

Analysing the demand for financial assets in Indonesia

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Abstrak

ABSTRACT

This paper empirically assesses the relation between bank performance and capital regulation for Islamic banks from 13 countries and evaluates whether the relation varies with bank size, capital, and liquidity. We find small Islamic banks to be less stable and less profitable they also cut lending growth as capital regulation becomes more stringent. The stability and lending growth of big Islamic banks are, however, directly related to capital regulation. Further, capital regulation adversely affects the profitability of Islamic banks with low liquidity and high capital holdings. While capital regulation is needed, it should not be adopted in a blanket manner for all Islamic banks.