



Islamic finance in the national accounts

13th meeting of the
Advisory Expert Group
on National Accounts

1-3 October 2019
Washington D.C., USA

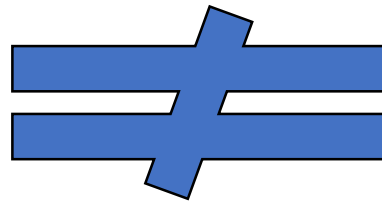
Outline of presentation



- Background
- Classification, sectorization and calculation of output
- Classification of return on Islamic loans, deposits and debt securities
- Comparison of FISIM using single and separate reference rates
- Questions for the AEG



Islamic finance follows Shari'ah (Islamic law)



Conventional finance



Islamic finance

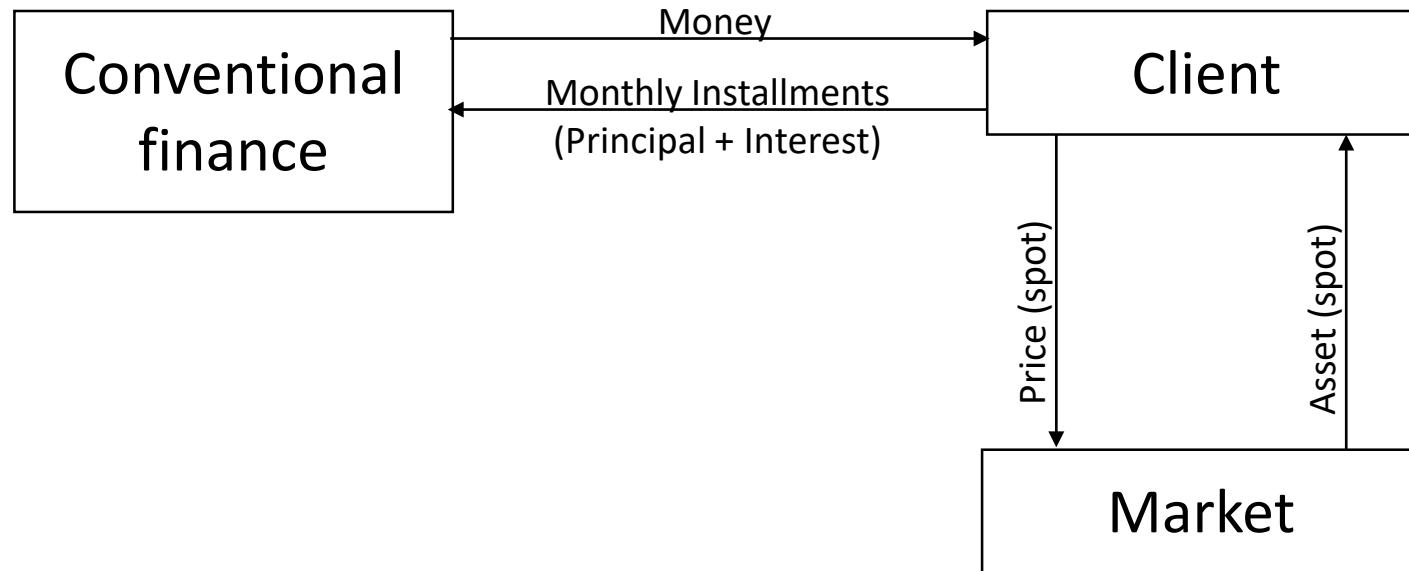
Does not permit

- Riba (interest)
- Gharar (excessive uncertainty)
- Maysir (gambling)
- Short sales/financing

- Parties must share risks/rewards
- Transactions should have real economic purpose without undue speculation
- No exploitation



Conventional Finance

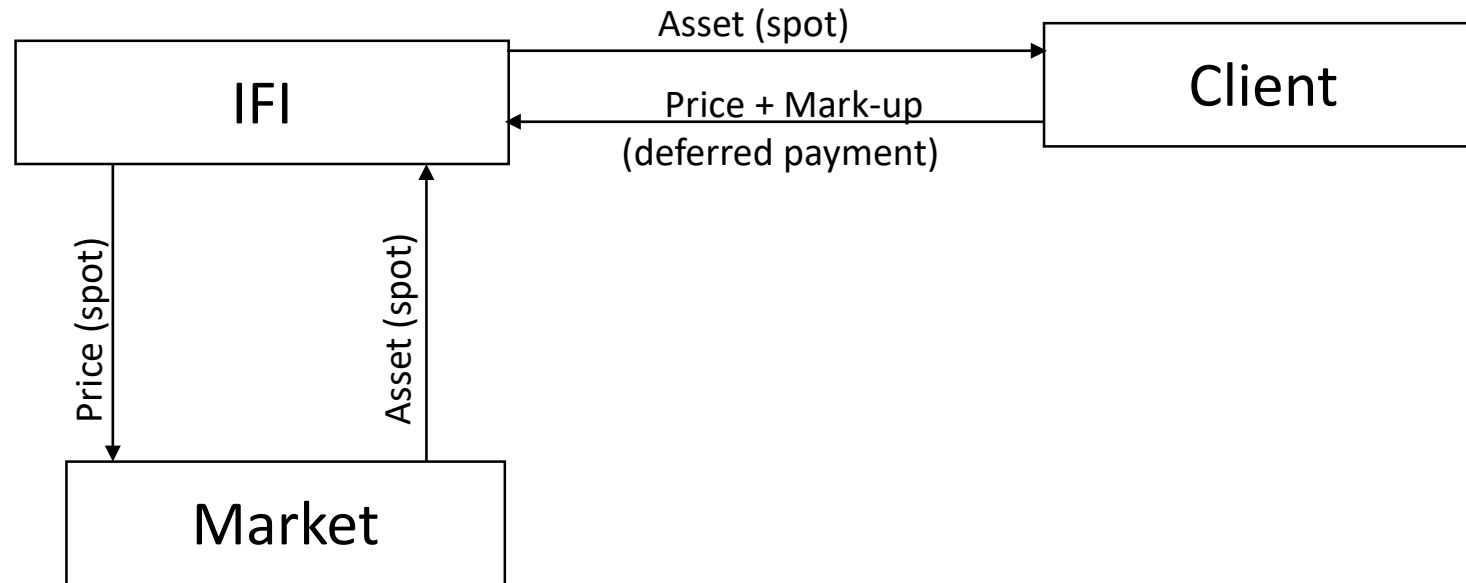


Installment has interest component

Background



Islamic Finance



IFI = Islamic financial institution

Asset backed financing

Background



10th AEG meeting

- Noted differences between Islamic and conventional banking
- Agreed further research on statistical implications of Islamic banking in SNA is needed



ESCWA and UNSD formed ISWGNA task force on Islamic finance



11th and 12th AEG meetings

- Discussed progress of work of task force
- Provided guidance on way forward
- Requested updates at future AEG meetings



Classification, sectorization and calculation of output



Working Group on Sectorization and Classification

Classification of Islamic financial instruments and property income (Annex I)

Diagrams showing flows between IFIs and clients (Annex II)

Sectorization of IFIs and methods to calculate output (Annex III)



Workshop on Islamic Finance in the National Accounts

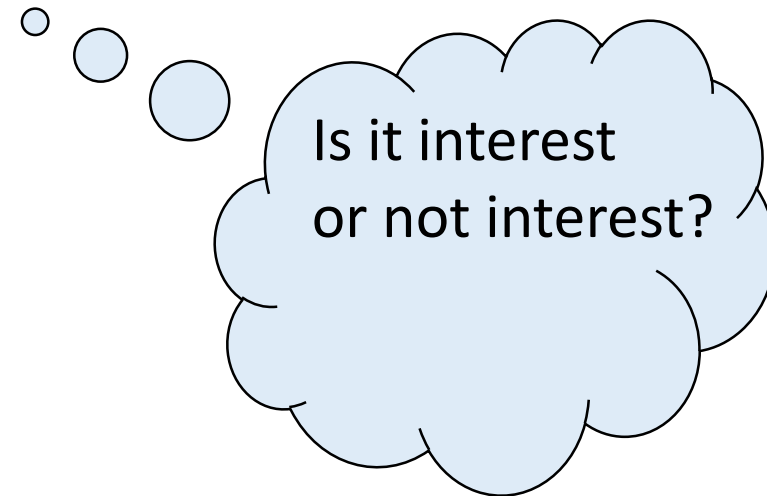
- Agreed on classification of Islamic financial instruments and corresponding property income, except for classification of property income for Islamic loans, deposits and debt securities
- Agreed on diagrams
- Agreed on sectorization of IFIs and methods to calculate output of Islamic financial services, except for output of IFIs which are allocated to deposit-taking corporations except central bank subsector (S122)

More work needed to

- Address the classification of property income for Islamic loans, deposits and debt securities as interest in SNA and prohibition of interest in Shari'ah
- Determine how property income for Islamic loans and deposits can be accommodated in FISIM formula
- Evaluate single vs. two reference rates (one for conventional FISIM and one for Islamic FISIM)



Classification of returns on Islamic loans, deposits and debt securities



Classification of returns



System of National Accounts 2008

- “Interest” applies to income for deposits, debt securities, loans and other accounts receivable
- “Interest” is a type of investment income
- Shari’ah prohibits interest but, not investment income

- General system with universal basic concepts, definitions, classifications and accounting rules
- Covers wide range of circumstances and should not apply differently to different segments of society

- Identical treatment of any two actions regardless of principled considerations
- If Islamic finance activity/flow has same characteristics as conventional one, it should be recorded similarly in SNA
- Studies show such similarities



European Commission



International Monetary Fund



Organisation for Economic
Co-operation and Development



United Nations



World Bank

Classification of returns



Returns of Islamic loans, deposits and debt securities

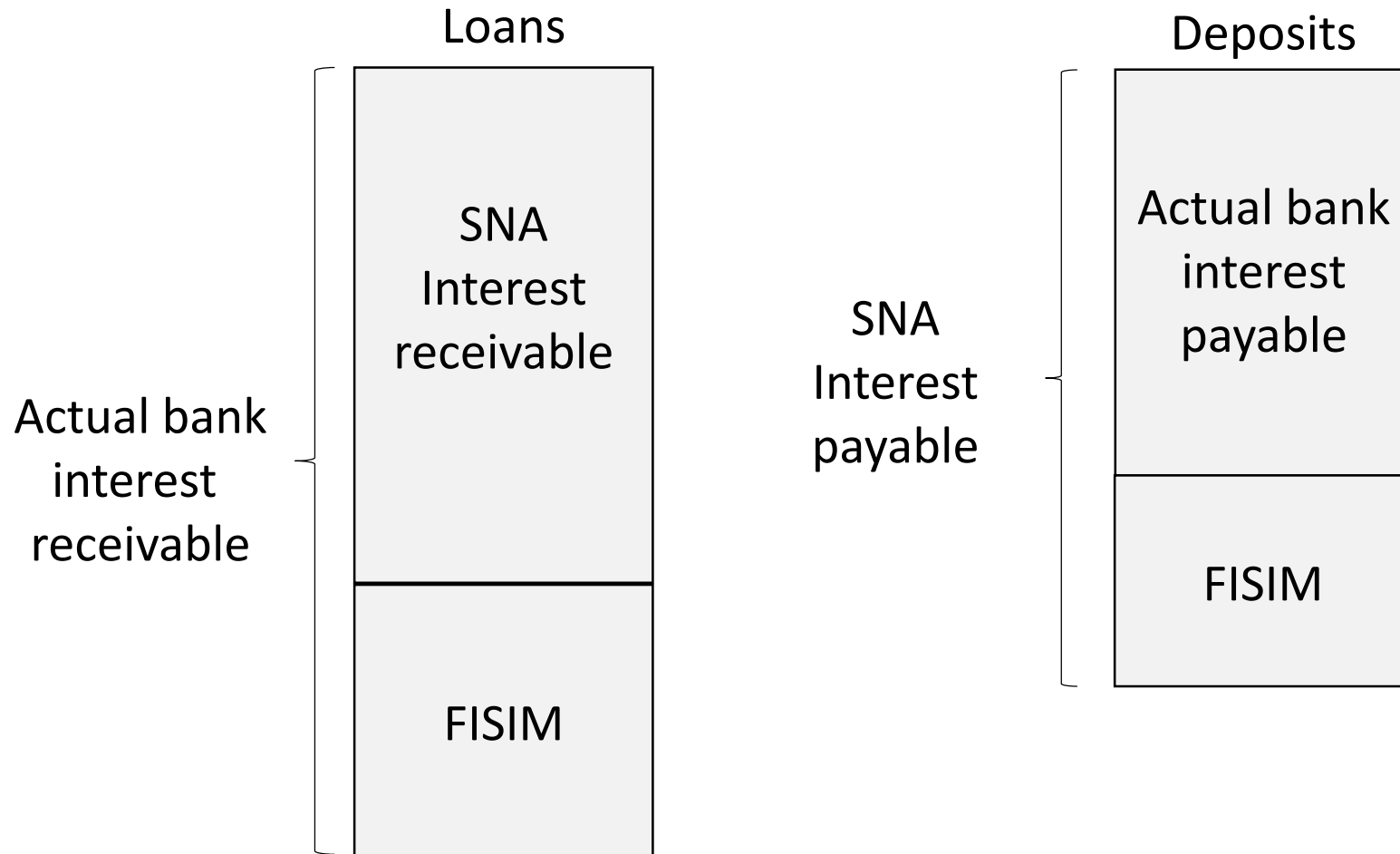
Seem functionally indistinguishable from interest payments for corresponding conventional instruments

Implies 2008 SNA does not need to be changed

But need to consider interpretation Islamic returns may represent broader concept than interest

- Consider terms such as
 - “Interest and similar investment returns” or
 - “Financing and investment income”
- Report returns on Islamic financial instruments on “of which” basis

FISIM



Comparison of FISIM



FISIM

- 2008 SNA states that a single reference rate should be used to calculate FISIM on loans and deposits for each currency type
- Indonesia, Malaysia and State of Palestine participated in empirical tests to calculate nominal FISIM using a single reference rate for the sum of Islamic and conventional loans and deposits as well as separate rates
 - One for Islamic loans and deposits
 - One for conventional loans and deposits
- Results appear quite different
- However, there is a need to analyze more country examples



Questions for the AEG



Questions

- Do you agree to consider the interpretation that returns on Islamic loans, deposits and debt securities have a broader concept than interest?
- If yes, can terms such as “interest or similar investment returns” or
- “financing and investment income” be used?
- If yes, which term is preferable?

- Do you agree that further work to assess the use of single versus separate reference rates in the calculation of FISIM in economies with conventional and Islamic finance needed?



Thank you