Recent trend of deposits in Islamic banks

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Abstract— **Bank deposits increased sharply in 2020, continuing in 2021, in countries with advanced economies and emerging countries alike. The pandemic caused savings to increase for precautionary reasons. At the same time, the lockdown compressed spending, but deposits are now a financial resource that could be used to boost the recovery of consumption and investments. There was an increase in deposits in Islamic countries, but this was less marked. The fall in GDP in 2020 in all of the Islamic countries considered, with the sole exception of Bangladesh (+5%), was met with an increase in deposits, but not such as to be thought of exceptional magnitude. An acceleration was recorded in Indonesia, Bangladesh and Saudi Arabia, with increases only moderately higher than in the previous year. Several drivers can explain this trend, some of which are attributable to Islamic principles. In assessing the role of Islamic finance and bank deposits, financial inclusion is also critical. Despite gradually increasing, the level of financial inclusion, which is high in countries with the highest income (the Gulf countries), shows a large margin for potential growth. Especially in the less rich Islamic countries, there exists a problem of mobilising resources and providing a custody function for the financial resources of households and businesses. The proliferation of fintech channels, primarily through mobile phones, can contribute significantly to financial inclusion, particularly among young people. Prospects are positive thanks to the confluence of some factors (such as the strong demand for both Sharia-compliant and ESG products).**

Keywords: bank deposit, Islamic finance, Islamic banks.

I. Sharp increase in savings in advanced and emerging economies in 2020

During 2020, there was a sharp increase in savings in countries with advanced economies and emerging countries alike, as deeply analysed by the IMF (2021) [1]. A large part of savings was banked, this being the most immediate way that businesses and households allocate excess liquid funds, while waiting to define their use more clearly. The main drivers supporting deposits were primarily the impossibility of making purchases due to the lockdown, as well as uncertainty about the evolution of the pandemic and therefore the effects of the pandemic on the economy, labour, wages and salaries.

These liquid funds are expected to be used for the consumption of goods and services and investments, which are expected to gradually recover in 2021, as well as for financial products (government bonds, funds, etc.) or for house purchases, including, to some extent, in emerging countries.

The deposits in Islamic finance have some distinctive features that substantially differentiate them from the deposits collected by conventional banks. After considering the continued presence and weight of Islamic finance in the world, this paper outlines the technical peculiarities of the deposits and their objectives. An analysis of the financial statement data of a significant sample of Islamic banks in countries where Islamic finance is applied to a considerable extent, shows their recent dynamics and allows for assessment of the effects of COVID-19 in the sector. Lastly, the examination of the level of financial inclusion makes it possible to assess the spread of bank accounts and the ability of these systems to attract deposits and capture the development opportunities and the main evolutionary trends.

II. The Muslim presence in the world and Islamic finance

Various factors have contributed to the strengthening of the Muslim presence in many countries in recent decades. The first and foremost among these are globalisation and immigration, which has led many Muslims to settle in various western countries. According to the indications on the CIA website [2], Islam is the second most practiced religion globally (by approximately 24% of the population), after Christianity which, in its main denominations (Roman Catholic Church, Protestant Church and Orthodox Church), covers more than 30% of the population.

In the Emerging Europe, there is significant Muslim presence in Albania and Bosnia Herzegovina (over 50% of the population). In the countries of the former Yugoslavia, North

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Macedonia and Kosovo are also predominantly Muslim. A minority is present in Bulgaria.

A significant minority is present in Russia, estimated to be between 10 and 15%. Again, according to CIA's figures, is growing due to the greater birth rate of the Muslim minorities (such as the Chechens) compared to the Orthodox population.

In the world, the main countries with the largest Muslim populations are the Gulf countries, with Iran and Iraq, as well as in Asia, Pakistan, Bangladesh, Indonesia and Malaysia.

The spread of Islamic finance - defined as the activity of financial institutions that base their objectives and operations on the principles of the Koran - reflects the spread of the religion, but with significant particularities. 235 banks that cover this area are operating worldwide (according to the BankFocus Moody's BvD database), 9 of which are in the European Union (27 countries).

The Gulf countries account for the highest share of the total assets of the world's Islamic banks (45.4% at the end of 2019) according to the Islamic Financial Services Industry Stability Report (2020) published by the Islamic Financial Services Board [3]. The Middle East and South Asia (MESA) area covered a share close to 26% on the same date, while the South East Asia region accounted for 23.5%. Even when adding North Africa and Sub-Saharan countries, the African region's share of the world total is marginal (1.6%). Breaking down the individual countries further, Iran's share is the highest (about 29% of the total), followed by Saudi Arabia, which has a slightly lower share (25%).

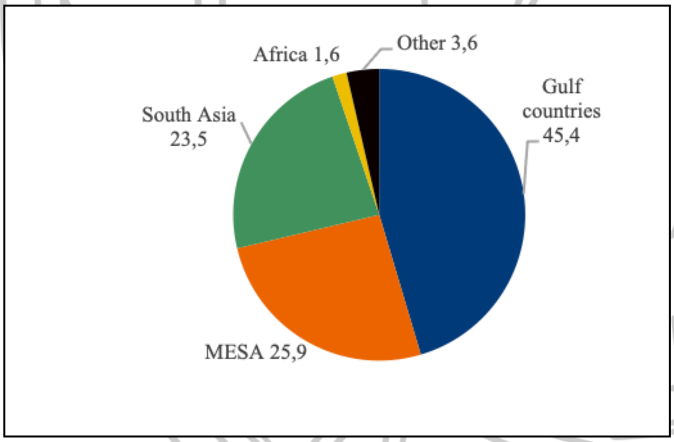
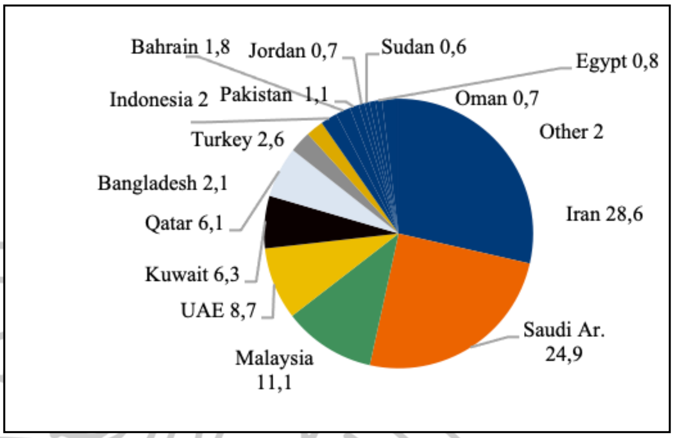


Figure 1. Islamic Finance (breakdown of TA between geographical areas, 2019). Note: MESA includes Afghanistan, Bangladesh, Iran, Iraq, Jordan, Lebanon, the Maldives, Palestine, Pakistan and Sri Lanka. Source: our calculations based on IFSB figures.

It is important to consider the regional distinction. This is because Islam differs among geographical areas and countries (first of foremost with the distinction between Shiites and Sunnis), with a different interpretation of the provisions of the Sharia, the Islamic Law [4].

Figure 2. Islamic Finance (breakdown of TA, 2019). Source: our calculations based on IFSB figures.



The share that Islamic finance has compared to traditional finance in the individual countries is very significant. As highlighted by HRH Prince M. Al-Faisal Al-Saud (2000) [5] in providing a wide and in-depth examination of Islamic economic principles, the gradual spread of Islamic finance is part of the process defined in Muslim circles as 'Islamic resurgence', aimed at creating a new, united Islamic society that avoids 'fundamentalism' and extremist positions.

In Iran and Sudan, where the State has Islamised the financial sector, this share is 100%. Among the other countries, there is no perfect correspondence between the size of the sector (in USD Bn) and the share covered by Islamic banks. Saudi Arabia has a significant share of over 60% and high volumes of around USD 450Bn. On the other hand, in Kuwait the share of the total financial system is close to 50%, with a smaller volume (USD 100Bn). Other countries, such as Turkey and Indonesia, with volumes falling within the ranking of the major Islamic countries in the world, have modest shares compared to the conventional system (around 6%).

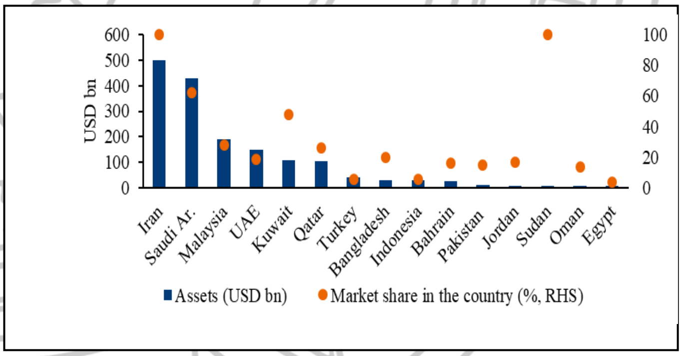


Figure 3. Islamic banks (TA and % share of the total assets of the country's banking system, 2019). Source: our calculations based on IFSB figures.

Egypt is a very important exception. With an almost total Sunni Muslim presence (with the Copts accounting for about 10%) of the population, the weight of Islamic finance in Egypt is still negligible (with a share of total world assets that fails to reach 1%), and the level of financial depth calculated using the main indicators referring to traditional finance also remains modest. A few Sharia-compliant banks were involved in foreign currency speculative transactions in the 1980s, which led to their closing. Subsequently, public banks have assumed a predominant role within the system, and they have held on to

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this role to date. In the country, only 3 Islamic banks are active, controlled by banks based in the Gulf, out of a total of 38 institutions. The structural Loan/GDP ratio also remains very low (just over 20% at the end of 2020) compared to peers, despite the presence of numerous international operators, while the ratio for deposits is higher (over 60% at the end of 2020).

Islamic banks in Bosnia accounted for a share of the country's total assets equal to about 3% at the end of 2019. Among other countries close to Europe, such as Russia, the Muslim presence is not reflected in a corresponding proliferation of Islamic financial instruments, as this presence consists of ethnic minorities whose role in the country's economy remains modest.

III. Deposits in Islamic banks: technical characteristics

There are numerous differences between the principles of European/Western and Islamic finance. These differences pertain to the objectives that can be pursued and therefore their technical characteristics.

Article 14 of the Italian Consolidated Law on Banking (and the European Directive 2006/48, Article 4) provides authorisation to carry out banking activities which, in a "traditional" sense, is focused on the dual function of collecting deposits and loan granting, and Article 11 states "for the purposes of this legislative decree, the acquisition of funds with the obligation to repay...". M. Fahim Khan and M. Porzio (2010) [6], especially in the introduction, explain the way Islamic banks are incorporated into European regulations.

Like conventional banks, Islamic banks receive deposits and finance customers, businesses and households, though with significant specific characteristics. In almost all cases, the collection and financing scheme of Islamic banks does not entail the obligation to repay. The operations of these financial institutions are therefore more complex and this has made it necessary to develop specific international standards to be followed for the preparation of the financial statements of these institutions (P. Biancone, 2014) [7].

The Islamic finance model is based on a different type of financial intermediation activity of banks based on the principle of profit and loss sharing (PLS), i.e. participation in profits and losses deriving from its customers' investments. Income from the interest typical of Western financial systems is replaced by income from assets compatible with Sharia requirements. It is interesting to note in this regard that the bank must adequately distinguish the proceeds obtained from projects financed with its customers' resources, from the profits obtained from its own capital, as explained by Z. Ahmad Khan (2000) [8].

Like all traditional banks, the Islamic Bank transfers financial resources from sectors with financial surplus to sectors with a deficit, but it also participates in business projects and may also promote business initiatives and actively partner with corporate customers.

The assets and liabilities of an Islamic bank differ significantly from those of a traditional bank. In addition to working capital, the bank's assets include also equity investments in companies that entail the sharing of profits and losses, in accordance with Sharia principles (especially mudarabah, musharaka and murabaha contracts).

In liabilities, among funding instruments, G.M. Piccinelli illustrates (in Khan, Porzio, 2010) [9], Islamic banks offer three main categories of accounts, which essentially differ for the repayment method and the allocation of the amounts collected:

- Non-remunerated on-demand deposits in current accounts, in turn concern three types of deposit accounts (current accounts): the amanah or trust deposit, in which the bank acts as trustee and the qard hassan or good loan, where the bank shall return only the principal; the wadiah, or safe deposit, is a custody contract whereby the bank returns the money at the customer's request. In all three cases, the bank obtains authorisation to invest the money deposited in Sharia-compliant assets and does not pay out any form of interest or shares the profits with depositors. It only reserves the right to distribute gifts (hiba) in cash or in kind at its discretion, in order to render these deposits more attractive and competitive. They are mainly used by customers to manage current payments. Due to its nature, this type of account must be backed by reserves of a value equivalent to the deposit (100%), and represent about 10% of liabilities, an average that is, however, only indicative in a highly diverse context;
- Investment accounts concern deposits for which the bank does not ensure reimbursement. Funds collected in these types of accounts are invested in risky activities managed by the bank, which acts as an entrepreneur (rabb-ul-mal) or as investor on the stock market. Depending on the degree of freedom the bank has insofar as the investment activity, the investment accounts may be divided into:
    - restricted investment accounts;
    - unrestricted investment accounts.

  Banks have the highest investment freedom with the first category for which customers are only provided with the general information concerning the investment of their funds, while in the latter category the bank is bound by the depositor to invest only in some types of activities or to observe specific investment methods. In any case, the customers' return is based on the results achieved and therefore they become a sort of shareholder in some projects. They represent about 70% of the bank's total funds.
- Special investment accounts or Profit-sharing investment accounts, i.e. non-guaranteed term deposits. These generally set a minimum initial amount and allow the customer to withdraw only periodically following adequate notice to the bank. They can guarantee an ex-post return through profit and loss sharing, i.e. the equitable sharing of profits and losses of the financial asset. The main profit and loss sharing include the aforementioned mudarabah and musharaka.

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These three types of deposits are recognised in the financial statements under liabilities together with reserves and share capital.

IV. Performance of deposits in Islamic banks

The analysis of data referring to Islamic banks - as highlighted by numerous scholars, as in particular I. Warde (2000) [10] and the central authorities - requires a number of important prerequisites. The relative "youth" of financial institutions and the products they offer, and therefore the uncertainties inherent in the interpretation of their technical and legal characteristics, also give rise to several accounting problems. First of all, operations have been ongoing only over several decades and they are handled differently by the various countries, which renders any analysis and comparison between them difficult. There are quite a few differences in the interpretation concerning the use and accounting of certain transactions.

Moreover, when interpreting the data, the financial and religious aspects are not always perfectly aligned. Regardless of whether or not they evaluate opportunities, Muslims concurrently rely on Islamic banks and conventional banks, and non-Muslims can bank with Islamic banks, to diversify their investments and financial operators that have specific skills and professionalism.

That said, the analysis of the financial statement data of a significant sample of Islamic banks, in countries with an Islamic majority, shows an acceleration in deposits during 2020. However, there is no real surge as was the case in many Western countries. In fact, the fall in GDP in 2020 in all of the Islamic countries considered, with the sole exception of Bangladesh (+5%), was met with an increase in deposits, but not such as to be considered of exceptional magnitude. An acceleration was recorded in Indonesia, Bangladesh and Saudi Arabia, with increases only moderately higher than in the previous year. On the other hand, Oman, Kuwait and Qatar slowed down.

Also, in the three other significant countries contained in the following table, the trend in deposits (over the entire banking system) does not appear to be particularly high, given a decline in GDP. The figures for Egypt are unique, with the resilience of real GDP (3.6%) and a significant increase in deposits, but in line with previous years (in nominal terms).

The comparison with the 2009 crisis is not helpful insofar as the interpretation, also due to the lack of data. As is known, the subprime mortgages storm had limited direct effects on Islamic banks, as they had no exposure to that segment. In 2009, deposits accelerated, especially in Malaysia and Egypt, and held up in Saudi Arabia. This seems to be in line with the data for the last two years, which may help to exclude the assumption of an abnormal trend in deposits in 2020.

The examination of some technical characteristics and functions of the deposits can help explain their growth, despite the decline in GDP.

In Western countries, one of the drivers underlying time deposit dynamics are interest rates. However, this is a factor that did not play a significant role in 2020, since interest rates were very low and decreasing. On the other hand, the precautionary reasons for saving money and the forcedly postponed consumption due to the lockdown measures adopted by governments were decisive in supporting bank deposits in the context of the crisis.

	2008		2009		2019		2020	
	Dep. loc.curr.	Real GDP	Dep. loc.curr.	Real GDP	Dep. loc.curr.	Real GDP	Dep. loc.curr.	Real GDP
Indonesia	5.9	7.4	40.4	4.7	9.45	5	12.66	-2
Bangladesh	ND	6	n.d.	5	9.1	8.2	13.5	5.2
Malaysia	4	4.8	16.8	-1.5	12.2	4.3	6.2	-5.6
S. Arabia	24.7	6.2	22.5	-2.1	8.2	0.3	20.6	-4.1
UAE	27.4	3.2	7.7	-5.2	-2.7	1.7	13.2	-5.5
Oman	ND	8.2	ND	6.1	21.4	-0.8	15.7	-6.2
Kuwait	ND	2.5	ND	-7.1	15.5	0.4	11.7	-5
Qatar	ND	17.7	ND	12	16.1	0.8	10.1	-3
Egypt	6.3*	7.1	13.1*	4.7	17.01*	5.6	16.1**	3.6
Albania	2.6*	7.5	6.8*	3.3	3.8*	2.2	8.1*	-3.3
Bosnia H.	5.5*	3.5	3.8*	-2.3	8.4*	2.91	6.5*	-5.5

Table 1. Deposits in Islamic banks and real GDP in the major Islamic countries (yoy % change). Note: (*) central banks' database referring to the entire banking system; (**) Source: EIU; NA= not available. Source: our calculations on EIU and BankFocus BvD data.

In Islamic countries, the fact that the payment of interest is not permitted, though customers can participate in the bank's results may have prompted deposits by customers, households and businesses, on the basis of the results expected by the bank (according to the participatory model described in the previous paragraph). An empirical analysis regarding Malaysia and Turkey and elaborated by S. Cevik and J. Charap (2011) [11] revealed namely a high degree of correlation between conventional deposit rates and the rate of return Islamic profit-and-loss sharing accounts.

At the same time, very low interest rates from conventional banks also in Islamic countries may have limited the diversion of at least a part of the deposits to these banks by Muslims who do not fully follow Sharia rules, with the aim of a return. As highlighted by B. Akhtar, W. Akhter, M. Shahbaz (2017) [12] with regards to Pakistan, it is observed that any changes in the rate of interest or in the rate of profit of Islamic bank significantly affect the level of deposit in conventional as well as that of Islamic banks. Consequently, customers of Islamic banks appear to be motivated by profit. The conventional bank interest rate has an impact on the customers of both conventional and Islamic systems. A boost in the interest rate of the conventional banks will increase the level of deposits at conventional banks and decrease the deposits of Islamic banks.

The fact that non-Muslim customers can use of the services of an Islamic bank, which in turn can offer its products to non-Muslim customers, is still up for discussion. Far from expressing an assessment of Muslim consistency, it represents a critical issue that is openly pondered by Muslim scholars. That many issues and doubts regarding the admissibility of certain behaviours in the light of Sharia remain open is actually part of the gradual process of understanding their Islamic identity. It is therefore not possible to determine how many customers of Islamic banks are actually Muslim. In E. Smolo, M. Šeho and M. Kabir Hassan (2020), among others, we read: "The term 'Islamic finance' may persuade that it is just for Muslim countries with greater number of Muslim populations.

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Nevertheless, it is been contended that larger part of Islamic fund clients are really non-Muslims." [13]

A further factor that can explain the trend of deposits, which is strengthening, but to a rather modest extent, may be the need to avoid an excessive amassment or accumulation of financial resources, which is explicitly not permitted by Islamic law. In other words, money is only valuable as a useful tool for development and growth, and should circulate rather than being set aside.

Due to the crisis generated by COVID-19, a high level of liquidity has been created in Western countries. On the other hand, the need to implement strategies to mobilise financial resources persists in Islamic countries, especially the less rich ones.

In the current context of strong liquidity, Western banks are able to dispose of funds that are in excess of credit demand. The first consequence, which is rapidly spreading among banks, is the application of negative interest on deposits of a high amount (above 100,000 euro). But cases where the banks diverge their customers towards other forms of investment (to assets under management) also abound, as highlighted in I. Moise (2021) for example [14]. They also do this to reduce the effect of this excessive liquidity on their capital requirements and the charges into the deposit guarantee scheme.

In Islamic countries, these terms do not seem to apply. Especially in the less rich Islamic countries, there exists a problem of mobilising resources and providing a custody function for the financial resources of households and businesses. Both of these functions are of considerable importance in emerging countries, which are still working towards implementing their industrial and production structure. It is worth remembering that in Italy, it was deemed necessary to provide constitutional protection to savings. Article 47 reads "The Republic encourages and protects saving in all its forms. It regulates, coordinates and oversees the operation of credit".

In fact, the incentive to attract savings measured by the level of financial inclusion is a primary objective pursued by the central authorities, since this is an indispensable tool for the development of a country, as analysed by K.B. Jedidia and F. Boubakri (2018) [15] with particular regards to Tunisia. The Gulf countries also need financial resources for the creation of a growing diversification of the local production system, one that is not only based on oil revenues, but also on renewable energy.

Although it is not useful to explain the dynamics of deposits, it should also be remembered that in Islamic countries, particular attention is paid to the origin of the sums deposited, as the activities that gave rise to those amounts must be Sharia-compliant. If the sums held for deposit originate from activities that are not Sharia-compliant, the banks cannot withdraw and use them [16].

V. LIQUIDITY (IS NOT) ACTIVELY SOUGHT

Islamic banks often find themselves holding excessive liquidity due to the numerous restrictions limiting the granting of credit (linked to the technical forms allowed and the risks taken). They route these funds to the interbank market, and often even to conventional banks, generating quite a bit of criticism from the most devout Muslims. In fact, the World Bank and IDBG (2018) [17], among international institutions, point out that funds originating in Islamic countries are mainly sent to banks in OECD countries, with estimates for sovereign funds equal to USD 3Trn. By contrast, Islamic capital markets include an outstanding amount of sukuks and wealth management funds totalling USD 671Bn.

However, liquidity management is structurally complex in Islamic banks, including because they cannot use funds from interest bearing accounts to subscribe for government bonds or hold reserves at central banks. These provisions were particularly binding especially with the application of Basel III provisions on liquidity. Furthermore, the possibility of using sukuks was allowed under certain conditions for refinancing purposes at central banks (eligibility).

VI. NEITHER INTEREST (RIBA) NOR DEBT

The main prohibitions concerning the Islamic economy and finance, as mentioned above, include prohibition of the interest (riba). This is an aspect worthy of further analysis.

The term "riba" literally means "increase", "excess" and "growth" in Arabic. The notion of riba has been widely studied and discussed among Islamic schools of jurisprudence and a variety of interpretations and explanations have been attached to it. Moreover, all monotheistic religions have historically condemned usury. The creation of riba responds to the objective of achieving conditions of fairness and economic and social justice by preventing every form of privilege, through the earning of financial returns, without participation in the work effort involved. R. Hamaui, M. Mauri (2009) [18] offer an in-depth analysis on the interpretation of this ban and on certain related problems (in terms of operations, accounting, etc.).

Islamic reflection notes that the main reason for prohibiting interest is to protect the poor. Since money and assets generate interest, the poor cannot obtain interest and accumulate wealth, while the rich can generate wealth from wealth, through interest. However, this position too was not accepted without criticism and reservations. IIBI (1993) [19] raised several – still open - questions. Some aspects are still under discussion today. In particular, the question arises of whether for personal funds only the compound interest must be considered, thereby allowing simple interest, and whether the ban also applies to Muslims living in non-Islamic countries. Islamic banks have actually sought to diversify deposits, providing modest amounts with insurance as well.

In addition, according to Islamic thinking, earning interest discourages donations, as those who obtain interest are less motivated and encouraged to create value and therefore less motivated to build a cohesive society, for the benefit of everyone. It is also believed that interest-based finance leads to many inefficiencies, i.e. high debt and hazardous risks linked to trading on financial markets, which expose economies to instability. On the other hand, sharing risks and results allows the parties involved to minimise the risk and obtain a common benefit. The assumption is that all participate in the risk of

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default and are therefore encouraged to work together toward a common objective. The parties and therefore society as a whole are therefore protected from fraudulent activities and social tensions.

The prohibition of riba prohibits all forms of risk-free "increases" set beforehand, which Western thinking believes to be more "damaging" to investors. In fact, this view is opposite to the typical Western economic thinking, according to which participation in profits entails the assumption of risks that are higher than the interest rate applied, even if it is variable.

Also strictly related to the riba prohibition is the prohibition against using debt. While the level of debt currently plagues many Western countries, companies and states that have undertaken substantial measures to support the economy due to COVID-19, debt is absent from the Islamic system.

As is known, debt is favoured over equity investments in Western countries because it allows issuers to deduct interest paid for tax purposes, as they are costs, but also due to asymmetric information which discourages many investors from assuming capital risks. Leverage obviously mitigates this situation, but if it is too high, it may generate instability risks.

Financial theory has dealt with this issue widely. Here we will examine only some aspects that can explain at least part of the aversion to debt, compared to a partnership relationship with the investor.

First of all, collateral guarantees - which are prohibited by Islamic law - are required by conventional banks, but can lead to a less than optimal allocation of resources in the case of small and medium-sized businesses, even though they do pave the way for interesting projects.

The debt is also unsuitable for financing businesses, especially when the results are highly uncertain, or if the company is in the start-up phase. The debt finally weighs heavily on the economic return and therefore on the project's success.

Similarly, although a model for sharing profits and losses may lead to greater monitoring costs, including on account of the presence of the Bank's representatives in the Board of Directors, it is considered important in Islamic countries for the purpose of the proper functioning of the capital market as it favours social cohesion. When the relationship between entrepreneur and investors is direct and of an ongoing nature, it leads to better risk control and thus to better relations and financial results.

In order to finance themselves, in recent years Islamic banks have increasingly made use of sukuk, which is a form of securitisation of their loans, including on international markets. The peculiarities of this market segment do not fall within the objectives of this sheet.

VII. Financial inclusion in Islamic countries paints a composite picture

An aspect that is fundamental in assessing the role played by Islamic finance and bank deposits - as in Western financial systems - is the level of financial inclusion. In other words, an essential requirement is the examination of the spread of current accounts, which are at the basis of both time deposits and loans, as highlighted by S.B. Naceur, A. Barajas, and A. Massara (2015) [20].

Financial inclusion - measured by the share of people and businesses that use the financial products offered by banks and other intermediaries - is the essential indicator of the proliferation and use of these financial products. Various international institutions - in particular the World Bank, IMF, OECD, IIF - are exploring this issue. The following analysis is based on the Global Financial Inclusion database (Global Findex) published by the World Bank on the basis of surveys conducted in 148 countries over several years (2011, 2014, 2017) [21]. A further update was expected in 2020, but it was postponed due to the COVID-19 crisis. The latest survey in 2017 involved over 150,000 people over 15 years of age. Availability and access to these products are not synonymous, since they may be available but not accessible due to various barriers (such as high costs, complexity of procedures, distance, required documents, etc.).

As shown in Figure Nº. 4 , the World Bank data confirms a gradual growth in the spread of bank current accounts on the three reporting dates, 2011, 2014 and 2017, in the major Islamic countries.

Inclusion is very high in the Gulf countries, involving more than 80% of the adult population in the United Arab Emirates and Kuwait. Also in Malaysia, the spread in percentage terms is very high (85%), but in the other Asian countries the percentages appear to be much more modest, though they are rising (around 50% in Bangladesh and Indonesia, and stable at 21% in Pakistan), mainly on account of the more limited income levels. The countries with the highest shares are High Income countries, as well as Iran among the Upper Middle-Income countries, while the other countries that have lower shares belong to the Lower Middle-Income category.

It should be noted that in all the countries listed in the chart - those where Islamic finance plays a significant role or prevails - the level of inclusion appears to be lower than the international average of the relevant income category, defined considering all financial intermediaries, mainly Western/conventional. Iran is a significant exception, since with a system wholly made up of Islamic banks, it covers about a third of the total assets of the world's entire Islamic sector while showing a very high level of inclusion.

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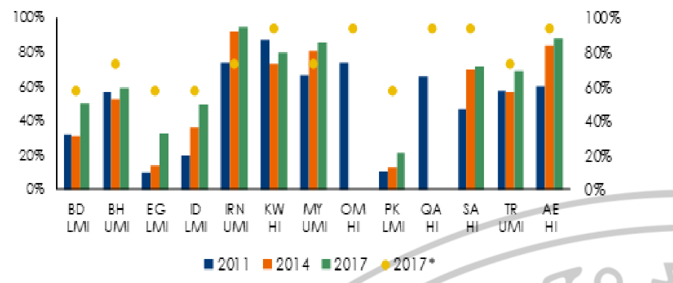

Figure 4. Adults with a bank current account (in some Islamic countries, % of adults, over 15 years of age). Notes: LMI=Lower middle income, UMI=Upper Middle Income, HI=High income. (*) average of the country income category. Source: our calculations based on World Bank and Global Findex database figures.

Various studies - in particular A. Demirguc-Kunt, K. Leora, R. Douglas (2013) [22] - showed that, in general, in Islamic countries the degree of proliferation of savings instruments is lower than that of loans. This can be explained, on the one hand, by the special ability Islamic finance has insofar supporting small and medium-sized businesses. The demand for financial resources, especially in this category of businesses, may be encouraged when risk sharing is concerned, which is typical of operators in Islamic countries, where private equity and venture capital are extremely widespread. This result is significant. According to a study by the World Bank (2014) [23], the higher the number of Islamic banks per 100,000 inhabitants, the lower the share of companies that find it difficult to access credit. In Western countries, where financial systems have always been criticised for credit access by SMEs, the presence of adequate guarantees and the credit history of the borrower is a major consideration.

In terms of deposits, the reduced proliferation may be partly due to the fact that savers may be less incentivised to deposit their money (due to the lack of returns and forms of deposit insurance), but also because of a lower level of disposable income, as mentioned previously. Moreover, even if income is significant, as in the Gulf countries, the income concentration is very high and therefore the level of distribution of financial products (measured by the number of people) may be lower than that recorded in Western countries.

Egypt has additional peculiarities. Despite modest financial inclusion, the deposits/GDP ratio is high (around 60%), but the loans/GDP ratio is just over 20%. The role of public banks is crucial, both during the deposit-taking phase, by offering reinsurance to depositors, and in terms of assets due to the significant weight of subscribed government bonds, with the public system therefore engaged in incisive crowding-out action.

The breakdown by gender shows that it has been reasonable to expect a lower level of financial inclusion of women compared to men. However, it should be noted that also among women, financial inclusion has strengthened significantly in recent years, across all countries, especially in Egypt (from 7% in 2011 to 27% in 2017). The gender gap remained high in Bangladesh and Pakistan (both approximately 30pp in 2017). Surprisingly, these 2017 figures indicate that the gender gap was still equal to about 30pp in Turkey.

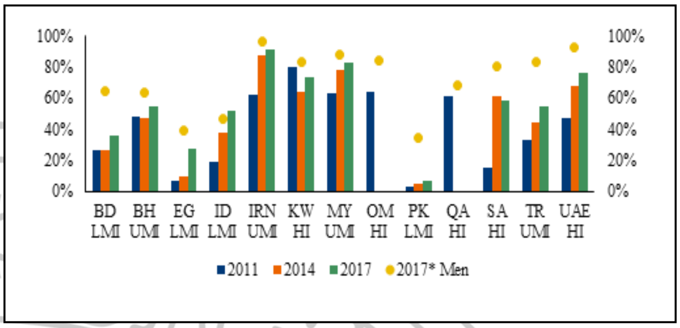

Figure 5. Women with a bank current account (in some Islamic countries, % of adults, over 15 years of age). Notes: LMI=Lower middle income, UMI=Upper Middle Income, HI=High income. (*) average of the country income category. Source: our calculations based on World Bank and Global Findex database figures.

The main reasons why adults do not open a current account include a lack of money or the necessary documents, as well as the (physical) distance from financial institutions.

As highlighted in many studies (as in World Bank, 2020) [24], the proliferation of fintech channels can contribute significantly to financial inclusion. The Islamic population is also very young and includes half of the global population under the age of 34. Young people are not only IT proficient, they are also potential customers.

Among the various channels that can be used, the spread of fintech, especially through mobile phones, is expected in Islamic countries too, especially for payments. The World Bank estimates that two thirds of adults remain unbanked (around 1.7 billion), yet own a mobile phone that can be used to make payments. Most Islamic countries fall within the 50 countries with the highest penetration of mobile phones. Figure Nº 6 shows the degree of smartphone penetration in a significant sample of Islamic countries. Indonesia has the highest share, accounting for 66% of the population, followed by Malaysia at 57.5% and Pakistan at 43% in 2018. Egypt has stopped at 28%. These percentages are high, but still far from the 96% average in advanced economies.

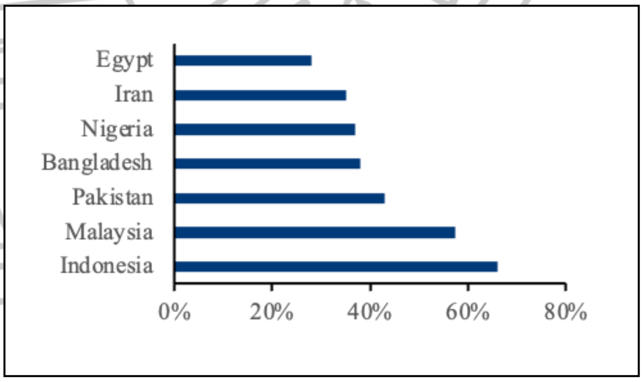

Figure 6. Smartphone penetration in some Islamic countries (2018). Source: Newzoo Global Mobile Market Report, September 2018.

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VIII. CONCLUDING REMARKS

Bank deposits increased sharply in 2020 and in 2021 in Islamic countries but not so strongly as in advanced economies. Nevertheless, some structural factors (such as financial inclusion) may support a furher increase in the next decade.

The numerous constraints that regulate the operations of Islamic banks may affect their capacity to expand. On this topic, the World Bank (2016) [25] offers a broad assessment of the role played by Islamic banks in the economies of their countries.

In 2020, Muslim countries were affected by the pandemic as well, with effects that weighed heavily on their economies, falling GDP, as mentioned above, with even the oil prices dropping. Now, as highlighted by rating agencies and international observers (as Moody's, 2021 [26], and A. Hauser, 2020) [27] prospects are still positive thanks to the confluence of some factors. First of all, demand for Sharia-compliant products is expected to remain strong, throughout the long term.

The fact that Sharia-compliant products will also be able to benefit from the growing focus on ESG products and sustainability, both of which have been historically safeguarded by Islamic principles, is important. K. Long (2020) [28] argues that the affinity between "Sharia-compliant" and "sustainability-compliant" finance is such that it has been proposed in the Islamic sphere to steer Islamic banks in a particularly determined manner towards this way of banking, which is highly appreciated by the community.

The support measures implemented by the central authorities also in these countries in response to COVID-19 will provide further support to "Islamic" activities. Moreover, in recent years numerous mergers have been carried out in the Gulf countries, with Islamic banks acquiring conventional banks, incorporating their business and expanding intermediated volumes represented by them, in many cases. All the mergers carried out in the Gulf in 2020 involved at least one Islamic bank.

As shown in Figure Nº 7 covering total assets, the Islamic financial sector has posted an average increase of 6% over the last 5 years as compared to an average annual reduction of 1% in assets of conventional banks in Saudi Arabia.

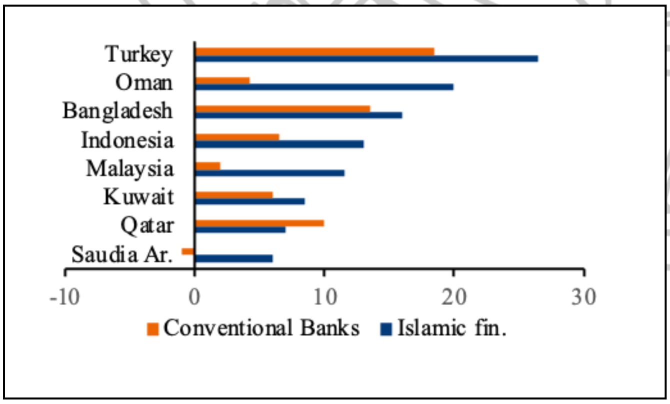

Figure 7. Total Assets (CAGR, %, 2015-9/2020). Note: compound annual growth rate. Source: Moody's.

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