



Making Cooperation Work

# COMCEC STRATEGY

For Building an Interdependent Islamic World

## COMCEC FINANCIAL OUTLOOK

Cafer Biçer



10<sup>th</sup> Meeting of COMCEC Financial Cooperation Working Group

March 29<sup>th</sup>, 2018  
Ankara, Turkey

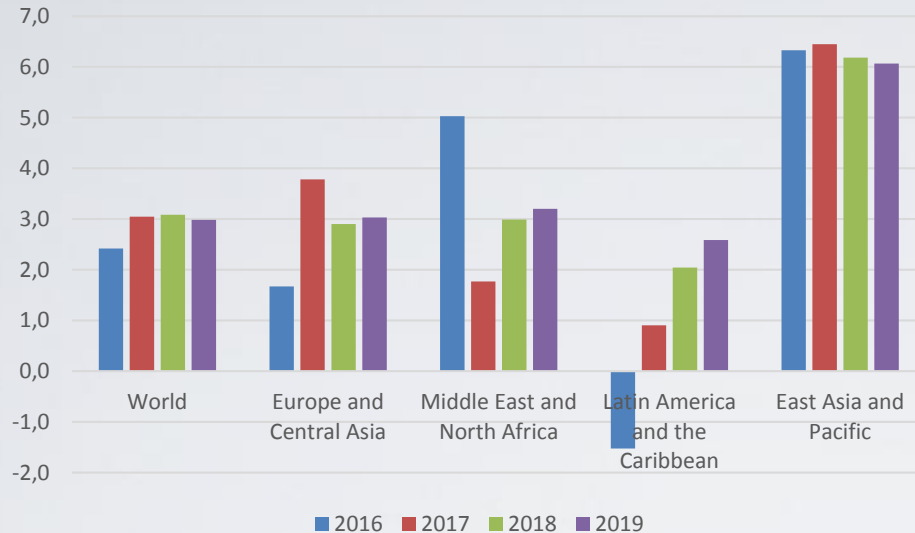
# OUTLINE

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- ❖ **Recent Global Economic and Financial Developments**
- ❖ **Financial Outlook for the OIC Countries**
- ❖ **A Brief Introduction to Islamic Finance**

# Global Economic and Financial Developments

GDP Growth Rates of Selected Country Groups (% Growth)

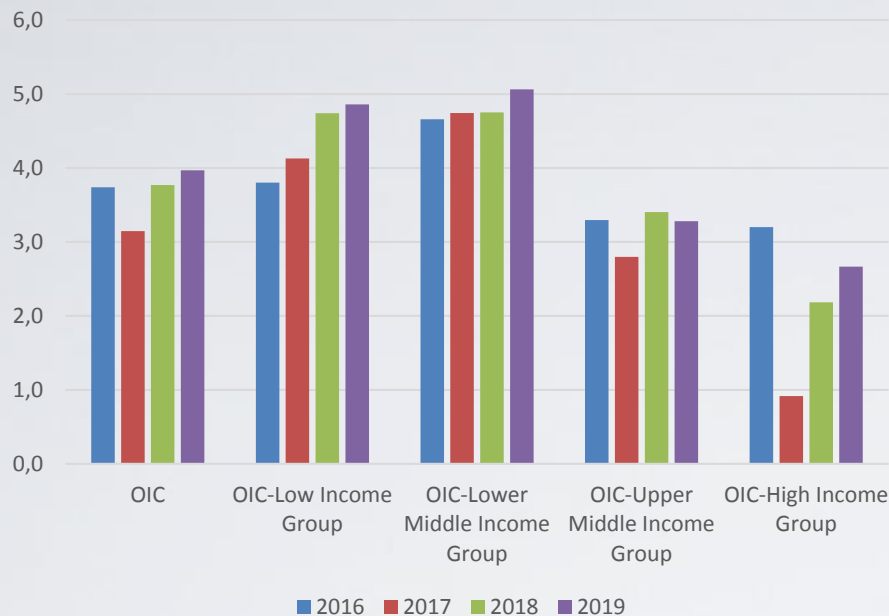


Source: World Bank Global Economic Prospects, January 2018

- ✓ The last decade witnessed a series of broad-based economic crises: 2008-09 Global financial crisis; 2010-12 European sovereign debt crisis; 2014-16 global commodity price realignments
- ✓ After a long period of stagnation, the World economy is finally strengthening: In 2017, the global economic growth approached 3%-the highest since 2011, mainly due to better investment conditions, reduced banking fragilities, higher commodity prices etc.
- ✓ Two-thirds of countries worldwide experienced stronger growth in 2017 than 2016.

# Global Economic and Financial Developments

## GDP Growth Rates for Selected OIC Country Groups (%)

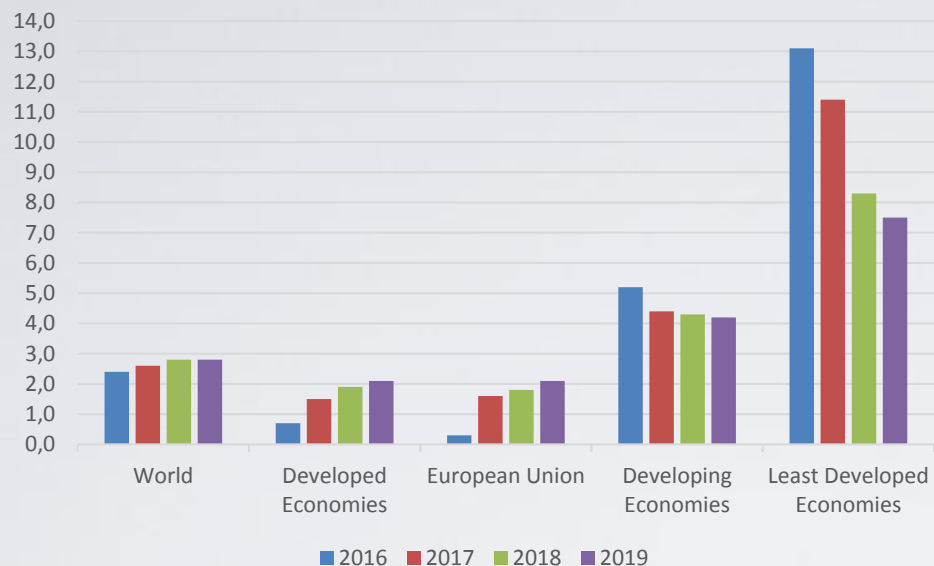


Source: World Bank Global Economic Prospects, January 2018

- ✓ The GDP growth rates of OIC countries has slightly increased to 3.7% in 2016, as compared to 3.2 % in 2015, and expected to slow down to 3.1% in 2017.
- ✓ Decline in oil prices, regional conflicts and macroeconomic distress in some countries were the main factors for sluggish growth since 2014.
- ✓ The OIC growth rate is expected to increase to 3.8 and 4.0 percent during 2018 and 2019 respectively.
- ✓ In 2015, the top 10 OIC countries produced 73.8% of the total OIC countries output (Indonesia-16.7%; Saudi Arabia-9.9%; Turkey-9.3%; Iran-8.0%)

# Global Economic and Financial Developments

## Inflation, Average Consumer Prices (% Change)



Source: IMF WEO April 2017

- ✓ In 2016, average global inflation increased slightly to 2.4 percent from 2.1 percent in 2015
- ✓ In the first half of 2017, inflation dynamics were impacted by the steep rise in energy prices compared to 2016.
- ✓ In developed economies, inflation is expected to be 1.5% in 2017 and hover around 2% in 2018–2019.
- ✓ In the developing economies, inflation is expected to decline slightly in 2017 from its level of 5.2% in 2016 and fluctuate around 4% during 2018-19.
- ✓ In the least developed countries, inflation rates are expected to decrease considerable during this period.

# Global Economic and Financial Developments

**World Trade Volume of Goods and Services (% Change)**



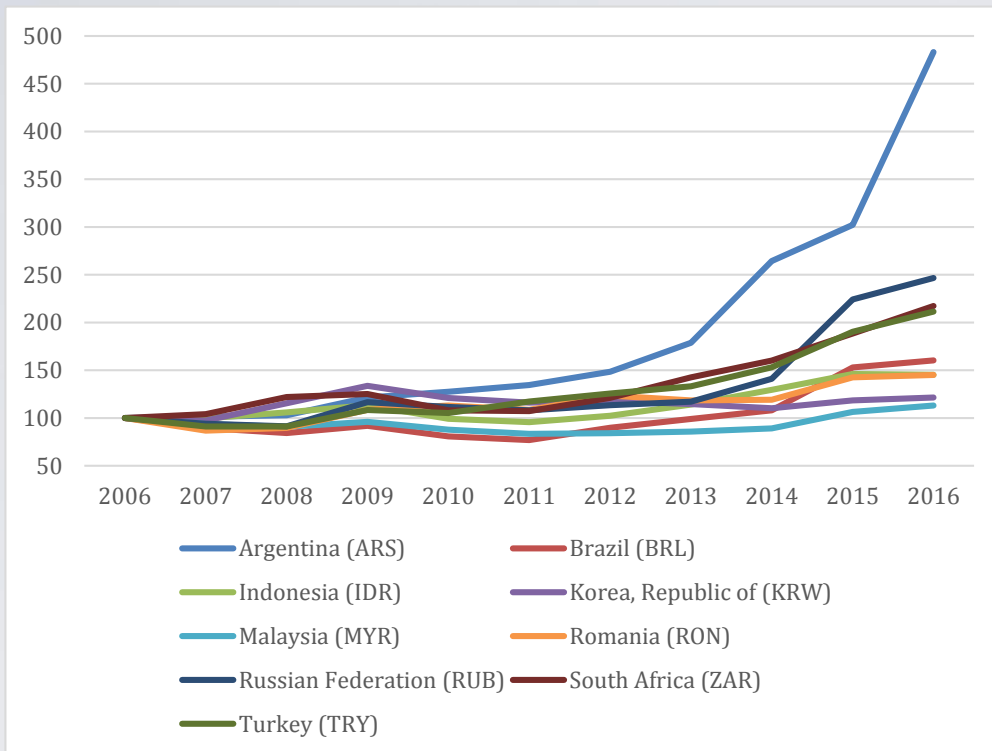
- ✓ Global trade rebounded in 2017. The average growth rate is expected to be around 4 % during 2017-19.
- ✓ The recovery in trade growth in 2017 is supported by solid global economic growths. Strong import demand from East Asia was a driving force for trade increases in 2017.
- ✓ The biggest risk is the escalation of trade restrictions among major economies.
- ✓ OIC trade started to pick up rapidly after 2009 and reached its historically highest level of \$2.4 trillion in 2012.
- ✓ This trend was distorted in 2015 because of low oil prices and fragility in the global markets. 2016 witnessed further decline for the OIC countries down to \$1.49 trillion.

**OIC Merchandise Export**



# Global Economic and Financial Developments

Exchange Rates of the Selected Economies per US\$ (2006=100)



Source: Authors Calculation from the UNCTAD Stat

## Exchange Rates Developments:

- ✓ With the backdrop of stronger economic growth and benign inflationary developments, many of the world's major central banks have started withdrawing the exceptional stimulus measures that have been in place for nearly a decade.
- ✓ Interest rates have been increased by the major developed economies.
- ✓ This has affected capital flows, exchange rates, interest rates and asset prices in the emerging market economies.
- ✓ As a result, the previously over valued exchange rates of emerging economies started to depreciate against US dollar.

# Global Economic and Financial Developments

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## Major Global Developments in 2017:

- ✓ After a long period of subdued growth, the global economy has strengthened.
- ✓ Revival of investment and trade, robust business and consumer sentiment
- ✓ Banking sector fragilities in developed countries have been reduced
- ✓ Financing costs and spreads in emerging economies remain relatively low
- ✓ Capital flows and cross-border lending activities as well as commodity prices increased
- ✓ HOWEVER, prolonged period of abundant liquidity and low borrowing costs has allowed financial vulnerabilities to build:



# Global Economic and Financial Developments

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## Global Issues and risks:

Despite positive developments in 2017, the followings should be noted as risks for all economies:

- ✓ Loose global financial conditions has **pushed up asset prices** and **rapid credit growth** in many emerging economies.
- ✓ **Debt levels** of corporate sector and households have been escalated
- ✓ With the **normalization of the monetary policy** in the US financial markets may be subject to large corrections and volatility
- ✓ Recent developments in major trade relationships among major economies have raised concerns over a potential escalation in trade barriers and disputes (UK on NAFTA and US-China relations).
- ✓ These shocks have the potential to constrain real economic activity through a slowdown in investment, higher inflation or fiscal adjustment measures.

# Financial Outlook of the OIC Countries

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## Functions of Financial Markets

- ✓ A financial system consists of institutional units and markets organized for the financing of commercial activity.
- ✓ Mobilization of savings from households to business sector to invest in promising projects
- ✓ The financial sector facilitates the efficient functioning of the economy and promote economic growth
- ✓ Allocation of risk, efficient fund mobilization, monitoring projects
- ✓ In order to achieve a well-functioning system, financial markets require **depth, access, efficiency and stability**

# Financial Outlook of the OIC Countries

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These four characteristics of financial institutions and markets are used to capture the features of financial systems and to provide empirical shape of the financial development in the OIC countries:

- ✓ **Depth** means that financial institutions and financial markets are in sufficient **sizes**.
- ✓ **Access** reflects the degree to which economic agents **use** financial services.
- ✓ **Efficiency** means that financial institutions are able to **successfully intermediate** financial resources, and to facilitate transactions.
- ✓ **Stability** refers to **low market volatility** plus low institutional fragility.

# Financial Outlook of the OIC Countries

In this report, OIC Member Countries have been categorized in four major groups according to the World Bank Income Grouping Methodology:

Categories	Countries	Number of Countries
<b>OIC-Low income group (1,045 USD or less)</b>	Afghanistan, Benin, Burkina Faso, Chad, Comoros, Guinea, Guinea-Bissau, Mali, Mozambique, Niger, Sierra Leone, Somalia, Gambia The, Togo, Uganda	15
<b>OIC-Lower middle income group (1,046 USD to 4,125 USD)</b>	Bangladesh, Cameroon, Cote d'Ivoire, Djibouti, Egypt, Arab Rep., Guyana, Indonesia, Kyrgyz Republic, Mauritania, Morocco, Nigeria, Pakistan, Palestine, Senegal, Sudan, Syrian Arab Republic, Tajikistan, Uzbekistan, Yemen	19
<b>OIC-Upper middle income (4,126 USD to 12,735 USD)</b>	Albania, Algeria, Azerbaijan, Gabon, Iran, Iraq, Jordan, Kazakhstan, Lebanon, Libya, Malaysia, Maldives, Suriname, Tunisia, Turkey, Turkmenistan	16
<b>OIC-High income group (12,736 USD or more)</b>	Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	7

Source: World Bank

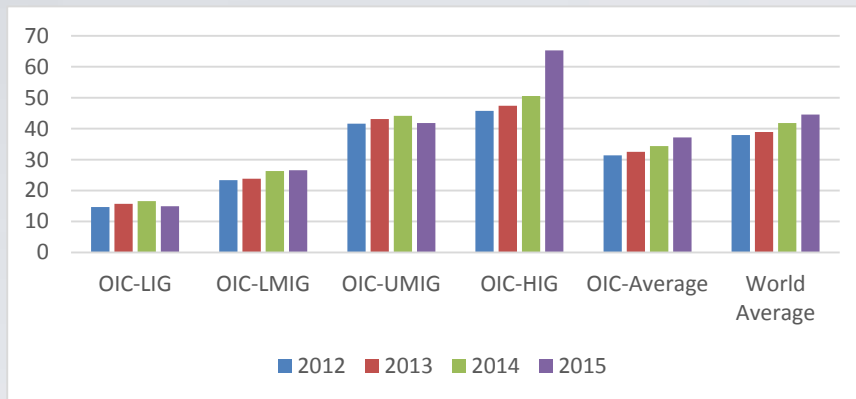
# Financial Outlook of the OIC Countries

The indicators used to measure the characteristics of the financial markets are given in the table below :

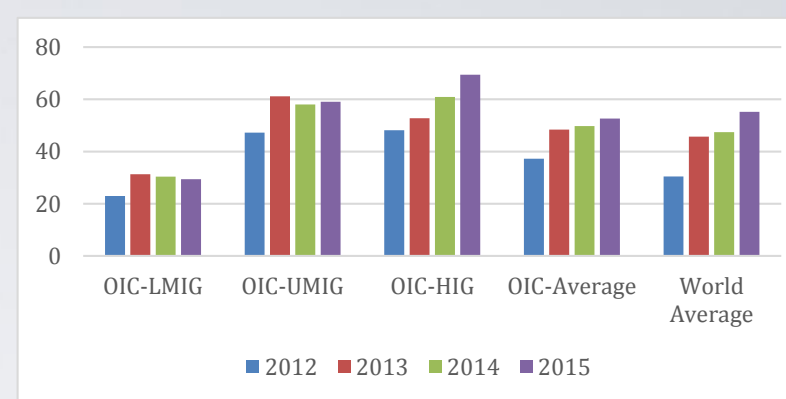
	Indicator Code	Name of the Indicator
<b>DEPTH</b>	GFDD.DI.01	Private credit by deposit money banks to GDP (%)
	GFDD.DI.02	Deposit money banks' assets to GDP (%)
	GFDD.DM.01	Stock market capitalization to GDP (%)
	GFDD.DM.02	Stock market total value traded to GDP (%)
<b>ACCESS</b>	GFDD.AI.01	Bank accounts per 1,000 adults
	GFDD.AI.02	Bank branches per 100,000 adults
	GFDD.AI.03	Firms with a bank loan or line of credit (%)
	GFDD.AI.06	Saved at a financial institution in the past year (% age 15+)
<b>EFFICIENCY</b>	GFDD.EI.02	Bank lending-deposit spread
	GFDD.EI.05	Bank return on assets (% , after tax)
	GFDD.EI.06	Bank return on equity (% , after tax)
	GFDD.EM.01	Stock market turnover ratio (%)
<b>STABILITY</b>	GFDD.SI.02	Bank nonperforming loans to gross loans (%)
	GFDD.SI.03	Bank capital to total assets (%)
	GFDD.SI.04	Bank credit to bank deposits (%)
	GFDD.SI.05	Bank regulatory capital to risk-weighted assets (%)

# Financial Depth

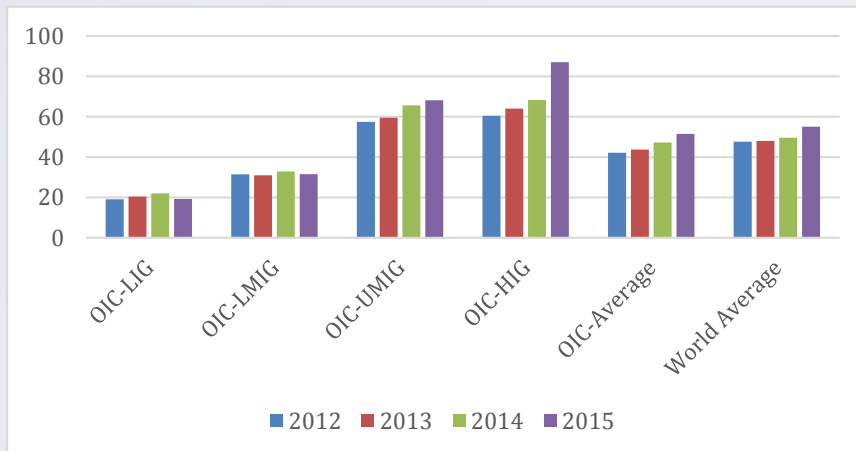
Private Credit by Deposit Money Banks to GDP (%)



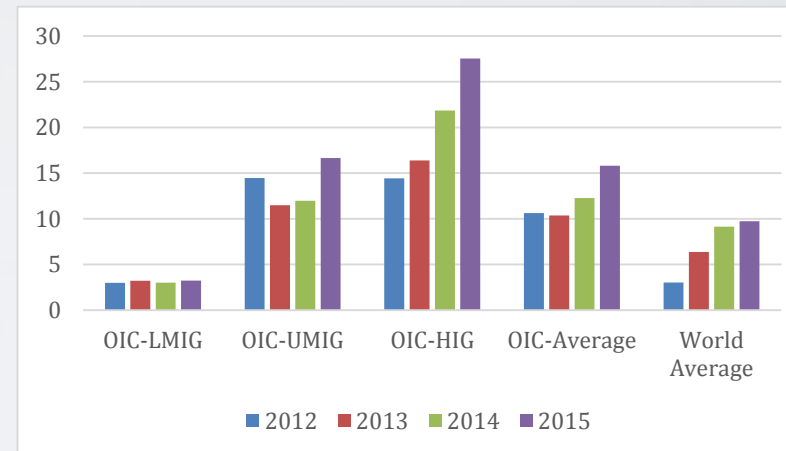
Stock Market Capitalization to GDP (%)



Deposit Money Banks' Assets to GDP (%)

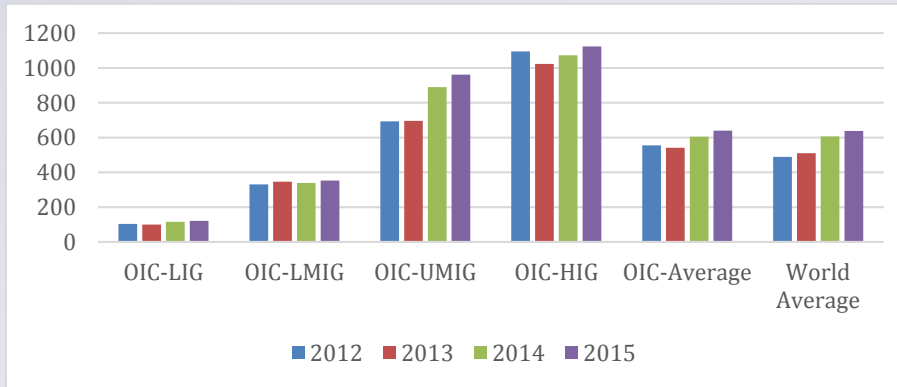


Stock Market Total Value Traded to GDP (%)

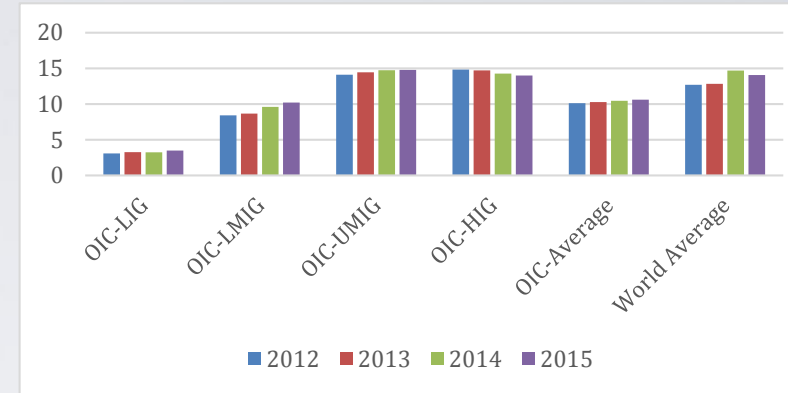


# Financial Access

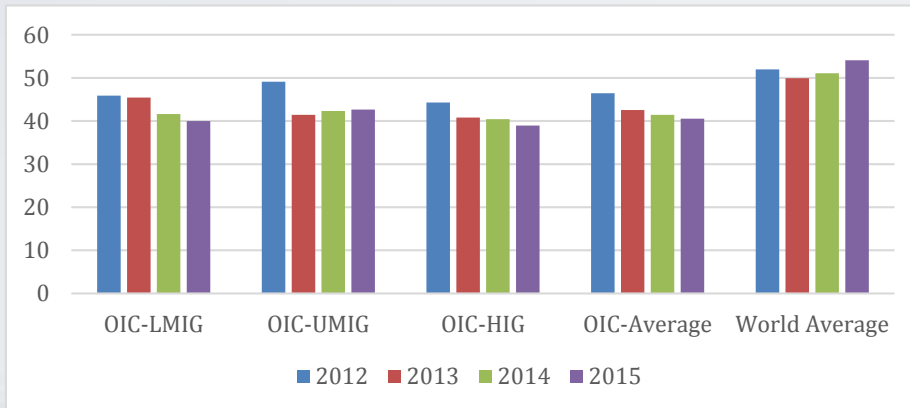
Bank Accounts per 1,000 Adults



Bank Branches per 100,000 Adults

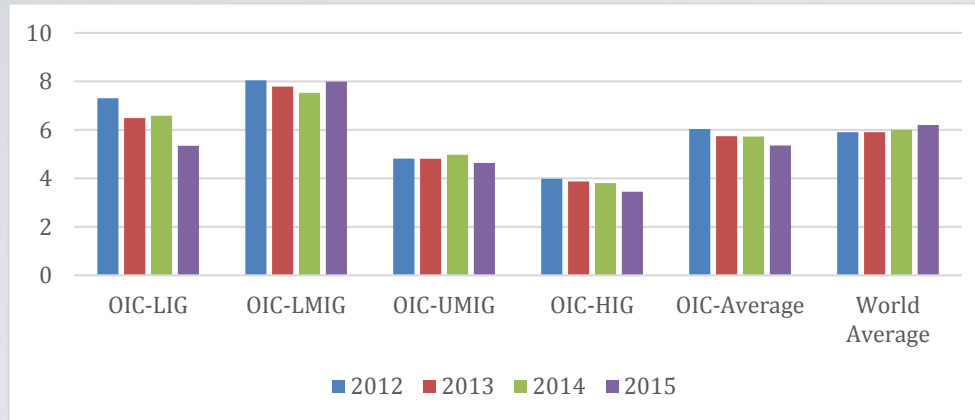


Market Capitalization Excluding Top 10 Companies to Total Market Capitalization (%)

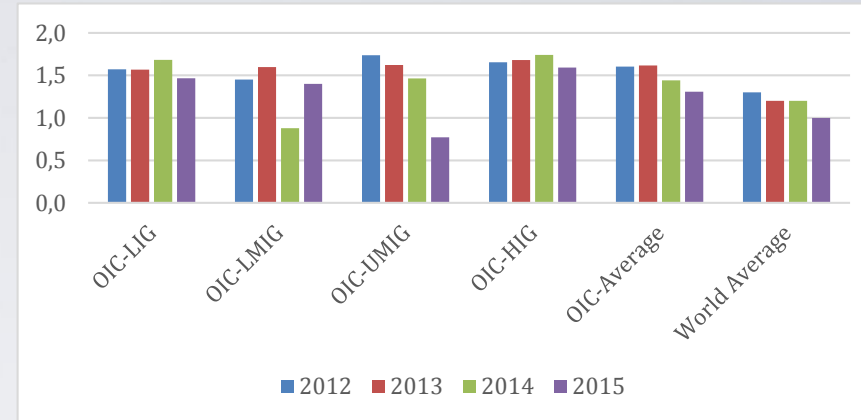


# Financial Efficiency

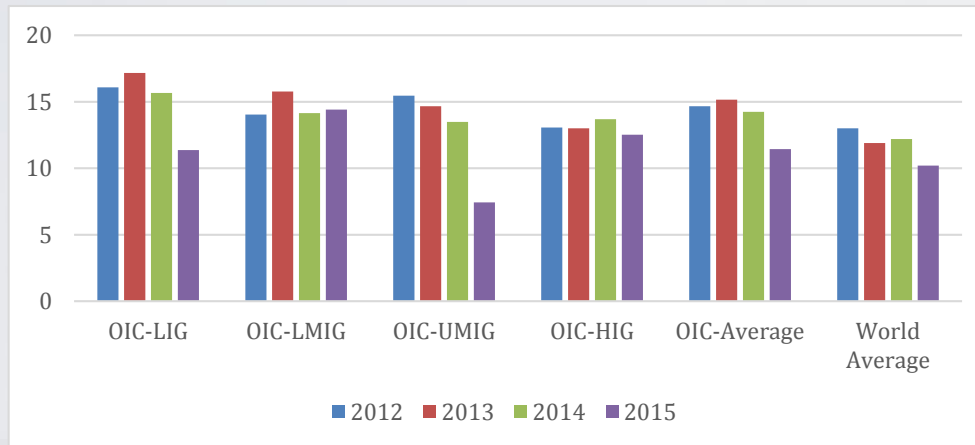
Bank Lending-Deposit Spread (%)



Bank return on assets (ROA) (% , after tax)



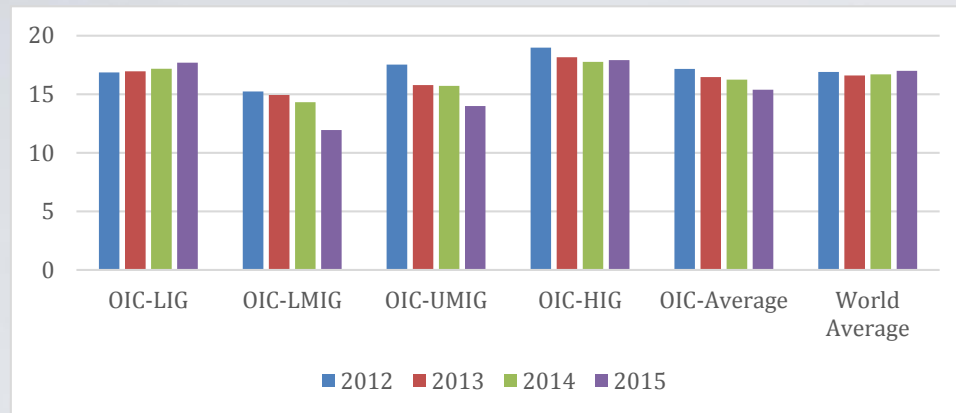
Bank return on equity (% , after tax)



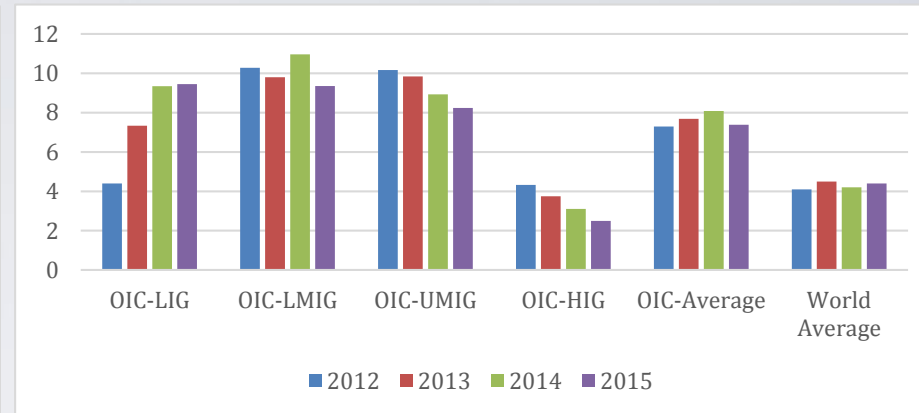


# Financial Stability

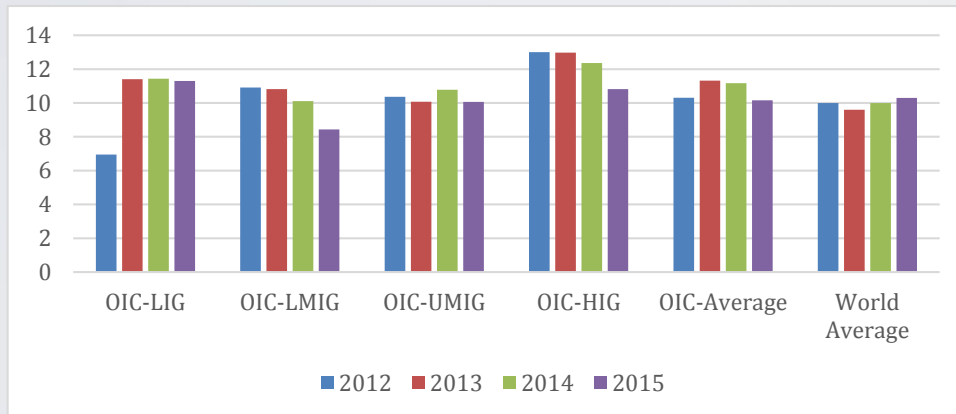
Bank regulatory capital to risk-weighted assets (%)



Bank Non-performing Loans to Gross Loans (%)



Bank Capital to Total Asset (%)



# Islamic Finance

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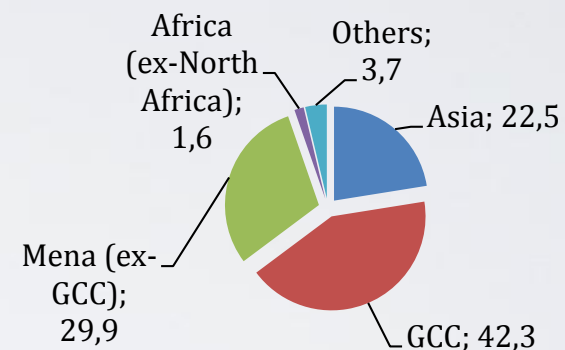
## Main Principles

- ✓ Islamic finance is a financial system that operates according to Islamic law.
- ✓ Modern financial institutions began offering sharia-compliant products in the mid-1970s, though Islamic finance is as old as the religion itself with its principles primarily derived from the Quran.
- ✓ Prohibition of the payment and the receipt of riba (interest) in financial transactions
- ✓ Prohibition of 'gharar' (uncertainty or asymmetrical information)
- ✓ Prohibition of 'maysir' (gambling, speculation).
- ✓ Islam prohibits industries that it considers harmful to society and a threat to social responsibility, such as alcohol, pornography, weapons of mass destruction, pork, and illegal drugs etc.

# Islamic Finance

- ✓ The Islamic finance industry has expanded by 10-12% annually over the last decade and total assets are estimated at roughly US\$2 trillion
- ✓ In 2017, the industry is expected to reach US\$ 2.1 trillion
- ✓ In many majority Muslim countries, Islamic banking assets have been growing faster than conventional banking assets.
- ✓ There has also been a surge of interest in Islamic finance from non-Muslim countries such as the UK, Luxembourg, South Africa, and Hong Kong

	Islamic Banking	Outstanding Sukuk	Islamic Funds Assets	Takaful Contributions	Total
Asia	218.6	182.7	19.8	4.4	425.5
GCC	650.8	115.2	23.4	11.7	801.1
Mena (ex-GCC)	540.5	16.6	0.2	8.4	565.7
Africa (ex-North Africa)	26.6	1.9	1.5	0.6	30.6
Others	56.9	2.1	11.2	N/A	70.2
<b>Total</b>	<b>1,493.4</b>	<b>318.5</b>	<b>56.1</b>	<b>25.1</b>	<b>1,893.1</b>

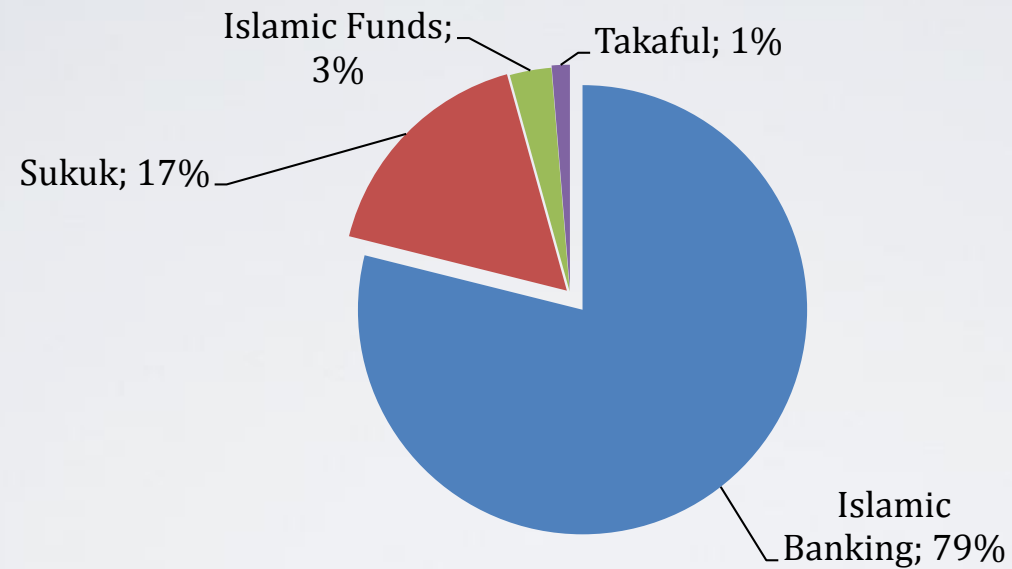


Source: IFSB, 2016

# Islamic Finance

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- ✓ The Islamic Finance industry consists of three main segments as **banking, capital markets** and **takaful**. Islamic banking sector is the dominant component of the Islamic finance industry.



Source: IFSB, as of 1H 2016

# Islamic Finance

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## The trends to shape the Industry during 2017-18

- ✓ The natural connection between the principles of Islamic finance and responsible finance, SDGs, and impact investing could unlock many opportunities.
- ✓ Standardization of Sharia interpretation, legal documentation, and market education are the keys to success.
- ✓ The streamlining of legal documents and greater clarity for investors about risks are also important to the future of the industry.
- ✓ Subdued economic performances in core countries may affect the industry negatively primarily because of low oil prices.
- ✓ Fragmentation and the lack of integration by business line and geography is another factor impeding growth of the industry.



Making Cooperation Work

# COMCEC STRATEGY

For Building an Interdependent Islamic World

## Thank You



10<sup>th</sup> Meeting of COMCEC Financial Cooperation Working Group

March 29<sup>th</sup>, 2018

Ankara, Turkey