

THE FIRST MEETING OF THE OIC-COMCEC CENTRAL BANKS FORUM

22-24 September 2019, Bodrum, TURKEY

COMMUNIQUÉ

1. We, the Governors of the Central Banks and the Heads of Delegations, met in Bodrum, Turkey, on 22-24 September 2019 to discuss the global economic and financial developments, to exchange views on how to promote financial inclusion, and to examine the key economic and financial trends that drive the global Islamic finance industry in the OIC countries within the framework of the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) financial cooperation agenda item.
2. Global growth momentum has lost pace since the second half of 2018, but it is expected to firm up in 2020. In advanced economies (AEs), growth has decelerated due to lower private consumption and investment after policy normalization and weakening fiscal stimulus. Growth in emerging market and developing economies (EMDEs) has been weaker than expected due to softening external demand and in some countries, persistent domestic issues. With the slowdown in global economic activity, inflation rates are generally at low or below target levels, particularly in AEs. Inflation is also moderating and dropping below historical averages in many EMDEs. Along with the deceleration in global economic activity and low inflation rates, many central banks, both AEs and EMDEs, have started to ease their monetary policies.
3. We note that there are a number downside risks to the outlook. The main risks are escalation of trade tensions, volatility in international commodity prices, mounting uncertainties related to trade negotiations, monetary policy developments as well as geopolitical issues, and rising debt levels globally. Accommodative policies by the major central banks can lead to higher portfolio flows to emerging economies that might partially offset the negative effects of rising protectionism and associated uncertainties. However, these flows could reverse quickly, leading to financial market volatility in EMDEs. We underline that macroeconomic policies should continue to be

well communicated, supported by data. To that end, we reaffirm our commitment to implement an effective policy mix (monetary, fiscal and structural) to achieve strong, sustainable, balanced and inclusive growth.

4. We note that action is required both at multilateral and national levels. At the multilateral level, it is critical to diminish trade tensions and resolve uncertainty around trade agreements. We underline that international trade has a key importance for supporting growth and development particularly for some OIC countries. At the national level, key priorities include strengthening economic and financial resilience, improving inclusiveness, and addressing factors that restrain output growth.
5. We discuss the key trends that drive the global Islamic finance industry. The Islamic finance industry continued to grow for the third consecutive year in 2018 with the support of all its three sectors, that is Islamic banking, Islamic capital markets and takāful. However, the growth of the industry moderated due to the trade tensions and uncertainties in the global economy, volatility in foreign exchange markets as well as geopolitical and economic factors in countries with a strong Islamic finance presence.
6. We also stress the importance of the Islamic finance industry to contribute to shared prosperity and growth that is more inclusive thanks to its core principles of the fair and equitable distribution of income and wealth, risk sharing and asset-based financing. To fully realize its potential, progress on developing liquidity instruments, a secondary market for Islamic financial instruments, and establishing a Shariah-compliant standing facility is needed.
7. We reiterate the importance of sustaining progress towards 2030 United Nations Sustainable Development Goals to achieve a sound macroeconomic environment and better living standards for developing countries. We attach particular importance to the effective implementation of the vision documents of the OIC, namely OIC 2025 Program of Action and COMCEC Strategy, as tools contributing to economic growth, social development, financial stability, financial inclusion as well as alleviating poverty in the OIC region. We also underline the importance of cooperation among OIC countries in developing halal industries given its potential to promote trade and support economic development.

8. We discuss the role of Islamic microfinance and the fintech industry, including expansion of fintech startups and the introduction of blockchain technology, in promoting financial inclusion as a key enabler of reducing poverty and boosting prosperity in the OIC countries. We stress that enhancing Islamic microfinance is a challenging task. Islamic microfinance business models need to adopt specific market segmentation approaches to better understand the market dynamics that would help to ensure better access to finance, improve operational efficiency and risk management.
9. Islamic microfinance also has a vital role in increasing the ability of small and medium-sized enterprises (SMEs) to access financial services. Therefore, we stress that the integration of Islamic microfinance with Islamic social finance instruments - including zakah, waqf and sadaqah - has potential to promote social and financial inclusion. We also underline that collection, dissemination and processing of information and data related to best practices in Islamic microfinance should be developed at both national and regional levels. The scope and the capacity for innovation in this still nascent industry is high.
10. Digitalization and fintech provide opportunities to shape the future of the Islamic finance industry by increasing the ease, speed and traceability of transactions. We note that fintech startups have a great potential to reinforce the role of Islamic finance in promoting the financial inclusion by increasing efficiency and reducing transaction costs. We reiterate the importance of fintech in the design and implementation strategies for financial inclusion as well as having an enabling regulatory framework and an ecosystem, including information and communication infrastructure. We also note that a governing body, implementation of international standards and accountability on consumer data protection are essential pillars of adoption of fintech in Islamic finance.
11. We welcome the efforts of both OIC Economic Outlook and Financial Inclusion Working Groups. The OIC Economic Outlook Working Group have composed a Vulnerability Index for the OIC countries to capture risks emanating from various sectors including real, financial, non-financial, fiscal and external sector, as well as global economic environment in accordance with the task mandated by us last year. We also ask the OIC Economic Outlook Working Group to further develop and update the Vulnerability Index. We thank the Financial Inclusion Working Group for its work on Islamic microfinance and Fintech.

12. We agree that the OIC Economic Outlook Working Group and the Financial Inclusion Working Group should continue their tasks with specific focus on OIC countries. These working groups will report to us in our next meeting in 2020.

13. We reaffirm that enhancing technical cooperation and collaboration among the central banks and monetary authorities of the OIC countries and boosting capacity building and expert sharing programs are crucial to strengthening our institutional capacities. In this regard, we ask the Secretariat to circulate a questionnaire to identify technical needs and expertise of our Banks.