

PRODUCTIVITY OF ISLAMIC BANKING SYSTEMS IN THE MIDDLE EAST

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ABSTRACT

As a result of the dramatic changes brought about by the linked world's financial environment, Islamic banking systems in the Middle East have been greatly affected. This extensive research study examines the complex connection between globalization and the productivity of Islamic financial institutions in a number of Middle Eastern nations. Islamic banks in the Middle East have faced new problems and possibilities brought about by globalization, which is defined by increased cross-border exchanges and market integration. It presents opportunities for new technical developments and broader access to markets, but it also brings new regulatory hurdles and intensified rivalry. Keeping up with the ever-changing global financial landscape requires Islamic banking institutions to deftly maneuver through these dynamics. Islamic banks in the area are impacted by the forces of globalization, such as trade liberalization, financial integration, and technology improvements. This research draws on a combination of empirical evidence and theoretical frameworks to explain how these factors impact their operating environment. Islamic financial institutions are seeing increases in productivity as a result of technological developments like digital banking solutions and fintech technologies, which improve operational productivity and the client experience.

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1. INTRODUCTION

Islamic principles of socioeconomic integrity call for the abolition of interest and other forms of financial injustice (W Jubilee, Kamarudin, Abdul Latiff, Iqbal Hussain,

& Mohamad Anwar, 2022). Islam's economic system emphasizes risk and loss-sharing in lending, borrowing, and investing, enabling market forces to determine capital outcomes rather than depending on set interest rates. This strategy promotes a free market atmosphere and deters capital accumulation (Z. Hasan & Putri, 2021). This value-oriented strategy promotes efficient capital use and equitable opportunities, resulting in enhanced material wealth and ethical welfare for people and society as a whole (Jubilee, Kamarudin, Latiff, Hussain, & Tan, 2021).

The regulatory framework for Islamic banking and finance has developed over about forty years (Maradin, Suljić Nikolaj, & Olgić Draženović, 2021). The Islamic banking paradigm, which emerged in the late 1940s, underwent substantial expansion during the next two decades, achieving widespread acceptance, especially in certain Middle Eastern areas. Prominent Islamic banks founded in the 1970s comprise the Nasser Social Bank Cairo (NSBC) in 1972, the Islamic Development Bank (IDB) in 1975, the Dubai Islamic Bank (DIB) in 1975, the Kuwait Finance House (KFH) in 1977, the Faisal Islamic Bank of Sudan (FIBS) in 1977, and Dar Al-Maal Al-Islami in 1980 (Al-Fori & Gani, 2022; Maradin et al., 2021).

In the early 1980s, Pakistan, Iran, and Sudan attracted international attention by reforming their banking systems and economies to conform to Islamic precepts. This action compelled Western banking companies, like ABN AMRO, Citibank, and HSBC, to modify their policies to entice deposits from Muslim clientele in the Middle East (Khokhar, Hassan, Khan, Amin, & Center, 2020). There has been a lot of change and innovation in Islamic banking and finance since then, touching on many different products, markets, and clientele. The real estate industry, hedge funds, Islamic bond markets, mutual funds, wealth management, corporate finance, asset management, liquidity management, private equity, futures markets, forward markets, and Islamic stock exchanges are just a few of the many fields that have benefited from these advances (Otaviya & Rani, 2020). Southeast Asia, the Middle East, and South Asia have traditionally been the focal points of Islamic banking and finance (Parsa, 2022). The Middle East, mostly inhabited by Muslim populations, is the nucleus of Islamic banking, benefiting substantially from governmental, wealthy, and institutional backing (Faizulayev, Wada, Kyzdarbekova, & Parmankulova, 2021).

The majority of Islamic banking sector regulators are based in the Middle East. The worldwide Islamic banking and finance industry has been greatly affected by the trend of monetary and central bank consolidation by several nations, particularly in the Middle East, by 2010 (Banna & Alam, 2020; Saleh, Moradi-Motlagh, & Zeitun, 2020). In reaction to rising market demand, Bangladesh has imposed harsher regulations, while Pakistan has lately adopted Islamic banking. Another regional movement towards Islamic finance principles is the consideration of Islamic banking policies by Afghanistan and India, who may follow suit soon (Ousama, Hammami, & Abdulkarim, 2020; Rehman, Aslam, & Iqbal, 2022).

2. ISLAMIC BANKING DEVELOPMENT

The significance of Islamic banking has increased significantly in recent decades, as evidenced by the dynamic development of Islamic bank assets since the 1970s. These assets had exceeded US\$1.8 trillion by the conclusion of September 2020 (Mensi, Hammoudeh, Tiwari, & Al-Yahyaee, 2020). The Muslim Brotherhood is a prominent example of a neo-revivalist movement within Muslim societies that facilitated the establishment of Islamic institutions. The Brotherhood, which was established in 1928

by Hasan al-Banna in Al-Isma'iliyya, Egypt, was instrumental in the promotion of Islamic principles in a variety of societal domains, including finance (Qayimova, 2021; Zehra, Umair, Shabbir, & Mallouli, 2022). In an effort to promote an economic system in line with Islamic teachings, these groups criticized the interest-based financial systems that are common in Muslim-majority nations like Egypt. Islamic banking advanced at a rapid pace due in large part to the growing riches of several Middle Eastern governments, which was stimulated by the oil crisis and the ensuing rises in oil prices (Ullah, Zhao, Kamal, Riaz, & Zheng, 2021).

Numerous Islamic banks founded in the 1970s had some or whole financing from oil-generated money from nations such Saudi Arabia, the United Arab Emirates, and Kuwait. Additionally, the pan-Islamic movement, which sought to unify the Muslim world, gained traction in the 1970s, considerably contributing to the development of Islamic banks (Abasimel, 2023; Sa'id, 2020). Currently, the Islamic banking industry is centered on the Middle East. Saudi Arabia and Iran are at the head of the pack, but six of the top seven countries by Islamic banking assets are located in the area. If a jurisdiction's Islamic banking assets are more than 15% of its total domestic banking sector assets or 5% of worldwide Islamic banking assets, then that jurisdiction is considered systematically important in Islamic banking. Iran, Saudi Arabia, Kuwait, Qatar, the UAE, Jordan, Bahrain, and Oman are eight Middle Eastern nations that meet this criteria for systematically important Islamic jurisdictions (Sekmen, 2021).

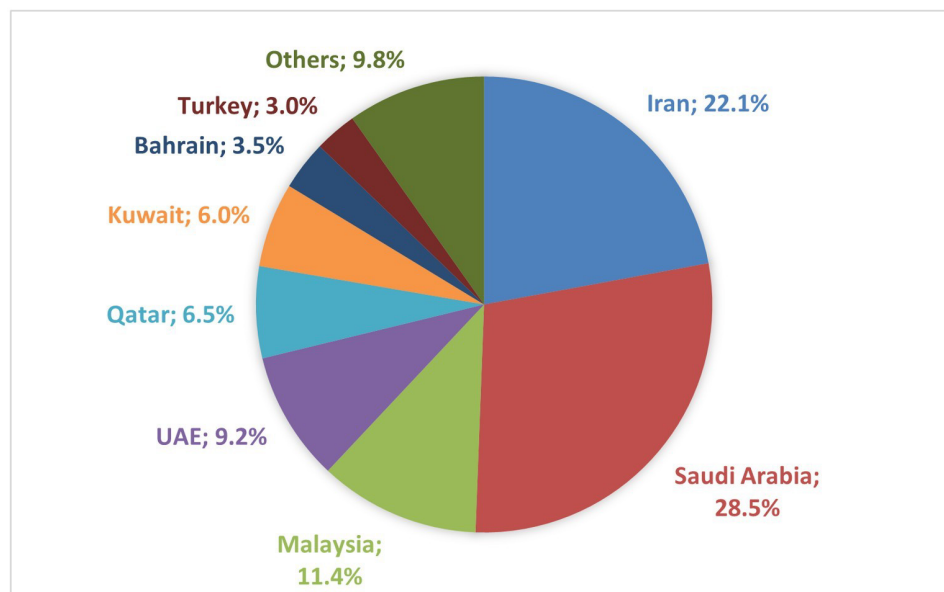


Figure 1. Jurisdiction share of global Islamic banking assets (%) (3Q2020).

Source (Sobol, Dopierała, & Wyśiński, 2023).

The progression of Islamic banking in the Middle East differs throughout nations. In the United Arab Emirates, legislative frameworks governing Islamic finance and banking were instituted in the 1980s, addressing the operations and oversight of institutions (Puteri, Parsaulian, & Azman, 2022). The opposite is true in Saudi Arabia, where Islamic banking is not subject to any particular regulations. Notwithstanding these differences, some Middle Eastern nations have implemented changes to their legislative frameworks, accounting practices, economic policies, and corporate governance. Combined, these changes have fostered an atmosphere that Islamic banks

may thrive in, leading to increased profits and expansion (Siska, 2022). Consequently, Islamic banks can hold their own against more traditional financial institutions. Understanding what makes Islamic and conventional banks in the Middle East tick is, hence, crucial (Jan et al., 2023).

3. THEORIES OF PROFIT

Accounting, economic sociology, sociology, and political economics are just a few of the fields that place a premium on profit and profitability. A basic tenet of capitalism, profit is the excess that remains after deducting costs from income. It has far-reaching effects on businesses' capacity to stay in business, expand, and survive (Clemens, 2021; Schumpeter & Swedberg, 2021). Although profit is a numerical value, it also encompasses the idea of productivity. Return on equity and return on assets are two profitability measures that show how well management makes use of the company's investment resources to make money. Additionally, the net interest margin ratio is an extra metric for profitability in the banking industry (Conard, 2023). Profitability measures are essential for comparing assessments and assessing the financial health of businesses. Furthermore, profitability is essential in decision-making processes related to investments, planning, budgeting, coordination, assessment, and comprehensive company management (Block, 2021).

Numerous ideas have been advanced throughout the years to elucidate the essence of profit in a competitive economy. Nevertheless, these hypotheses frequently differ and may not completely clarify its role. Notwithstanding its disparities, several theories align in the perspective that profit functions as a recompense for participation in the value production procedure within a corporation (Stigler, 2021). The risk-bearing hypothesis, initially proposed by Hawley in 1893 and refined in later years, asserts that the principal role of the entrepreneur is to assume risk. This idea posits that profit acts as compensation for assuming risks, as individuals are often disinclined to pursue risk-laden ventures without the potential for profit. Hawley posits a direct correlation between risk and profit, indicating that increased risks are associated with enhanced profit potential, whereas diminished risks result in reduced profit opportunities (Oehmke & Opp, 2023; Treinta et al., 2020). The degree of danger indeed differs throughout businesses, with certain sectors being fundamentally more hazardous than others. Entrepreneurs face several risks, including those stemming from alterations in macroeconomic policy or product obsolescence, which are uninsurable and unavoidable. Therefore, to attain profitability, businesses must be prepared to assume these risks (George, Haas, McGahan, Schillebeeckx, & Tracey, 2023).

Schumpeter's innovation theory of profit posits that profit serves as the incentive for effective innovation. Schumpeter posits that profit-seeking individuals must pursue innovation, which may include introducing new goods, implementing novel manufacturing techniques, or penetrating new markets (McEvoy, 2022). Although these ideas correspond with neoclassical economic principles, the focus on profit has elicited apprehensions about its possible adverse effects and related behaviors in recent decades. It has become clear that profit cannot eclipse other facets of existence, urging corporations to contemplate the wider societal and environmental consequences of their actions. Consequently, there has been an increasing focus on corporate social responsibility (CSR) and sustainable business practices, prompting corporations to reconcile economic motives with ethical considerations and

environmental care (Al-Shammari, Banerjee, & Rasheed, 2022). Islamic banks represent institutions with objectives that transcend just profit generation. While they seek to create profit like other financial institutions, they also endeavor to advance the socio-economic objectives delineated in Islam. This encompasses the promotion of social justice, equitable wealth distribution, and the advancement of economic growth in alignment with Islamic ideals. Islamic banks function with a comprehensive objective to address both financial and societal requirements, ensuring their operations adhere to ethical and moral standards (Asness, Frazzini, Gormsen, & Pedersen, 2020).

4. BANK-SPECIFIC FACTORS

In this context, "bank-specific factors" mean those that are most affected by the policies and actions made by a particular bank's management. Size, liquidity, capital sufficiency, asset quality, and productivity are all parts of these considerations. These things happen inside the bank, where the management team has direct authority or influence. The stability, risk profile, and performance of the bank are significantly impacted by these elements.

4.1 Size of the bank

The assessment of bank size often depends on the total assets possessed by the bank. Empirical research on the effects of bank size has produced inconclusive findings. Larger banks may gain from economies of scale, resulting in reduced operating costs and perhaps enhanced profitability as assets grow (M. S. A. Hasan, Manurung, & Usman, 2020; Reschiwati, Syahdina, & Handayani, 2020). In contrast, extremely big banks may face difficulties such as bureaucratic processes, which might result in diminished profitability. Research has shown a positive and substantial correlation between the size of conventional banks and their profitability (Jaworski & Czerwonka, 2022). Conversely, some researchers have identified a negative and substantial correlation between bank size and profitability. In contrast, research has revealed no substantial effect of bank size on profitability. Studies have revealed both positive and substantial associations between bank size and profitability in Islamic banks, while others found no meaningful link (Chhaidar, Abdelhedi, & Abdelkafi, 2023).

4.2 Liquidity

Bank liquidity, often assessed by the net loans to total assets ratio, is anticipated to have a favorable impact on bank performance. This ratio indicates the proportion of a bank's assets designated for financing, a principal source of revenue. Thus, elevated levels of this ratio are generally linked to enhanced profitability. Excessively high levels of this ratio may result in diminished liquidity and an increased volume of outstanding loans, thus undermining the bank's profitability. Therefore, achieving a balance in sustaining an appropriate liquidity level is essential for increasing profitability and safeguarding financial stability. Research has shown a substantial and favorable effect of the net loan to assets ratio on the performance of both conventional and Islamic banks. This discovery has been further substantiated, notably with Islamic banks (Jubilee et al., 2021).

4.3 Capital adequacy

The equity to assets ratio is a common way to determine capital adequacy, which is a key indicator of a bank's financial health and potential for insolvency. Because equity acts as a cushion against possible losses, a larger ratio makes depositors and the bank feel safer. A strong capital basis helps a bank weather economic storms and keep its doors open when times go tough. For banks to be able to weather sudden losses and keep investors' and depositors' faith, regulatory bodies frequently impose minimum capital requirements (Reschiwati et al., 2020). The equity to assets ratio is a common way to determine capital adequacy, which is a key indicator of a bank's financial health and potential for insolvency. Because equity acts as a cushion against possible losses, a larger ratio makes depositors, and the bank feel safer. A strong capital basis helps a bank weather economic storms and keep its doors open when times go tough. For banks to be able to weather sudden losses and keep investors' and depositors' faith, regulatory bodies frequently impose minimum capital requirements (Hidayat & Dewi, 2023). Previous research by Berger and others that have looked at Islamic banks has shown that the equity to assets ratio has a favorable and statistically significant effect on bank profitability. Islamic banks' profitability appears to be negatively and significantly correlated with their equity to total assets ratio, according to the research (Alhassan & Islam, 2021).

4.4 Asset quality

The asset quality ratio is another key metric to look at when determining what factors impact a bank's profitability. A bank's asset quality, as measured by this ratio, is best seen in its loan and lease portfolio (Akani & Akani, 2018). In order to assess the credit risk associated with a bank's assets, the asset quality ratio is essential; a lower ratio often indicates that the assets are of higher quality. Loan loss reserve to gross loans and non-performing loans to gross loans are two common ratios used to monitor asset quality (Cheruiyot, 2016).

There are several methods to look at the relationship between a bank's performance and the ratio of its loan loss reserve to its gross loans. An increase in provisioning might be a sign of impending loan losses, but it could also be a proactive measure by banks to detect troubled loans (Mwendwa, 2015). Timely identification of loan vulnerabilities is shown by the favorable association between this ratio and bank profitability, according to research. On the other hand, according to those who looked at the correlation between bank profitability and the ratio of loan loss reserves to gross loans, they found a negative and statistically significant association (Alqahtani, Hamdi, & Skully, 2022). Similarly, traditional and Islamic banks' profitability was not significantly correlated with this ratio when using the same asset quality proxy. On the other side, studies that used the ratio of non-performing loans to gross loans as an indicator of asset quality found that this ratio had a substantial and negative effect on banks' profitability (Swamy, 2015).

4.5 Productivity

When evaluating the efficacy of a bank's management and asset control, productivity ratios are crucial. Common examples of such ratios are the cost-to-income and cost-to-assets ratios, which may differentiate between staff and non-staff expenses (Siddiqi, 1971). There is a strong correlation between higher profitability and lower productivity ratios, which suggest superior productivity, according to many research

conducted on conventional and Islamic banks. Unexpected results were produced by studies that used staff expenditures as a proportion of total assets as a proxy for productivity (Makadok, 2011). They proposed the idea that, contrary to popular belief, in companies that are subject to regulation, large profits can actually lead to higher personnel costs. When discussing Islamic financial institutions, the cost-to-income ratio is used as a measure of productivity. In the end, he came to the conclusion that, although it may be expensive initially, investments in HRD pay off in the long run through increased profitability. Now we know why (Magni, 2019).

5. MACROECONOMIC DETERMINANTS

Factors reflecting the larger economic climate impacting bank performance that are outside of a bank's control are known as macroeconomic determinants. Oil prices, inflation, and GDP growth are some of these influences.

5.1 GDP growth

The growth of gross domestic product (GDP), measured as the percentage increase or decrease from one year to the next, is a key measure of economic progress and a stand-in for the business cycle. An improvement in economic conditions is typically accompanied by a rise in the demand for bank financing and a fall in the number of loans that go unpaid (Chirwa & Odhiambo, 2016). As a result, we can expect GDP growth and bank profitability to go hand in hand. Research on Islamic financial institutions has also shown consistent results (Malik, 2023). In contrast, their research reveals a negative correlation between GDP growth and bank profitability in both conventional and Islamic banks. Certain research have suggested an absence of a substantial association between GDP development and the profitability of Islamic banks (Nguyen, 2023).

5.2 Inflation

The correlation between inflation and bank profitability has been thoroughly examined in academic literature, with inflation frequently mirroring elements of the business cycle. It is often believed that inflation enhances profitability, as bank revenues normally increase at a greater rate than expenses during inflationary periods (Mavruk & Göçmen, 2023). Furthermore, in an inflationary context, banks may have increased earnings due to the postponement of crediting consumer accounts. The positive impact of inflation on bank performance has been substantiated (Kučerová, Pakši, & Koňářík, 2024). Likewise, several research examining Islamic banks have shown comparable findings. It is essential to recognize that these results depend on inflation being foreseen. If banks do not effectively predict inflation and adapt their profitability, there is a danger that expenses may exceed revenues, adversely impacting bank performance (Ujkani & Gara, 2023). Research on Islamic banking has established a negative correlation between inflation and profitability. This occurrence can be ascribed to the difficulties Islamic banks encounter in forecasting inflation, as their profit-sharing model renders them susceptible to a segment of the inflationary impact. Conversely, traditional banks can modify interest rates, affording them a superior possibility for revenue expansion to surpass expenses (Rana & O'Connor, 2023).

5.3 Oil price

Oil is a vital cash stream for Middle Eastern nations and has been instrumental in the development and expansion of Islamic banking in the area. Nevertheless, the oil price is often not regarded as a variable in analyses of bank performance (Mavruk & Göçmen, 2023). A research investigating the correlation between oil prices and bank profitability in the Gulf Cooperation Council (GCC) area demonstrates that oil prices substantially affect the profitability of both conventional and Islamic banks. This conclusion corresponds with research examining the correlation between oil price shocks and bank profitability in the Middle East and North Africa (MENA) area (Mukhamediyev, Temerbulatova, & Mukhamediyeva, 2023). Two channels have been identified through which oil price shocks may affect bank profitability: a direct channel related to increased oil-related lending or business activity, and an indirect channel influenced by the macroeconomic and institutional characteristics of countries, as well as elevated expectations and business sentiment. Their research demonstrated that in the MENA area, oil price fluctuations predominantly influence profitability via the indirect channel. Furthermore, it was determined that fluctuations in oil prices primarily affect investment banks, given that oil prices substantially influence regional investment activities (Foye, 2023; Mukhamediyev et al., 2023).

6. TREND OF ISLAMIC BANKING AND FINANCE IN MIDDLE EAST COUNTRIES

The Middle East is acknowledged as the origin of Islamic banking and finance, with organizations in this sector aggressively seeking innovation and competitive offerings to enhance the field. Their main goal is to leverage the region's substantial oil resources and diminish reliance on European and Western financial institutions (Yihua, Meng, Farrukh, Raza, & Alam, 2023). This strategic transition is driven by the intention to advance Islamic banking and finance while maintaining oversight of domestic financial assets. Numerous studies indicate that the Islamic banking and financial sectors are seeing tremendous expansion and achieving significant success. As a result, traditional banking practices in Middle Eastern nations are shifting towards Islamic banking, presenting a considerable challenge to conventional banking in the area (Eshimov, 2023).

6.1 Bahrain

Bahrain is a leading entity in Islamic banking and finance in the Middle East, recognized as "the house of regulations, research, and innovations" in this field. Bahrain, hosting the highest concentration of Islamic banking and financial institutions, has significantly influenced the sector (Shaikh, Irfan, Sarea, & Panigrahi, 2024). In 1978, the Kingdom saw the inception of Bahrain Islamic Bank (BisB), the first Islamic bank, which facilitated further advancements in the industry. There are around 551 institutions in the nation, comprising 33 Islamic financial entities, with a total capital investment in Islamic banking amounting to US \$2.24 billion (Eshimov, 2023).

The Central Bank of Bahrain provides the regulatory framework under which Bahrain Islamic Bank (BisB) works. BisB is the first Islamic bank in the nation and the third Islamic bank globally. With a paid-up capital of BD 94 million, BisB's total assets reached BD 1,976 million at the end of 2023. But overall assets fell to BD 1,757 million by 2024 (Kumar & Sheela, 2023). In a similar vein, Ithmaar Bank B.S.C., the

country's second-largest Islamic financial institution, grew and will have \$7.685M in assets by 2024 (F. H. Hassan, Zaki, & Hashmawi, 2023).

Al Baraka Islamic Bank Bahrain is another prominent Islamic bank in Bahrain. Its total assets increased from \$1,225 million in 2023 to \$1,505 million in 2024. Total assets at Elaf Bank, which is regulated by the Central Bank of Bahrain, increased slightly and reached USD 169 million at the end of 2024. By the end of 2023, the entire assets of First Energy Bank (FEB) Bahrain, which was founded in 2008 with substantial capital, had reached USD 1,230,697,000 (Akkas & Asutay, 2023; Qudah et al., 2023).

Table 1: List of Islamic banks operating in Bahrain.

Sr. No.	Islamic Banks	Total Assets (USD million)	
		2023	2024
1	Bahrain Islamic Bank (BisB)	1976	1757
2	Ithmaar Bank	7510	7685
3	Al Baraka Bank	1225	1505
4	ELAF Bank	167	169

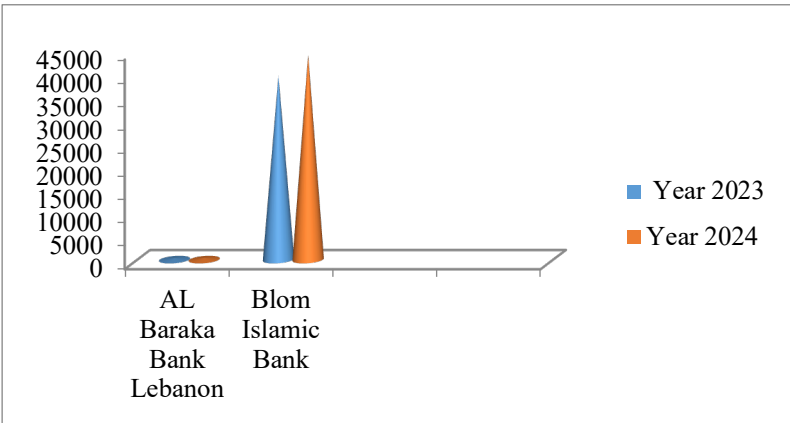


Figure 2: Total assets of Islamic banks in Bahrain

6.2 Iran

The 1979 Islamic revolution in Iran initiated the adoption of Islamic banking procedures, which gained considerable momentum in the subsequent decades. Islamic banking in Iran was initially centralized, seeing significant advancement throughout the first two decades. Since 1999, several international banks have functioned within designated free trade zones in Iran (Yihua et al., 2023). The 21st century witnessed the inception of private banking in Iran, initiated with the issuance of a license to Bank Karafarin by Markaz Bank in 2001, so establishing it as the first private bank in the country. Subsequently, two further private banks, Persian Bank and Eqtesdae-e-Novin, started operations in the Iranian market. The Iranian government denationalized two banks, Saderat and Bank Rafah-e Kargaran, to promote private banking. Presently, 44 petitions for initiating private banking in Iran are awaiting approval from the Central Bank of Iran (M. K. Hassan, Choudhury, & Bhuiyan, 2023).

The Central Bank of Iran, referred to as Bank Markaz, has granted licenses for the establishment of activities in Iran to many Qardhul Hasan centers, credit cooperatives, and non-bank entities. In Iran, five categories of banks exist: near banks, government commercial banks, interest-free lending banks, private banks, and specialized banks (Kanwal et al., 2023; Saleem, Daragmeh, Zahid, & Sági, 2023). There are seven state-run commercial banks in Iran, and they are among the top Islamic financial institutions. With about US\$59 billion in assets under management, over 3,300 branches, and 43,000 staff, Bank Milli Iran is one of the biggest Islamic banks. Post Bank of Iran, Bank Saderat Iran, Bank Sepah, and Bank Mellat are among Iran's other well-known Islamic financial institutions (Q. Ali, Parveen, Aspiranti, Nurhayati, & Rusgianto, 2023; M. K. Hassan, Kazak, Adıgüzel, Gunduz, & Akcan, 2023).

Among the biggest Islamic financial institutions are seven state-run commercial banks in Iran. Among the biggest Islamic banks, Bank Milli Iran stands out with assets under control over US\$59 billion. The bank has over 3,300 locations and employs over 43,000 people. Among Iran's other well-known Islamic financial institutions are Post Bank of Iran, Bank Saderat Iran, Bank Sepah, and Bank Mellat (Ibrokhimova, 2023; Jamali, Faghih, Fathi, & Rostami, 2023).

Table 2: Overview of Islamic banking institutions in Iran

Sr. No.	Islamic Banks	Total Assets (USD million)	
		2023	2024
1	Bank Milli Iran (BMI)	132599	146475
2	Bank Mellat Iran	171936	215871
3	Bank Sepah Iran	40938	47804
4	Bank Saderat Iran	70466	77141

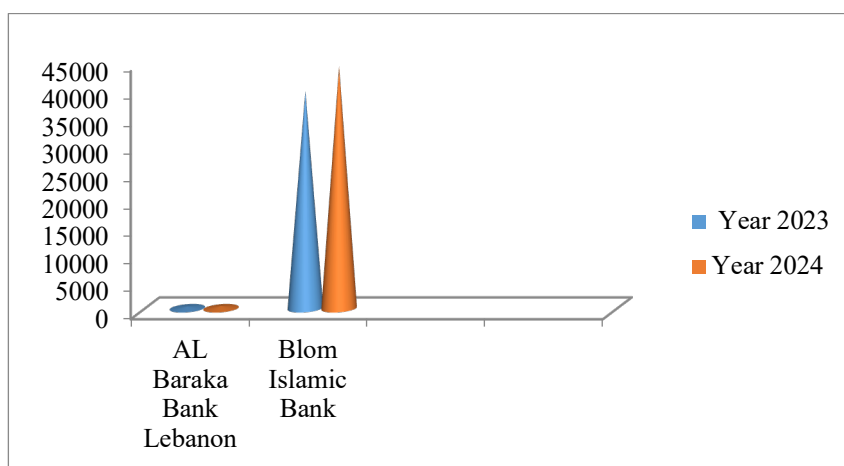


Figure 3: Total assets of Islamic banks in Iran

6.3 Jordan

The Jordan Islamic Bank has been open for business since 1978 and has been at the forefront of Islamic banking in Jordan with its 64 branches and several cash offices. It received 10.8 percent of all investments in Jordan's banking industry in 2005 and offered a variety of mutual insurance funds and products to the local market. In 2010, its total assets were JD 3.15 billion (USD 4.44 billion), while according to the JIB Annual Report of 2011, they declined slightly to JD 2.881 billion (USD 4.06 billion) in 2011 (Alnsour, 2023; Alshater, Khan, Hassan, & Paltrinieri, 2023).

Since its founding in 1997, International Arab Bank has grown to encompass twelve locations, each offering first-rate banking services and products to its clientele. According to the IIAB Annual Report of 2011, the total assets of the Islamic International Arab Bank increased from JD 1,133,111,480 (USD 1.599 billion) in 2010 to JD 1,240,778,297 (USD 1.751 billion) in 2011. Articles 50–59 of the Banking Law, which the government of Jordan enacted to encourage the establishment of Islamic banking and to entice foreign investors, have contributed to the expansion of Sukuk, Takaful, and Islamic insurance in Jordan's commercial and financial sectors (Al Dabbas, 2023; Qudah et al., 2023). Jordan Islamic Bank's (JIB) total assets were 7,848 million USD in 2023 and 9,148 million USD in 2024. In a similar vein, IIAB, the Islamic International Arab Bank, noted 2,886 million USD in total assets for 2023 and 3,344 million USD for 2024 (Al-Sheikh et al., 2023; Maharmah & Al Jbour, 2023).

Table 3: Islamic banks of Jordan

Sr. No.	Islamic Banks	Total Assets (USD million)	
		2023	2024
1	Jordan Islamic Bank (JIB)	7.848	9.148
2	Islamic International Arab Bank (IIAB)	2886	3344

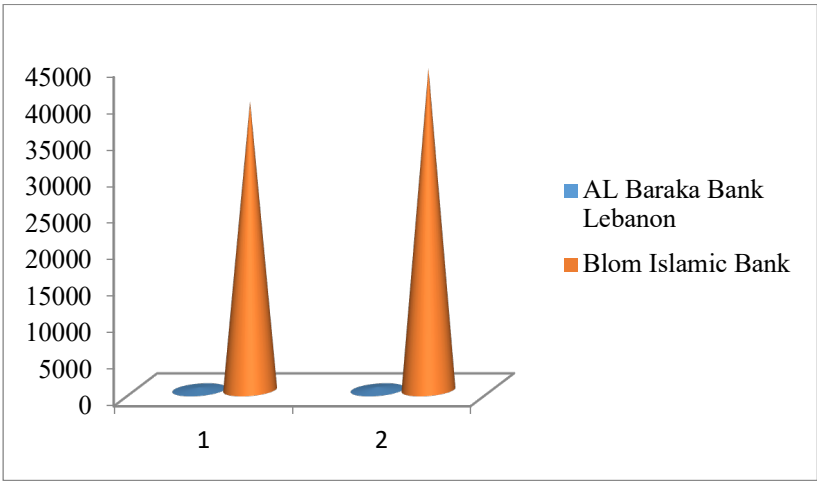


Figure 4: Total assets of Islamic banks in Jordan

6.4 Kuwait

Kuwait is the third-largest Islamic bank by holding assets, with a total of \$22.7 billion, and it is home to a considerable number of Islamic banks. By 2010, according to Khojah's 2006 projection, Islamic institutions in Kuwait will be responsible for managing assets totaling US\$56 billion. In 1977, Kuwait Finance House (KFH) was instrumental in the country's transition to Islamic banking. At present, KFH is actively growing its presence in Kuwait's financial industry by operating 12 ordinary banks and 3 specialty banks (Eshimov, 2023). Islamic banking products are also available through Kuwait's national and conventional banks. The Kuwaiti Parliament has both authorized the 2nd Jaber Funds and given its permission to the formation of Jaber Islamic Bank. The Kuwait branch of Boubyan Islamic Bank will shortly open for business. In addition, Kuwait Real Estate will be shifting its focus from traditional to Islamic financial institutions (Hassanein & Mostafa, 2023).

Table 4: Islamic banks of Kuwait

Sr. No.	Islamic Banks	Total Assets (USD million)	
		2023	2024
1	Kuwait Finance House	70951	81161
2	Boubyan Islamic Bank	10250	12343
3	Kuwait international Bank	4255	4341
4	Gulf Investment Corporation	6306	6419

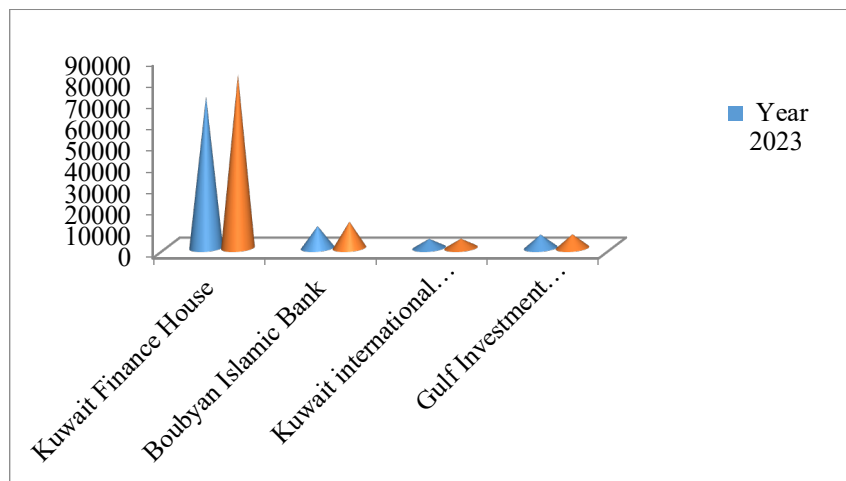


Figure 5: Total assets of Islamic banks in Kuwait

According to the 2011 Annual Report of Boubyan Islamic Bank, the total assets of the bank were KD 1,551,794,000 (USD 5,530 million) in 2011 and KD 1,316,258,000 (USD 4,690 million) in 2010. According to the 2011 KFH Annual Report, Kuwait Finance House's total assets were 48,321 million USD in 2010 and 45,049 million USD in 2011. In 2011, the total assets of Kuwait International Bank were KD 1,141,860,000 (USD 4,069 million), whereas in 2010, they were KD 1,118,369,000 (USD 3,985 million), according to the Kuwait International Bank

Annual Report (2016) (Kumar & Sheela, 2023). Kuwait Finance House's total assets were USD 70,951 million in 2023 and USD 81,161 million in 2024. The total assets of Boubyan Islamic Bank were 10,250,000,000 USD in 2023 and 12,343,000 USD in 2024. In 2023 and 2024, the total assets of Kuwait International Bank were 4,255 million USD and 4,341 million USD, respectively. In 2023, Gulf Investment Corporation's total assets were 6,306 million USD, and in 2024, they were 6,419 million USD (Kismawadi, 2023).

6.5 Lebanon

There has been steady expansion in Lebanon's Islamic banking sector throughout the years. A watershed moment for Islamic banking in Lebanon came in 2004 when the parliament passed a law establishing the practice (Belkhaoui, 2023). Credit Libanais, Arab Finance House, BLOM Development Bank, and Al Baraka Bank Lebanon were the four Islamic banks that had been created in Lebanon by the year's conclusion. Total assets were 354 million USD in 2023 and 424 million USD in 2024, according to Al Baraka Bank Lebanon. After reaching USD 39,460 million in 2023, BLOM Islamic Bank's total assets reached USD 43,997 million in 2024 (Issa, 2023).

Table 5: Islamic banks of Lebanon

Sr. No.	Islamic Banks	Total Assets (USD million)	
		2023	2024
1	AL Baraka Bank Lebanon	354	424
2	Blom Islamic Bank	39460	43997

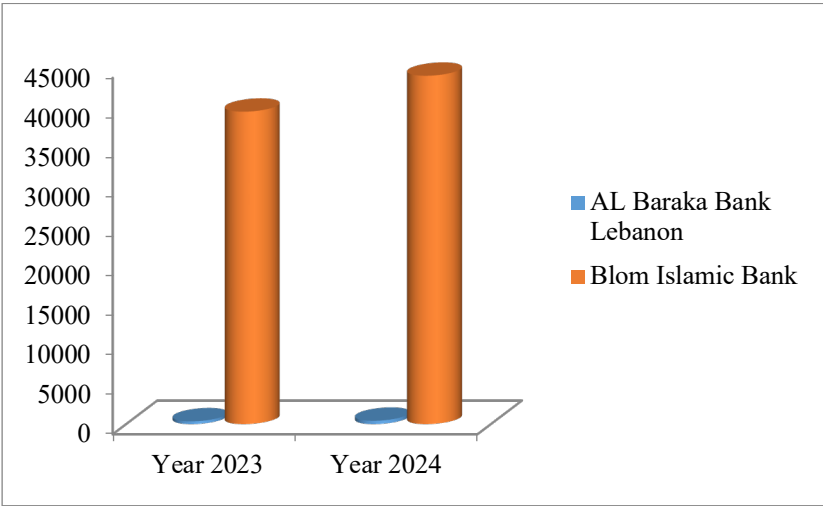


Figure 6: Total assets of Islamic banks in Lebanon

6.6 Qatar

Among Middle Eastern financial hubs, Qatar stands out as an Islamic banking and finance powerhouse. Established in 1983, Qatar Islamic Bank, Qatar International Islamic Bank, Doha Islamic Bank, and Al Rayan Bank are the four main Islamic financial institutions in the nation. Doha is home to a number of Islamic retail product and brokerage service providers, including First Finance Company, Investment

House, Al Jazeera Islamic Company, and Islamic Financial Securities (Eshimov, 2023; Moustapha & Nadir, 2023).

The move by Qatar Islamic Bank to create the Islamic Investment Bank of Qatar at the Qatar Financial Centre (QFC) with a capitalization of US\$1 billion highlights the increasing importance of Islamic finance in the country (Tamy). Additionally, a conventional bank's subsidiary, Al Safa Islamic Bank, intends to provide Islamic products in the areas of retail and business financing. A further improvement to the Islamic finance alternatives available to people and companies in Qatar is the establishment of Tasheelat Company via the partnership of Qatar International Insurance Islamic Company and Qatar International Islamic Bank (Albinali, 2023).

There is an anticipation that the proportion of Islamic banking practices in Qatar's financial industry would increase from 30% to 50% in the next years. As a result of the explosive expansion in Islamic banking and insurance, Qatar Islamic Insurance Company is now among the country's most prominent insurers. Islamic finance is playing an increasingly important role in Qatar's capital market, as seen by the issuance of Sukuk in 2003, which made about 20-35% of total project financing (Alshater et al., 2023).

Islamic mutual funds are becoming increasingly popular, and the FTSE DIFX Qatar 10 Shariah Index that is listed at DIFX is further evidence of the increasing demand for investment solutions that comply with Shariah law. When it comes to fostering secondary markets and Islamic money in Qatar, the Doha Securities Market is crucial. Furthermore, the QFC is crucial in promoting Islamic finance on a global and regional scale (Elgammal, Al Bakri, & AlJanahi, 2023; F. H. Hassan et al., 2023). The massive oil reserves in Qatar have stimulated the country's economy, which in turn has spurred massive construction and infrastructure projects with a combined value in the billions. The Islamic banking sector in Qatar is well-positioned to contribute to the country's economic development and progress (M. K. Hassan, Islam, Ahmed, & Sarker, 2023).

6.7 Saudi Arabia

Even though Saudi Arabia does not have specific Islamic banking legislation, the concept is nonetheless growing in popularity. Among Islamic financial institutions, Bank Al Jazira and Al Rajhi Banking and Investment Corporation stand out. Also, traditional banks are opening Islamic branches or forming Islamic subsidiaries to better serve their Islamic banking customers (Eshimov, 2023; Hassanein & Mostafa, 2023). There are more than twenty billion Saudi Riyals in assets held by fourteen commercial banks and five credit unions. With 64% of the market share, Islamic banking activities are clearly in the driver's seat. More and more Saudi banks are reorganizing their operations to provide Islamic-based goods (Alshater et al., 2023; Yihua et al., 2023).

The National Commercial Bank aims to transform into an Islamic bank within five years, whereas Bank Al Jazira has just finished its transformation to an Islamic organization. Both the Saudi British Bank and the Saudi Investment Bank have diversified their offerings to include more Islamic banking and financing options for both individuals and businesses (As-Salafiyah & Radwan, 2023).

Amlak Finance and Dallah Al Baraka have formed an Islamic firm to meet the real estate finance needs in Saudi Arabia, and Al Bilad is a new entrant in the Islamic retail banking industry. With a projected 15% yearly growth rate and gross premium

income exceeding US\$1 billion over the next 15 years, the advent of SAAB Takaful Company is a reflection of the development potential of Islamic insurance services (M. K. Hassan, M. T. Islam, et al., 2023). The demand for Shariah-compliant stocks, bonds, and instruments has been on the rise in Saudi Arabia's capital market and stock market. As demonstrated by SABIC's inaugural Sukuk issue in 2006, financial institutions are increasingly utilizing Sukuk to address the financing needs of the real estate sector. In addition, ALTawfeek, the first Islamic private equity fund, was launched successfully in Saudi Arabia in early 2006 (Siswanto, 2023). Because it is the headquarters of the Islamic Development Bank (IDB), Saudi Arabia is an important player in the worldwide movement to spread Islamic finance. Saudi Arabia is well-positioned to lead the Muslim world in Islamic banking and finance because to its progressive regulatory framework and active financial landscape (ALADAĞ, 2023; Ibrokhimova, 2023).

6.8 Syria

A major shift has occurred in the Islamic financial scene with Syria's entrance into the world of Islamic banking. Parliament in Syria legalized Islamic banking in 2005, allowing for the launch of Islamic banks in the nation. Three Islamic banks were authorized to start operations in Syria before the end of 2006: Al-Sham Bank, Al-Baraka Bank of Saudi Dalat Al-Baraka, and Syrian International Islamic Bank. Six other proposals to launch Islamic financial institutions were also being considered (F. H. Hassan et al., 2023; Mohamd Diwani, 2023).

In addition, the Syrian Insurance Supervision Committee has granted licenses to three Takaful firms: Aqeelah Insurance Company, Al-Nour Insurance Company, and Syrian-Qatari Company. These companies want to begin operations in Syria. Another insurance firm planning to set up shop in Syria is Al-Qatar Islamic Insurance Company. An application has been made to establish a Takaful business in Syria by Syrian International Islamic Bank and its Qatari partners (Nazarov, 2023; Wijaya, Asyiqin, & Rahayu, 2023). Investment and interest in Syria's Islamic banking industry has been on the rise, as has the participation of Middle Eastern Islamic financial organizations. All of this is going to help bring Syria's financial market closer to the regional Islamic banking and finance systems that are so common in the Middle East (Fayyad, 2023).

6.9 United Arab Emirates

Since the establishment of the world's first major Islamic bank, DIB, in 1975, the United Arab Emirates (UAE) has been at the forefront of the Islamic banking industry worldwide. Islamic banking has already taken off in the United Arab Emirates, with DIB opening 30 branches throughout the nation and planning to open another 57 by year's end (Eshimov, 2023; Hassanein & Mostafa, 2023). Sharjah Islamic Bank, Emirates Islamic Bank, Abu Dhabi Islamic Bank, and Dubai Bank are the other four completely Islamic banks located in the United Arab Emirates. DIB is one of them. Also, traditional UAE banks have Islamic product divisions or Islamic windows where customers may purchase Islamic banking services (Akkas & Asutay, 2023). The UAE's Islamic banking sector now accounts for 10% of the country's total banking assets, which have grown substantially to Dh750 billion (US\$204.234 billion). Islamic banking assets may account for 30% of all banking assets by 2010, according to forecasts. Businesses and people in the UAE are increasingly seeking out

Islamic financial goods and services, as seen by this rise (M. A. Ali, 2023; Ellili & Nobanee, 2023).

One interesting development in the UAE's banking system is the gradual or whole replacement of non-Islamic banks by Islamic ones. Financial organizations including Amlak Finance, Sharjah Islamic Bank, Dubai Bank, and Emirates Islamic Bank are leading examples of this movement. In addition, the Dubai Financial Market is now being planned to be fully converted into an Islamic institution, demonstrating the government's dedication to Islamic finance (M. K. Hassan, M. T. İslam, et al., 2023). Abu Dhabi National Takaful, Dubai Islamic Insurance and Reinsurance Company (AMAN), and Islamic Arab Insurance and Reinsurance Company (SALAMA) are among the leading Takaful providers in the United Arab Emirates, serving an increasing demand for Islamic insurance.

In addition, Islamic bonds, or Sukuk, have emerged as an important source of capital for businesses in the United Arab Emirates, particularly those involved in the construction industry. The Dubai Islamic Bank (DIB) has played a pivotal role in the international Sukuk market, with a substantial portion of the market and issuance of Sukuk worth billions of dirhams (F. H. Hassan et al., 2023). Furthermore, Islamic retail financing and private equity firms are seeing a boom in the UAE's financial scene. A \$5 billion private equity fund was jointly formed in 2006 by Dubai Islamic Bank (DIB) and Dubai World, indicating a rising need for Sharia-compliant investment options. Islamic securities, stocks, derivatives, and other financial instruments are being promoted by organizations such as the Dubai International Financial Centre (DIFC) and the Dubai International Financial Exchange (DIFX) (Abasimel, 2023; Hanif, Chaker, & Sabah, 2024).

7. CONCLUSION

There have been both positive and negative effects of globalization on Islamic banking systems productivity in several Middle Eastern nations. Islamic banks have been able to diversify their portfolios and increase their global presence thanks to the development of financial markets. New financial tools and improved operational productivity have resulted from knowledge sharing and cooperation with worldwide partners. On the other hand, staying ahead of the competition in today's market requires a never-ending cycle of invention and adaptability. Productivity has been boosted by regulatory harmonization with international norms, which has increased stability and boosted investor trust. To sum up, Islamic banking in the Middle East has grown and integrated faster thanks to globalization, but to be successful in the face of a constantly changing global market, businesses must strike a balance between innovation, collaboration, and regulatory compliance.

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