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Islamic windows and Islamic bank growth

During the past week, Reuters reported that the Qatar Central Bank (QCB) extended the ban on Islamic windows to the Qatar Financial Centre (QFC) to "create a consistent approach to Islamic windows within the State".

After reading the Reuters article, I went back to the 2011 IMF Article IV consultation on Qatar, which included an appendix looking at the effects of the QCB directive. The IMF found that "The growth rate of total loans including Islamic financing of the five conventional banks was 12.7 percent in this period, while total financing activities by the three Islamic banks declined by 0.6 percent".

The IMF report only looked at a few months of data (February to June 2011), so I wanted to see what the longer-run impact was with the additional quarters since then. I re-ran the analysis looking at five large Qatari conventional banks (QNB, CBQ, Doha Bank, Ah Ahli Bank of Qatar, and IBQ) and three Islamic banks (QIB, Masraf Al-Rayan and QIIB).

The data I compared was net loans for conventional banks and Islamic financing for Islamic banks, using data starting at the end of the first quarter of 2011 through the end of June 2012.

The result is the same as what the IMF found: conventional Qatari banks saw loan growth of 48.3% between March 31, 2011 and June 30, 2012, while Islamic banks financing growth was 36.8%, a difference of 11.5%. If the QCB was hoping to see the elimination of Islamic windows at conventional banks lead to greater growth in Islamic finance, it was not a success (although this analysis doesn't account for what Islamic banks' growth would be absent the QCB directive).

However, since Islamic assets in Qatar accounted for 31% of the total assets (and 21% were at Islamic banks), if the directive had led to Islamic assets moving to wholly Islamic banks, that would have been a shift in 10% of the total assets (roughly QAR17.4 billion). That amount represents 76% of the total growth in Islamic bank's assets during the period, so it would lead to markedly higher growth in financings for Islamic banks.

There are good explanations for the QCB directive (ensuring complete segregation of deposits and capital, the ability to target monetary policy better, and dealing with the differences in accounting standards). However, encouraging greater growth does not seem to be an outcome, something which is important for other countries to consider when planning their own regulatory approach to Islamic windows.

Until next week,
Blake Goud

Reading List

Qatar regulator seeks to extend Islamic window ban (Reuters)

IMF: Qatar 2011 Article IV Consultation (PDF)

Blog Posts This Week

Cooperation between the Asian Development Bank and IFSB may help the growth of Islamic microfinance

Are sukuk 'critical' for infrastructure finance?

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