

What Explains Financial Underdevelopment in the OIC Countries?

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Abstract:

In this study we employ the most recent macro and micro-economic data available to construct the modern measures of financial market and institution development in the Organization of Islamic Countries (OIC). This broad inquiry aims to determine the current state of finance, both in terms of scale and access, at the 57 OIC countries spanning from the Southeast Asia to Latin America vis-à-vis their income and regional counterparts in the world. By accounting for geopolitical and socioeconomic differences across these countries, this study also tries to investigate the association between financial development and other country traits. It is astonishing to see that three quarters of the adult population in the Islamic world are excluded from the financial system. Moreover, the size of the financial industry in a typical Muslim country is almost fifty percent smaller than the typical country in the world. Such level of financial exclusion and underdevelopment is an incredible waste of critical resources for economic development.