

## Workshop on Islamic Finance in the National Accounts

### Concept note

#### Introduction

The Statistics Division of the United Nations Department of Economic and Social Affairs and the Statistics Division of the United Nations Economic and Social Commission for Western Asia (ESCWA) are organizing a “Workshop on Islamic Finance in the National Accounts”. The workshop will be held at ESCWA in Beirut, Lebanon, from 24 to 26 October 2017

The workshop will take place at the ESCWA Headquarters in Beirut, Lebanon, from 24 to 26 October 2017 and will be conducted in English with simultaneous Arabic translation.

#### Objectives

The workshop will bring together representatives from the national statistical offices and other organizations of countries where Islamic finance is important. It aims to increase the capacity of participating countries on the statistical treatment of Islamic finance in the national accounts. The workshop will address proposals on how to sectorize Islamic financial institutions, classify and record Islamic financial instruments and the corresponding property income and related transactions; and calculate and record the output of Islamic financial services. Participants will share country practices in the compilation of statistics on Islamic finance and the challenges and issues involved. Experts from regional and international organizations and individual experts will also be invited to participate as resource persons.

The specific expected accomplishments are:

- (i) Increased knowledge of national statisticians and central bank experts, where relevant, of the differences between Islamic finance and conventional finance and the implications for the national accounts
- (ii) Increased skills and knowledge of national statisticians and central bank experts, where relevant, in the statistical treatment of Islamic finance in the national accounts;
- (iii) Strengthened capacity within countries with Islamic finance to improve their compilation of national accounts data.

#### Background and justification

Islamic finance does not operate in the same way as conventional finance as it follows the Shari’ah Islamic law, principles and rules. The Shari’ah Islamic law does not permit receipt and payment of “riba” (interest), “gharar” (excessive uncertainty), “maysir” (gambling), and short sales or financing activities that it considers harmful to society. Instead, the parties must share the risks and rewards of a business transaction and the transaction should have a real economic purpose without undue speculation, and not involve any exploitation of either party.

Annex 4.3 of the Monetary and Financial Statistics Manual and Compilation Guide (IMF, 2016) provides a detailed description of how Islamic financial institutions (IFIs) operate under Islamic principles and how the instruments they use differ from conventional financial instruments. The Guide describes the principal characteristics of financial assets and liabilities, and their classification by type of financial instrument within the framework of monetary and financial statistics in line with the System of National Accounts 2008 (2008 SNA).

However, issues on the implementation of the 2008 SNA recommendations for Islamic finance were raised during several meetings in the Arab region organized by ESCWA. The issue of Islamic finance was also discussed by the Advisory Expert Group (AEG) on National Accounts at its 10<sup>th</sup> meeting in Paris, France, from 13 to 15 April 2016. The AEG noted the difference in business arrangements between Islamic finance and conventional finance and recognized the system importance of Islamic finance for some economies and their relative rapid growth. The AEG agreed that further research on the statistical implications of Islamic finance in the national accounts is required and that practical guidance on the treatment of Islamic finance transactions needs to be developed. A working group on Islamic Finance was thus created with the aim to address the statistical treatment of Islamic finance in the national accounts.

### Methodology

The workshop will be held using an interactive format facilitating exchange of information, good practices and challenges faced by countries with a range of experiences. Participants from countries will be expected to present a paper on the current approach to accounting for Islamic finance in their national accounts and the challenges and issues involved. There will also be a range of experts to assist in generating a comprehensive picture of the situation through presentations. The workshop sessions will address Islamic financial institutions, Islamic financial instruments, and Islamic financial services. The findings of the workshop will be presented for discussion at the next meeting of the Advisory Expert Group (AEG) on National Accounts in December 2017.