

Workshop on Islamic Finance in the National Accounts

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Conceptual Issues in Measuring Islamic Finance in National Accounts

Alick Nyasulu

Statistician/Statistical Institute for Asia and the Pacific (SIAP)

Outline

- Introduction
- Building blocks of Islamic Finance
- Islamic Finance in Monetary Statistics
- Measurement Issues & SNA
- Discussion points

Introduction

- * Financial activities consistent with principles of Islamic rulings
- * Ethical values in business dealings
- * Payment or acceptance of interest charges
- * Trade & other activities contrary to Islamic rulings

Introduction

- * Similarity with conventional banking
- * Main difference
 - * Adherence to Islamic principles
- * Not just an interest free structure
 - * System of social and economic justice
 - * Property rights, incentive system, economic freedom etc

Introduction

- * Avoidance of interest rates
 - * Question of how they would survive without interest?
 - * No reward without risk taking principle
 - * Principle applicable to labour and capital
- * Conventional banks & Financial intermediation

Building Blocks

- * The notion of equity and not interest
 - * Protecting weak parties of society
- * Rewarding capital injected into financial corporation
- * Concept of participation as opposed to intermediation
- * Participation in transactions backed by real assets
 - * Profit & loss sharing arrangements
 - * Agreements lawful without interest arrangement

Building Blocks

- * Participation in transactions backed by real assets
 - * Profit & loss sharing arrangements
 - * Agreements lawful without interest arrangement
 - * Purchases and hire of goods & services at fixed returns
- * Ownership principles
 - * Notion no one sells what they don't own
 - * Connecting financing to real economy/no speculative earnings or compounded benefits

Islamic Finance in Monetary Statistics

- * IMF manual and compilation guide on monetary statistics
 - * Divides Islamic financial institutions
 - * Shareholders
 - * Depositors (Investment account holders)

Both operating a profit making venture

Islamic Finance in Monetary Statistics

- * Demand deposits are similar to conventional banking
 - * No interest payable
 - * Obligation to pay on demand
- * Statistical practices
 - * Often classified as Other Deposit Corporations

What are the implications for measurement in the SNA?

Measurement Issues & SNA

- * 2008 SNA recognizes
 - * Central banks, deposit taking institutions, non-market funds, money-market funds, non-market funds, financial risk management, pension funds, money lenders, financial auxiliaries
- * Output can be
 - * Direct i.e credit card fees, commissions, brokerage fees etc-direct sales of a financial service
 - * FISIM-interest on loans & deposits,

Measurement Issues & SNA

$$FISIM = FISIM_L + FISIM_D = \left(\frac{r_L - rr}{100.0} \right) Y_L + \left(\frac{rr - r_D}{100.0} \right) Y_D$$

* *where:*

$FISIM_L$ = FISIM on loans,

$FISIM_D$ = FISIM on deposits, r_L = lending rate,

r_D = deposit rate, rr = reference rate,

Y_L = average stock of loans, Y_D = average stock of deposits

Can we estimate FISIM for Islamic banks?

Measurement Issues & SNA

- * *Financial intermediation is the activity of matching the needs of borrowers with the desire of lenders. It is carried out by financial institutions preparing alternative sets of conditions under which clients can borrow and lend” 2008 SNA, 17.228.,*
- * Islamic financial institutions do take deposits but do not pay any interest on the deposit accounts!
- * Does any financial intermediation take place?

Measurement Issues & SNA

- * Does any financial intermediation take place?
- * Payment possibilities
 - * FISIM as total investment earnings minus payments to account holders and reserve fund
 - * Is this FISIM in the conceptual context of 2008 SNA?

Measurement Issues & SNA

- * Revisiting the profit loss sharing
 - * *Investment account holders or depositors*
 - * *Any indirect loans?*
- * Possibility they are non-market funds i.e mutual funds

Discussion Points

- * Is financial intermediation feasible with Islamic financial banks using the 2008 SNA conceptual guidelines?
- * Are Islamic banks investment funds?
- * What are the investment instruments for Islamic financial institutions?
- * How can interest free instruments be determined in a global integrated financial system?