

BANKING SYSTEM IN ISLAMIC COUNTRIES:  
SAUDI ARABIA AND EGYPT

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## **Abstract**

Islamic banking is one of the emerging fields in the global financial market, growing at a very fast pace all around the world.

This study is primarily concerned with the theory of Islamic banking and its practice in Saudi Arabia and Egypt. The research seeks to analyze the theoretical foundations of Islamic banking and practice in the two countries, examine and shed light on similarities and differences between the structure and practice of Islamic banking and western banking, and identify the problems and challenges facing Islamic banks in Saudi Arabia and Egypt.

Unlike conventional banks, the operations of Islamic banks are not interest based. They are primarily governed by Sharia laws which prohibit interest transactions, considered by a majority of Islamic scholars as Riba (usury). Islamic banks have turned to the creation of equity through profit-loss-sharing (PLS) financial transactions, as well as current accounts. However, the study concludes that Islamic banks have departed from using profit-loss-sharing techniques as a core principle of Islamic banking, and rely primarily on non-PLS financial instruments.

The Islamic finance and banking movement has now become main-stream, with participation and competition from leading, multinational conventional banks. This paper examines the merit and relevance of traditional arguments, especially in the claims and conduct of the Islamic financial institutions. It also looks into capital structure of Islamic banks or firms. The study then concludes by looking into issues pertaining to enforceability of court decisions, arbitration awards and implementation of foreign judgments in financial transactions.

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