

This master thesis examines key differences between Islamic and conventional banks. We use a data on 2374 banks from 47 countries for the 2010-2016 period. We apply comparative statistical analysis, Ordinary Least Squares regression and System Generalized Method of Moments to estimate the effects of both bank types on their profitability and stability. The contribution of the thesis is threefold. First, we find a significantly higher profitability of Islamic banks compared to conventional ones. Second, we did not find any evidence that Islamic banks are less stable. Finally, we conclude that the women participation in financial activities is correlated with the development of conventional, not Islamic, banks

JEL Classification	G21, C33, F33, F34, J11
Keywords	Islamic banking, bank profitability, bank stability, gender participation
Author's e-mail	Sabina.mammadli@hotmail.com
Supervisor's e-mail	Petr.teply@fsv.cuni.cz

Master's Thesis Proposal



Institute of Economic Studies
Faculty of Social Sciences
Charles University in Prague

Author:	Bc. Sabina Mammadli	Supervisor:	Doc. PhDr. Petr Teplý, PhD.
E-mail:	Sabina.mammadli@hotmail.com	E-mail:	Petr.teply@fsv.cuni.cz
Phone:	608 550 236	Phone:	222 112 326
Specialization:	CSF	Defense Planned:	June 2017

Proposed Topic:

An Application of Islamic Banking Principles in Azerbaijan

Motivation:

Azerbaijan is an oil producing country that has shown a sustainable economic growth since its independence from the Soviet Union in 1992. However, recent financial crisis and the later drop in the oil prices have negatively affected the economic stability of the country. Azerbaijani economy is heavily dependent on oil and natural gas exports but prices have significantly decreased in recent years. As the result, the Central Bank of Azerbaijan subsequently devalued Azerbaijani Manat by 34% in February, 2015 mainly with the purpose of ensuring non-oil competitiveness. In December 2015 the Central Bank of Azerbaijan made another dramatic 32% currency devaluation. As the result, many enterprises, NGOs and even some banks had to terminate their operations and close.

While vast majority of Azerbaijani population are Muslims, Islamic Finance and Banking is becoming a very important part of the world financial system. However, it is still unexplored by the Azerbaijani banking representatives. Islamic Banking is a banking system based on Sharia (Islamic law). Due to the fact that Islamic banking is based purely on Islamic principles, all of the transactions undertaken by the banks strictly follow Islamic morals.

As Islamic Finance is gaining its popularity worldwide, this thesis will assess Islamic banking in terms of profitability and stability. The comparative analysis between the conventional and Islamic banking will be made.

This thesis's main purpose is to compare the performance of Islamic banks versus other banks in terms of profitability and its volatility and stability. Moreover, this thesis will evaluate how significant is the relation between gender, religion and a holding of Islamic bank account. Also, this thesis will bring up and discuss the potential effects of Islamic banking application on the Azerbaijani banking system.

Hypotheses:

1. Hypothesis #1: Islamic banks report higher profitability than other banks
2. Hypothesis #2: Islamic banks are less stable than other banks.

3. Hypothesis #3: The level of women participation in financial activities of Muslim countries depends on the degree of Islamic banking penetration

Methodology:

The thesis will mainly focus on profitability and its volatility through different time and bank groups. Stability will be measured via Z-score and profitability will be assessed via Return on Equity. The thesis will also test a relation between such socio-demographic factors as gender, religion and the fact that a person is using Islamic banking services. The thesis will cover a time period from the beginning of the 21st century to ensure that the data is recent and adequate. BankScope database and annual reports will be used as the main data sources.

Hypotheses will be tested by the GMM estimators.

Expected Contribution:

The topic of Islamic Banking application in Azerbaijan has never been academically discussed before. Thus, upon a completion, this thesis will be of a high value for Azerbaijani central and other banks as they can refer to it in the questions related to Islamic banking application profitability.

Outline:

1. Introduction
2. Theoretical background
 - 2.1 Introduction to Islamic Banking
 - 2.2 Literature review
3. Empirical Research
 - 3.1 Data and variables
 - 3.2 Methodology
 - 3.3 Analysis of Hypothesis 1
 - 3.4 Analysis of Hypothesis 2
 - 3.5 Analysis of Hypothesis 3
 - 3.6 Summary of Results
4. Conclusion

Core Bibliography:

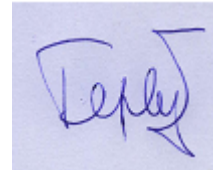
1. Awad, I. L., & Soliman, A. M. (2016). The stability of the demand for money function in Islamic and non-Islamic monetary policy regimes. *Economic Issues*, 21(1), 67-85.
2. Čihák, M., & Hesse, H. (2008). *Islamic Banks and Financial Stability: An Empirical Analysis* [Scholarly project]. In International Monetary Fund. Retrieved June 5, 2016, from <https://www.imf.org/external/pubs/ft/wp/2008/wp0816.pdf>
3. Jan, A., & Marimuthu, M. (2015). Bankruptcy and Sustainability: A Conceptual Review on Islamic Banking Industry. *Global Business & Management Research*, 7(1), 109-138.
4. Khan, M. S., & Mirakhor, A. (1990). Islamic Banking: Experiences in the Islamic Republic of Iran and in Pakistan. *Economic Development & Cultural Change*, 38(2), 353.
5. Shahzad, F., Zia, A., Ahmed, N., Fareed, Z., & Zulfiqar, B. (2014). Growth of Islamic

Banking in Middle

East and South Asian Countries. International Journal Of Management, Accounting & Economics, 1(3), 215-228.

6. World Bank Group. (2015, April). World Bank Group Azerbaijan Partnership Program Snapshot.

Retrieved June 5, 2016, from <http://www.worldbank.org/content/dam/Worldbank/document/Azerbaijan-Snapshot.pdf>



Author

Supervisor