Sheikh Abdulla bin Saoud Al-Thani
Governor
Qatar Central Bank

Gulf Affairs: What role is the Qatar Central Bank (QCB) playing in Qatar's national vision 2030?

Sheikh Abdulla bin Saoud Al-Thani: QCB is committed to achieving the goals of Qatar's National Vision (QNV) 2030 by maintaining monetary and financial stability in Qatar. QCB, along with Qatar Financial Centre Regulatory Authority and Qatar Financial Markets Authority, launched the Second Strategic Plan in 2017, an extension of the First Strategic Plan 2013-2016, for financial sector development. In the Second Strategic Plan 2017-2022, QCB promotes financial market development which supports the QNV 2030 goals of modernisation, economic growth and social development that will help Qatar achieve the status of 'developed nation' by 2030.

A well-developed financial sector is a necessary condition for transforming Qatar into a developed country by the year 2030. Accordingly, in the second strategic plan, QCB aims to enhance financial sector regulation and to promote institutional cooperation for the development of financial markets. In terms of financial market development, QCB recognises the role of financial innovation and Fintech in meeting future challenges. As for human development, QCB is making efforts for enhancing financial inclusion and financial literacy in Qatar. Financial literacy and wider financial inclusion are also important for the encouragement of young entrepreneurs, innovation and human development, and for economic diversification more generally. In sum, the developed financial market will create opportunities for lending and investment and help in economic diversification needed to attain the goals of QNV 2030.

Gulf Affairs: How do the QCB and the Qatar Investment Authority (QIA) strategies complement each other?

Al-Thani: Qatar Investment Authority (QIA) plays an important role of managing and investing a major portion of Qatar's reserves with an objective to grow and create long-term value for the State and future generations. On the other hand, QCB as a central bank endeavours to maintain domestic monetary and financial stability. In this regard, QCB also manages a significant part of foreign exchange reserves to facilitate maintaining the currency peg. Since the government's financial transactions through QIA has domestic liquidity implications, normally there is regular coordination and interaction between QIA and QCB. In the immediate aftermath of the blockade imposed by neighbouring Gulf countries in 2017, both QCB and QIA provided liquidity support to the banking sector to deal with the stress of capital outflows from Qatar, complementing each other through joint strategies.

Gulf Affairs: How has QCB regulation contributed to the development of Qatar's financial sector in recent years?

Al-Thani: In the aftermath of the Global financial crisis of 2008, the regulatory measures taken by QCB were mostly proactive in nature and were in tune with the standards advocated by the Bank for International Settlement (BIS) and the IMF.

Basel III Capital and Liquidity standards were implemented back in 2014. QCB also implemented the Domestic Systemically Important Banks (DSIB) framework around the same time, requiring DSIBs to maintain high loss absorbency capital proportionate to the systemic importance of the bank. In 2016, QCB has completed the methodology for calculating the Countercyclical Capital Buffer (CCyCB) that banks should take into account when computing the minimum requirements of capital adequacy ratio in accordance with Basel III. Banks are also required to put in place an Internal Capital Adequacy Assessment Process (ICAAP) under Basel's Pillar 2 framework. ICAAP seeks to capture the risks that are not fully assessed under the capital adequacy framework and other factors external to the bank. Banks have to maintain a floor of 1% of additional capital for the risks considered under the ICAAP.

Qatar Central Bank has also been playing a central role in the implementation of macroprudential policies to achieve financial stability. The framework is evolving continuously based on developments in the financial sector and the economy as a whole. More recently, QCB has implemented IFRS-9 standards to develop a regulatory framework that can assist QCB in its supervision and monitoring activities of the banking sector.

Strong credit risk assessment augmented by the high-class regulatory environment enhanced the resilience of Qatar's banking sector even during the period of low oil prices. These proactive regulatory measures implemented by QCB also enabled the financial sector to weather the stressful conditions which stemmed from the economic blockade. Going forward, continuous upgrading of the regulatory framework will enable the banking sector to adequately manage unanticipated vulnerabilities and support sustainable asset growth.

Gulf Affairs: How do you envisage financial technology (Fintech) impacting the Qatari financial sector?

Al-Thani: Fintech can bring positive change to the sector but also brings additional risks. It can impact the financial sector at multiple levels such as:

- Streamline processes of financial institutions, hence increasing efficiency and facilitating faster delivery.
- Improve connecting financial institutions with their customers to further help understand and meet their needs.
- Enhance access to financial services.

On the economic level, the sector-wide transformation is also an opportunity to develop the market. With digitalization comes new entrants and new actors into financial services. This has the opportunity to increase the contribution of the financial sector to the GDP, diversify the economy and create new market dynamics.

On the technical aspect, the push for adoption of new technologies has been seen consistently across the banking sector can actually support demand for IT expertise, supporting other sectors. Fintech can create opportunities for local technological development as well as attract talents within various streams of activities. Future regulation will need to integrate Fintech as regulated financial service providers.

Gulf Affairs: Almost two years on, what has been the impact of the GCC rift on Qatari financial markets and the banking sector?

Al-Thani: The negative impacts of the economic blockade have completely disappeared. Qatar's growth momentum is expected to pick up further going forward. Energy prices are likely to remain at an elevated level, which will further improve the external and fiscal balances, despite higher infrastructure spending by the government. The economic policies and structural reforms of the government to diversify the economy have already started showing results and enabled a reasonably high growth in the non-hydrocarbon sector and allowed the country to adjust its supply chains and sources of key goods.

Along with the economy gaining momentum, the banking sector also weathered through the adverse impact of the economic blockade, while recording sustainable growth including higher credit demand from the private sector in 2018. The banking sector has also improved its liquidity and funding structure. The sector witnessed a rebound of deposits from non-residents even though almost all the deposits from the blockading countries did not return to the system. Non-resident deposits were highly diversified, and a major part of these new non-resident deposits is from Asian and European countries, indicating the confidence of the investors from the rest of the world in our banking sector. Increased receipt of these stable funding sources reflect continued and strengthening investor confidence in the fundamentals of our economy.

The banking sector's capitalization levels are significantly high and above the regulatory minimum. The ratio of non-performing loans is quite low and are adequately provisioned. Moreover, banking sector's profitability indicators also remain stable. Overall, the sector remained sound and in good stead during 2018.

Gulf Affairs: In June 2017, Qatar and the US signed an agreement aimed at combating the financing of terrorism. What has been the impact of this agreement?

Al-Thani: An MOU was signed in Doha on 11/7/2017 between the government of the State of Qatar and the US in the field of combating terrorism. By virtue of this MOU, the two parties were engaged in the following:

1- Two strategic dialogues were conducted in the US for combating terrorism and the financing of terrorism, the first of which was completed in January 2018 and the second was in September 2018. A third dialogue is also due later in 2019 in Washington.
2- Two workshops were conducted in cooperation with the FBI in Doha on AML/CFT on September 2017 and April 2018 where different authorities took part in this event.
3- A number of suspected persons and entities were designated under the umbrella of the Combating Terrorism Financing Center in Riyadh.
4- US experts provided technical and legal assistance during the preparation of the newly proposed AML/CFT law amendment.
5- Cooperation and coordination between Qatar's public prosecution and the US Ministry of Justice took place with a view to enhancing capacities of law enforcement officers in combating terrorism, financing of terrorism and anti-money laundering.