



Qatar's emerging economy



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The last 15 years have seen the rapid macroeconomic development of Qatar, which has driven the huge progress made to realize Qatar's ambition of becoming a recognized Islamic finance center. The financial crisis marking the beginning of this period highlighted the resilience of Islamic financing, its inherently conservative approach minimizing exposures to the risks at the root of the crisis. Qatar's financial industry, including the Islamic financing sector, found itself well-placed during this time to finance the acquisitions and investments in foreign assets at prices depressed by the effects of the financial crisis.

Growth and regulation of Islamic finance

The Islamic banking sector was, at the start of this period, open to both Islamic banks and conventional banks authorized by the Qatar Central Bank (QCB) to provide Islamic financing products through Islamic windows. The Central Bank Law, Law No. 13 of 2012, implemented ostensibly on monetary policy and supervisory concerns, prohibited conventional banks from operating such Islamic windows, requiring them to cease providing Islamic finance products and to transfer their outstanding Islamic liabilities to the Islamic banks.

Today, Islamic finance in Qatar, predominantly utilizing the Murabahah and Ijarah structures, is provided by the four Islamic banks regulated by the QCB – Qatar Islamic Bank (QIB), Barwa Bank, Qatar International Islamic Bank (QIIB) and Masraf Al Rayan, together with certain investment banks including QInvest and Al Rayan Investment, which are supervised by the Qatar Financial Centre (QFC) under the Islamic Finance Rules introduced by the QFC Regulatory Authority in 2005.

Islamic banks listed on the Qatar Stock Exchange are also regulated by the Qatar Financial Markets Authority (QFMA). Efforts have been made in recent years between the QCB, QFC and QFMA to develop a consistent legal regime and regulatory/supervisory practices to further the development of Islamic finance. Both the QCB and the QFC require Islamic financial institutions regulated by them to establish their own Shariah board and to implement AAOIFI compliant governance standards.

In 2013, the first Shariah compliant equity index, QE Al Rayan Islamic index, was established.

The Sukuk market in Qatar has mainly been the preserve of the Qatari government. From its first Sukuk issued in 2003, almost 75% of Sukuk currently outstanding are government issuances. The first Qatari corporate Sukuk was issued in 2006 by the Qatar Real Estate Investment Company. Ten years later, Ezdan Holdings became the first Qatari company to issue a Sukuk on the international capital markets.

Following legislation issued by the QCB at the start of 2014 to implement Basel III, both QIB and QIIB issued Tier 1 Sukuk in 2016, which were compliant with the regulatory requirements relating to capital adequacy and market liquidity risk of Basel III.

Key events

Any retrospective of Qatar will, of course, be dominated by three key events, each having a significant effect on shaping the economy and, in turn, the development of financing and Islamic financing in Qatar.

The award, in November 2010, of the 2022 FIFA World Cup hosting rights was the catalyst to domestic investment in infrastructure, tourism and hospitality and, combined with the country's 2030 Vision and the first and second National Development Strategies, saw the drive to a more sustainable economy diversified away from oil and gas, which historically accounted for more than half of the GDP of Qatar, and which the Islamic banks have been instrumental in supporting. The secured syndicated Murabahah financings provided by QIB to Nakilat, the national LNG transportation company, in 2013 were among the largest Islamic financings in the market that year.

However, the drive to a diversified economy was brought into stark relevance by the precipitous decline in mid-2014 of the oil prices, which has had significant ramifications on the economy.

The blockade of Qatar by the UAE, Saudi Arabia, Bahrain and Egypt in June 2017 led to government intervention to stabilize the economy, including the taking of measures via the QCB by way of public sector deposits to maintain liquidity in the banking sector. The blockade's impact on the profitability and growth of the banking sector was therefore not as significant as the effect on other sectors of the economy such as air travel and shipping.

Current state and outlook for Islamic finance

Today, the Islamic finance market is generally viewed as mature and profitable. The four Qatari Islamic banks are among the largest in the world, with total assets valued at approximately US\$100 billion generating revenues of approximately US\$10 billion, 25% of which are attributable to Islamic financings relating to real estate, construction and insurance.

While liquidity has been maintained due, in part, to government intervention, the challenges facing the Islamic financing sector in recent years have been in finding profitable markets outside an increasingly competitive domestic market.

Islamic banks are investigating financings in foreign markets including in Europe and are seeking to innovate and find solutions in regtech, particularly with respect to issues relating to Shariah compliance, and fintech in Islamic financing products to enhance profitability in the domestic market. Focus is also turning to markets where investment has previously been considered difficult to structure in compliance with Shariah.

A noteworthy example is the development of Shariah compliant structures which permit Islamic investors to invest in certain conventional private equity funds, where previously the leveraging of assets, fundamental to the investment strategy of such funds, would have prohibited or restricted the investment ability of Islamic investors.

In 2019, a further indication of the maturation of the Islamic finance market in Qatar saw the QCB announce plans to centralize the governance and regulation of the Islamic finance industry, including a proposal to establish a centralized Shariah supervisory committee for Islamic banks operating in Qatar. ☺