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## Islamic banking not growing at desired rate

By Shahid Iqbal

KARACHI, Aug 4: The growth of Islamic banking has failed to pick up pace even after three years, as it completely mismatched with volumetric increase of interest-based banking in the country.

Both, hopes and predictions look failed to boost the Islamic banking despite the people being considered as hard-line supporters of the Islamic banking.

In financial year 2006, customer deposits of scheduled banks grew by 18pc and reached Rs2.8 trillion.

This growth in deposits is in line with the deposits growth of last three years (FY03-FY05), where average deposits growth of the banking sector was 19pc.

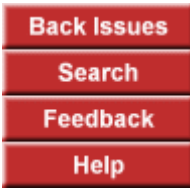
Contrary to the interest-based banking, total balance sheet footing of the Islamic banking system increased to Rs79bn till March 2006, which is just 2.8 per cent of total deposits of the commercial banks.

“Most of the Islamic bankers find the growth satisfactory but the difference of growth level is so wide that only a miracle could bring the Islamic banking at par with the prevailing commercial banking position,” said a banking analyst.

The State Bank in its first quarterly report of FY06 informed that the share of Islamic banking in the overall banking system increased slightly to 2.1pc in March 2006 from 2.0 per cent in calendar year 2005 given the growth in the assets of the banking system as a whole.

Similarly, the share of deposits and financings also grew to 1.9 per cent and 2.4 per cent of banking system’s deposits and financings respectively.

So far three full-fledge Islamic banks -- Meezan Bank, AlBaraka Islamic Bank and Dubai Islamic Bank -- are operational whereas Bank Islami has started its



operations just a couple of months ago. Another Emirates Global Islamic Bank is yet to start its operations.

However, 10 commercial banks are operating Islamic branches in major cities of the country. The record business of the commercial banks has left the Islamic banking far behind their own expectations. Analysts said that the potential for Islamic banking could not be utilised as the very limited number of products is available for the customers of Islamic banks.

“The most important thing is the lack of awareness among the people about Islamic banking whereas the Islamic bankers have failed to communicate with the people,” said Amjad, a banker running an Islamic banking branch for a commercial bank.

He said the weak communication was the real cause for slow growth as less people take Islamic banking seriously.

However, a number of people who do not want to get returns as interest from banks still keep their money in commercial banks.

“We are not satisfied with the Islamic products as we are not explained that how their products are Islamic when they offer fixed returns,” said Aamir Ahmed, a small carpet trader.

State Bank and Islamic bankers held a series of seminars to explain the calculation of return on Islamic products but it could not reached to the ground level.

“The share of Islamic banking is too small in the banking business in Pakistan. It is negligible to keep data and analyse the Islamic Banking in the country,” said Salman Jafri, analyst at the JS and Company.

Most of the brokerage houses have no interest in the growth of Islamic banking and they don't keep information about it.

“The speed with which the Islamic banking is growing, it would take at least 30 to 40 years to come at the current level of conventional banking. And after 30-40 years the commercial banking might have reached to new peaks,” said another analyst.

The State Bank has reiterated several times that the central bank has done its job for Islamic banking and now it's up to the people who could make it successful or fail it.

Bankers and analysts said that the potential for Islamic banking could not be exploited as it was done in Malaysia and Indonesia. Even the conventional international banks got more success in Islamic countries to raise deposits for Islamic banking in the region like Middle East but they also failed in Pakistan to tap the resources.

“Main borrowers are industrialists, traders and exporters and all these sectors have no option to borrow from Islamic banks. Neither they have capacity nor they have devised strategy to feed these sectors,” commented a textile industrialist.





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