STATISTICS

GFSM 2014 update

Proposed Recommendations Document:

1.21 Islamic finance

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: IF1. Islamic Finance in the National Accounts and External Sector Statistics Draft *2025 SNA* and Draft *BPM7* [1]	
Global Consultation(s):	SNA/BPM: January 2024; January 2022
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	AEG: October 2023; November 2021; October 2019 Joint AEG / BOPCOM: October 2022; March 2022
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: The recommendations propose ways to incorporate specific issues arising from the intrinsic nature of Islamic finance in the update of *GFSM 2014*. It proposes a terminology change, replacing "interest" with "interest and similar returns" to encompass both conventional and Islamic finance. Further, in order to ensure Islamic financial instruments and institutions are properly accounted for in government finance statistics (GFS), it is proposed to include additional guidance on the recording of Islamic finance, providing an overview of its nature, the sectorization of Islamic financial institutions, the classification and financial arrangements of Islamic instruments, and the concept of economic ownership and how these instruments and institutions can be integrated into the conventional macroeconomic frameworks used in GFS.	

Background and Issues

1. Islamic finance, which is prevalent in certain regions of the world, does not operate in the same way as conventional finance as it follows the Shari'ah (or Islamic law) principles and rules. Shari'ah principles prohibits interest and other practices from conventional finance considered as harmful to

[1] Links are to the "white cover" versions of the *2025 SNA* and *BPM7*. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

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. Accordingly, Islamic financial institutions exist that have developed special types of financing arrangements to comply with these principles. Examples include profit and loss sharing joint ventures, profit and loss sharing partnerships, and leasing. As such, key challenges arise from the intrinsic nature of Islamic finance, including classifying Islamic institutions and financial instruments, determining appropriate terminology for investment income, applying the formula to calculate implicit financial services on loans and deposits,[2] addressing the economic ownership of non-financial assets, and the statistical treatment of Islamic insurance.

2. Islamic finance has been growing significantly in the past decade (with global assets rising from $1,761 billion in 2012 to $2,875 billion in 2019) but comprehensive internationally endorsed guidelines for accounting for Islamic finance in the national accounts and external sector statistics within the *2008 SNA* have been absent.

3. In the same vein, the *GFSM 2014* and the *Public Sector Debt Statistics Guide (PSDSG)* are also silent on Islamic finance. They both refer to the Monetary and Financial Statistics Manual for guidance. Annex 4.3 of the *Monetary and Financial Statistics Manual and Compilation Guide* (*MFSMG) 2016*[3] outlines the operation of Islamic financial corporations according to Islamic principles and classifies Islamic financial assets and liabilities within the framework of monetary and financial statistics aligned with the *2008 SNA*.

4. Recognizing this lack of comprehensive guidance on Islamic finance, the coordinated initiative to update the *2008 SNA* and the *BPM6* presented the opportunity to develop comprehensive and coherent recommendations to account for Islamic finance in the draft *2025 SNA* and *BPM7*. Both drafts have introduced a series of recommendations to address the issues around Islamic financing. The *GFSM 2014* update provides an opportunity to align with the draft *2025 SNA* and *BPM7* and incorporate explicit guidance on issues that are of relevance to the GFS conceptual framework notably the issues related to:

a. Terminology for the investment income for Islamic deposits, loans, and debt securities;

b. Sectorization of Islamic financial entities;

c. Economic ownership of non-financial assets related to sales, lease, and equity financing which are legally owned by Islamic financial institutions;

d. Classification of Islamic financial instruments and corresponding investment income; and

e. Statistical Treatment of Islamic insurance.

Proposed Recommendations

5. The proposed recommendations on the above listed issues are as follows:

[2] Referred to as financial intermediation services indirectly measured (FISIM) in *2008 SNA*.

[3] Also Annex 3 of the *Handbook on Securities Statistics* published by the Bank for International Settlements , European Central Bank and IMF addresses the treatment of Islamic securities including the classification of Islamic debt securities in existing international statistical standards such as the *2008 SNA*.

a. Replace the term “interest” with the term “interest and similar returns” defined in line with draft *2025 SNA*, (para. 8.119) as “investment income or interest-like income that is receivable by the owners of certain kinds of financial assets, namely: deposits, debt securities, loans, and other accounts receivable and some similar instruments in the case of Islamic finance, for putting the financial asset at the disposal of another institutional unit”.

b. Introduce additional guidance in the updated GFSM to clarify how to properly account for Islamic finance and insurance arrangements in the GFS. The guidance would be based on the joint *SNA/BPM* Chapter on Islamic finance (*2025 SNA* Chapter 26 / *BPM7* Chapter 17) and include:

- A general overview of Islamic finance and how it is different from conventional finance;
- A review of Islamic financial institutions and their sectorization;
- A review of Islamic financial arrangements, and how these may be reflected in macroeconomic financial instruments (classification and corresponding investment income);
- Clarification of economic ownership of nonfinancial assets in Islamic finance arrangements;
- Clarification of Islamic financial instruments, specifically, discussing the different sukuk arrangements[4] and how to treat these in GFS as well as including examples of other Islamic finance instruments in the relevant asset and liability categories.

Rationale for Proposed Recommendations

6. The proposed recommendations aim to harmonize the updated GFSM with the *2025 SNA* and *BPM7*, a key objective of the *GFSM 2014* update process. Additionally, the proposed recommendations aim to provide clarification for the treatment of Islamic finance within the existing GFS conceptual framework.

Proposed Text for GFSM Update

7. *GFSM 2014* (paras. 5.108-5.110 and 6.62-6.75) to be revised to incorporate the term “interest and similar returns” and align the definition and supporting text with that in the draft *2025 SNA* (paras. 8.119-8.122), and draft *BPM7* (paras. 12.61-12.63). Other aspects of Islamic financing, both in terms of Islamic financial institutions and instruments, as set out in the draft *2025 SNA* (Chapter 26), and draft *BPM7* (Chapter 17) should be reflected in the relevant sections of the updated GFSM.

Additional References

2025 SNA (Chapter 26), and BPM7 (Chapter 17), on Islamic Finance

[4] Sukuk are investment certificates issued by Islamic financial institutions to obtain funding. Sukuk (plural of sakk, known as Islamic bonds) are certificates, with each sakk representing a proportional undivided ownership right in tangible and intangible assets, monetary assets, usufruct, services, debts or a pool of predominantly tangible assets, or a business venture (such as mudaraba or musharaka). These assets, which must be clearly identifiable, may be in a specific project or investment activity in accordance with Shariah rules and principles.