

GCC Countries Joint Workshop on Statistical Treatment of Islamic Finance in National Accounts and External Sector Statistics

- Terminology for the Investment Income for Islamic
Deposits, Loans, and Debt Securities**

Presenter: Norhayati Razi

March 14, 2022

Issues and Recommendations

(Issue 1.1) Terminology to describe the interest-like returns on some Islamic debt instruments (i.e., Islamic deposits, loans, and debt securities)

Issue:

- ❖ SNA classification as “Interest” appears to be inconsistent with the prohibition of “riba” (normally translated as “interest”) in Shari’ah while these returns may represent a broader concept that might include equity-like, rental or sales features
- ❖ Originally, two proposed terminologies: **“interest and similar investment returns”** and **“financing and investment income”**

Recommendations

- ❖ **The GN recommends to use the term “interest and similar returns”**
 - ❑ The term “interest” ensures continuity with the current terminology.
 - ❑ The second part “similar returns” should describe the broader interest-like returns on Islamic deposits, loans, and debt securities.
 - ❑ Avoid alternative classification frameworks.
 - ❑ Avoid to use the term “investment” which has a broad meaning in Financial Account of Balance of Payments and International Investment Position.

Issues and Recommendations

(Issue 1.2) Presentation of the interest-like returns in the updated SNA and BPM

Options:

- ❖ **Assign a separate code** to these returns within interest (D41)
- ❖ **Retain the current classification** of investment income for Islamic returns, but give economies with significant Islamic financial activities the option to create a sub-category within interest (D41)

Recommendations

- ❖ **Retain the current classification** of investment income for Islamic returns
- ❖ Rename "interest (D41)" to "**interest and similar returns (D41)**"
- ❖ Give economies with significant Islamic financial activities the option to create a sub-category within interest and similar returns (D41), to be reflected as "**of which: Returns on Islamic deposits, loans, and debt securities**".

Issues and Recommendations

(Issue 1.3) Proposed changes to the relevant paragraphs in the 2008 SNA and BPM6 to reflect these interest-like returns

Issue: Nuance relevant paragraphs in 2008 SNA and BPM6 to reflect these interest-like returns

Recommendations: The GN provide recommendation to change/nuance key paragraphs in 2008 SNA and BPM6: 2008 SNA 7.113–7.114 & BPM6 11.48

- ❖ **SNA 7.113** *“Interest and similar returns” is a form of investment income or interest-like investment income that is receivable by the owners of certain kinds of financial assets, including Islamic financial instruments, namely: deposits (or sources of funds), debt securities, loans (or uses of funds) and (possibly) other accounts receivable for putting the financial asset at the disposal of another institutional unit.* Income on SDR holdings and allocations is also treated as interest and similar returns. The financial assets giving rise to interest and similar returns are all claims of creditors over debtors. Creditors lend funds to debtors that lead to the creation of one or other of the financial instruments listed above. The amount the debtor owes the creditor is known as the principal. Over time, the amount due to the creditor declines as the debt is repaid and increases as interest and similar returns accrues. The balance at any time is referred to as the principal outstanding.
- ❖ **SNA 7.114** *“Interest and similar returns”* may be a predetermined sum of money (or profit) or a fixed or variable percentage of the principal outstanding or the profit share from the sources and uses of funds. If some or all of the interest and similar returns accruing to the creditor is not paid during the period in question, it may be added to the amount of the principal outstanding or it may constitute an additional, separate liability incurred by the debtor. However, the interest and similar returns may not necessarily be due for payment until a later date and sometimes not until the loan, or other financial instrument matures.

Issues and Recommendations

(Issue 1.3) Proposed changes to the relevant paragraphs in the 2008 SNA and BPM6 to reflect these interest-like returns

Issue: Nuance relevant paragraphs in 2008 SNA and BPM6 to reflect these interest-like returns

Recommendations: The GN provide recommendation to change/nuance key paragraphs in 2008 SNA and BPM6: 2008 SNA 7.113–7.114 & BPM6 11.48

- ❖ **BPM6 11.48:** *“Interest and similar returns” is a form of investment income that is receivable by the owners of certain kinds of financial assets, including Islamic financial instruments, namely deposits, debt securities, loans, and other accounts receivable, for putting the financial assets at the disposal of another institutional unit. Income on SDR holdings and SDR allocations is also included in interest and similar returns.* Not all current account flows associated with debt instruments are interest and similar returns; some may be commissions or fees, which are charges for financial services
- ❖ **No structural changes to the SNA and BPM** are proposed while the term **“interest and similar returns”** is able to accommodate with Islamic finance and comply with Shari'ah principles.

General Consensus to all Recommendations

(Issue 1.1) Terminology to describe the interest-like returns on some Islamic debt instruments

The term **“interest and similar returns”** to describe the interest-like returns

- ❖ proposed terminology ensures flexibility and continuity with the current terminology,
- ❖ helps avoid misinterpretation and preserves the existing macroeconomic statistical frameworks,
- ❖ the alternative term financing and investment income would not be so intuitive and would overlap with other different aggregates such as “Investment income disbursements (D44)”.

(Issue 1.2) Presentation of the interest-like returns in the updated SNA and BPM

Retain the current classification of investment income for Islamic returns

- ❖ in favor of maintaining –and renaming– the current classification
- ❖ preserves the universality of the international statistical standards
- ❖ add value for economies where there are significant Islamic financial activities.

(Issue 1.3) Proposed changes to the relevant paragraphs in the 2008 SNA and BPM6 to reflect these interest-like returns

Nuance relevant paragraphs in 2008 SNA and BPM6 to reflect these interest-like returns

- ❖ affirming it would clearly reflect the expansion of coverage to such Islamic financial instruments, in line with issue 1.1.
- ❖ Within the supporting answers, it was suggested that some changes should be further explained for clarity providing footnotes and examples, for instance, explaining that the concept of interest and similar returns is inclusive of property incomes received or charged.

Thank you