcare. Qatar state has invested hundreds of billions of Qatari riyals in the past seven years to modernize the infrastructure. In this field, many new cities, a wide range of roads and bridges, several power & water desalination plants, and a new international airport are being planned and constructed. As a result of implementing a flush of developmental programs, the population of Qatar has doubled in less than five years to reach 1.5 million compared to 744 thousand in 2004 official census.

Monetary conditions in Qatar were characterized by ample liquidity and strong credit growth in the previous years. Broad money supply growth ravaged 34% a year during 2004-07.

Due to the above mentioned factors and as a result of the imbalances and bottlenecks in the supply side especially in the real estate sector, inflation rate in Qatar has escalated in the period 2003-2007. CPI inflation jumped from just 0.24% in 2002 to reach 11.8% in 2006 and rose to an annualized level of 13.74% by the fourth quarter of 2007. The recent round of relatively high inflation in Qatar is much different from those of any other period in the previous four decades. Qatar has experienced low or creeping inflation except in the following periods: 1975-1977, 1987-1992 and 2004-2007.

While Qatar Monetary Authority opted to reevaluate the Qatari riyal against the US dollar in the seventies of the last century, Qatar Central bank chose to peg the riyal to the dollar and to raise the reserve requirement ratio to absorb the excess liquidity in the banking system. In the last 8 months, QCB has raised the required reserve ratio by 2% from 2.75% up to September 2007 to 4.75% starting from April 2008. Other monetary tools mainly the outstanding facility of Qatar Monetary Market Rate(QMR) were used since 2002. According to facilities, Banks in Qatar can, to a certain limits deposit in or borrow money from QCB on a daily basis. The aim of QMR facilities is to facilitate the liquidity transactions in the payment system and to absorb part of the excess money.

Setting interest rates on the Qatari riyal has proved to be of low effectiveness since they have to pursue the track of the US Fed rates. Thus, lowering the interest rates in Qatar in the previous 8 month did nothing to fight inflation. QCB started to issue certificate of deposits as new tool to absorb part of the excess money in the banking system.

More steps were taken by the governmental inflation committee such as instituting price controls and subsidizing prices for basic commodities as bread, rice and petrol. Solutions for the bottlenecks were studied and being implemented to push the rate of inflation back to one digit number by the end of the 2008.

**-H.E the Governor Speech in East-West Financial Ties  
Washington – October 2007**

The United States of America and the State of Qatar share a warm and friendly relationship

fostered by mutual trust and strong collaboration in several aspects. Common interests and concerns have resulted in developing strong ties and cooperation in many areas such as economic development, education, security, and promoting peace and prosperity. These relations are getting stronger day by day at different levels, be it individuals, institutions, business and government.

In the field of education the United States is playing a significant role in shaping the future of Qatar. Today we have five world class universities from the United States, having a local campus in Qatar, contributing through learning, research and education to a better future for the Qatari people.

Human resources is a key element in the development of any country. The Knowledge, experience and ability of expatriate workers especially American professionals have benefited Qatar immensely and has actually helped the country to take giant steps forward.

There are various areas including Energy, Information Technology, Healthcare, and Transportation where Qatar continues to benefit from the USA. It is estimated that investments by US companies in Qatar is around USD 70 Billion. Major American companies such as ExxonMobil, ConocoPhillips, Occidental, Chevron, and General Electrical are playing a major role in developing the oil, gas, and petrochemical sectors. Joint Ventures have been setup between Qatar Petroleum and various energy companies in the US to export liquefied natural gas (LNG). LNG exports to the US will begin in 2009, securing a clean source of energy for many years to come.

The Banking sector in Qatar has been one of the fastest growing sectors, expanding in line with economic growth of the country. Today we have 17 Banks operating in Qatar, nine of which are Qatari institutions with six commercial banks and three Islamic institutions. We have one government owned Bank, Qatar Development Bank, mainly focusing on financing small and medium size projects. In addition, we have branches of seven foreign banks including Standard Chartered, HSBC, and BNP Paribas. Total assets of Qatari Banks grew by 47% in 2006 as compared to the previous year. The deposits grew by 43%, Shareholder Equity grew by 34% and the capital grew by 148% as compared to the previous year.

The Qatar Banking sector has advanced in terms of corporate governance, regulatory framework and integration with the other economic sectors. Qatari banks are well exposed to continuous product innovation and have deployed best of the banking technology to the benefit of their customers. Our banks offer a comprehensive range of products for all customer segments – Retail, Corporate, and Institutions. Project finance, advisory services, assets management and private banking are areas of increased emphasis by Qatari banks. Meanwhile, customers have the benefit and convenience of multiple online real time delivery channels such as Internet Banking, SMS Banking, Mobile Banking, ATMs and POS.

Qatari banks have expanded their global reach in recent years by establishing a presence in major financial centers around the world including New York, London, Paris, Singapore, Tokyo, Shanghai, and Dubai.

In recent years, Islamic banking has witnessed tremendous growth in Qatar due to a growing demand for Sharia compliant products and services from both retail and corporate customers. Sukuk issues are a growing aspect of financing projects and real estate developments in Qatar and the region. Qatar's three Islamic financial institutions offer a comprehensive range of Sharia compliant products and services. To meet the growing demand, a number of conventional banks have established separate Islamic banking divisions.

Qatar Central Bank regulates and supervise the banking sector. It has introduced major international standards for supervision and regulations based on Basle accord. The guiding principle of a Central bank towards supervision is Corporate Governance, Risk Management,

Asset Quality, Financial Leverage, Transparency and Performance. QCB has been proactively guiding banks to adapt to international best practices. Our banks have completed the implementation of Basel II framework. In addition to Banks, Qatar Central Bank also regulates Investment companies, Finance companies and Exchange houses.

GCC countries are undergoing a phase of rapid transformation. Surplus funds are being deployed for infrastructure modernization and development of diverse sectors with specific focus on non-energy based sectors. Private sector role enlargement, liberalization of various sectors such as real estate, finance etc., establishment of free zones, attractive incentives for investment are all resulting in rapid economic transformation. Drastic improvement in healthcare and education, increasing level of women participation in both the private and public sectors, improving social indicators all reflect the social transformation GCC countries are undergoing. Qatar has always remained in forefront in adapting to change and has been pursuing the transformation process – both economic and social - with utmost focus.

In the fast changing world driven by globalization, technological advancement, and deregulation the USA has always been leading by example, when it comes to innovation and adapting to change. Qatar has been continuously drawing from the USA's experience of innovation and have immensely benefited from it.

I believe that the relationship will continue to flourish to an unparalleled and exemplary level.

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