Research Paper

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Bank-specific, Industry-specific and Macroeconomic Determinants of African Islamic Banks' Profitability

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Abstract: This paper studies the effect of factors that contribute towards the profitability of Islamic banks in Africa over the period 1999-2009. Using panel data techniques, this study estimate several specifications to examine the impact of bank-specific and country-specific variables on profitability. Results show that Bank characteristics, financial structure and macroeconomics variables are important in explaining African Islamic banks' profitability. Bank's capital and size increase bank's profitability whereas credit risk and operating efficiency reduce it. With regards to the macroeconomic indicators, higher economic growth and inflation spur banks' profitability. The study also provides evidence for the positive impact of market concentration on Islamic banks profitability. Finally, the empirical results show robust supports to suggest that higher bank development leads to lower bank profitability.

Keywords: Bank Profitability, Islamic Banking, Profit Loss Sharing, Africa

INTRODUCTION

Islamic finance is gaining universal acceptance all over the world and is nowadays regarded as a serious competitor to "conventional finance". During the last three decades, Islamic banking matured into a viable alternative model of financial intermediation and gained credibility as witnessed by the establishment of a large number of Islamic financial institutions all over the world.

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