Liquidity risk of Islamic banks in Morocco: What is new?

MOROCCO

Dr Ahmed Tahiri Jouti

The centralized approach of the Moroccan Islamic finance experience constitutes its real specificity. Indeed, the Higher Council of Ulemas, which is the central Shariah board in Morocco, approves all the contracts used by Islamic banks. One year after their launch in Morocco, only three financing products are available which are all based on the Murabahah formula in addition to current accounts.

The launch of Islamic banks in Morocco showed that there is a significant appetite for financing products while the migration of deposits remains limited. This is due to three main factors:

1. The absence of investment accounts significantly limited the migration of deposits to Islamic banks. There are people who have savings accounts and term deposit accounts in conventional banks and who are refusing to accept interest. Nevertheless, they are still waiting for investment accounts to have a Shariah compliant account. This consumer behavior requires rapid feedback to attract more deposits.

2. The absence of a comprehensive offer for businesses also reduces the migration effect. In the absence of services and financing products adapted to the needs of businesses, they would not deal with Islamic banks.

3. The communication campaigns of Islamic banks are focused more on financing products especially Murabahah and ignore deposit products. Thus, most of those who are moving to Islamic banks are those who receive Murabahah financing.

All these factors combined constitute a real threat to the liquidity of Islamic banks. In this context, Bank Assafa, the market leader, submitted a refinancing contract based on the Wakalah mechanism in order to get adequate financing when needed. The contract submitted is an MoU between two parties. The first party is committed to provide financing every time the Islamic bank (the second party) requests for it. The MoU defines the total amount of financing to be provided by the first party. The Higher Council of Ulemas approved the contract which is ready for use by all the other Islamic banks.

The Wakalah contract is a temporary solution which will provide the necessary funding for the activity of Islamic banks and will be replaced gradually by investment accounts, Islamic money market instruments and Sukuk issuances.

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Steady summer in Qatar

QATAR

By Amjad Hussain

As summer comes to an end in Qatar, it is encouraging to see that there has been an uptick in activity over the last few weeks in the local market. This sets a good foundation for the autumn months, typically a busy season in Doha as decision-makers return from summer leave.

From a macro perspective, the Qatari banking sector has reported a 3.5% growth in credit year-on-year last July. Deposits from non-residents and the private sector grew 6.1% and 2.2% month-on-month respectively. This shows a return in confidence to the local market and is likely to increase going forward.

The Central Bank of Qatar signed a currency swap agreement in late August with the Central Bank of Turkey with a limit of US$3 billion. This is part of the support package that Qatar is providing to Turkey in view of the difficult time that the Turkish lira is facing currently.

The IFSB's data shows that Qatari Islamic banks are growing despite the Gulf crisis. Qatar Islamic Bank, Masraf Al Rayan, QIIB and Barwa Bank held a combined QAR358.6 billion (US$97.98 billion) in assets in the first quarter of this year, an 8.8% increase from a year earlier.

Listed companies on the Qatar Stock Exchange have disclosed their financial results for the six-month period ended the 30th June 2018. The combined net profit of all companies as of the 30th June amounted to QAR21 billion (US$5.74 billion) versus QAR20 billion (US$5.46 billion) for the same period in 2017, an increase of 5%.

It was nice to see that QInvest, a leading private investment group and one of the region's most prominent Islamic financial institutions, was named Best Investment Bank in Qatar at the Euromoney Middle East Awards for Excellence.

QInvest is expected to unveil new products targeting local investment opportunities in Qatar across sectors including healthcare, industrials, education and agriculture.

The much-talked-about proposed merger between Islamic bank Barwa Bank and conventional bank International Bank of Qatar to create a leading Shariah compliant financial institution has recently been confirmed.

The combined entity would have total assets of QAR80 billion (US$21.86 billion). The deal is pending approval from each bank's shareholders and regulators. If successful, the enlarged entity would have a 6% share of Qatar's overall banking market.

In summary, the Qatari banking market generally seems to be showing strong positive growth and this is being reflected in the liquidity and general outlook for local Islamic banks.

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