



FINANCIAL COOPERATION

OIC/COMCEC-FC/33-17/D(28)



COMCEC

# CCO BRIEF ON FINANCIAL COOPERATION

COMCEC COORDINATION OFFICE

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## CCO BRIEF ON FINANCIAL COOPERATION

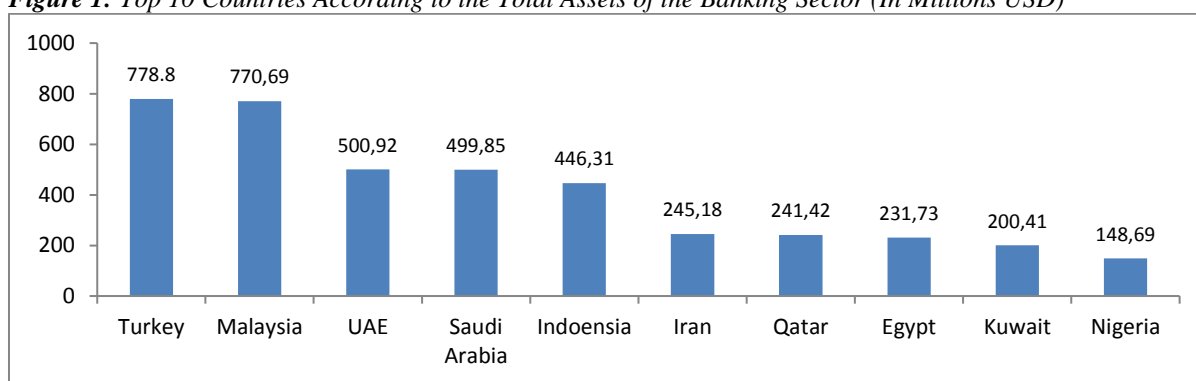
Financial Cooperation among the Member Countries is of particular importance for removing barriers to capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets.

### SELECTED FINANCIAL FIGURES

- **Banking Sector in the Member Countries**

Total assets in the Banking sector in the OIC Member Countries in 2014 was about \$5.1 trillion and top 5 OIC countries, Turkey, Malaysia, United Arab Emirates, Saudi Arabia and Indonesia, accounted for \$3 trillion of the total assets. The top 10 countries have approximately \$4.1 trillion total assets corresponding to 80 percent of all assets in the OIC member countries (Figure 1).

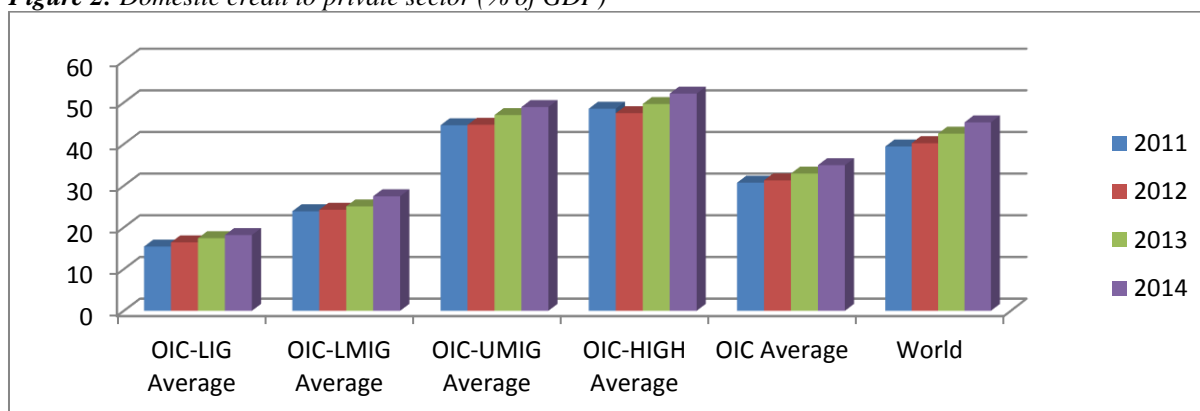
*Figure 1: Top 10 Countries According to the Total Assets of the Banking Sector (In Millions USD)*



Source: *Financial Outlook of the OIC Member Countries 2016*

The level of domestic credit to the private sector (% of GDP) shows the percentage of people who save money, regardless of depositing in a financial institution. From 2011 to 2014, domestic credit to private sector showed an increasing trend among the OIC country groups. According to Figure 2, the percentage of OIC-Upper Middle Income Group (OIC-UMIG) and OIC-High Income Group (OIC-HIGH) Countries domestic credit to the private sector was higher than OIC-Low Income Group (OIC-LIG) and OIC-Lower Middle Income Group (OIC-LMIG) Countries between 2011 and 2014.

*Figure 2: Domestic credit to private sector (% of GDP)*



Source: *Financial Outlook of the OIC Member Countries 2016*

- **Capital Markets**

According to OIC Member States' Stock Exchanges Forum Integrated Statistics Report - 2015, the number of listed domestic companies at the OIC exchanges was 3,571 and the number of foreign companies was 38 in 2015. The top 3 Stock Exchanges, Bursa Malaysia (908), Indonesia Stock Exchange (521) and Borsa İstanbul (393), accounted for 50% of the total listed companies.

The OIC Stock Exchanges' market capitalization was \$2 trillion in 2015. The weighted average ratio of the market capitalization of the OIC Exchanges to the GDP values of their respective countries was 62% in 2015<sup>1</sup>.

- **Islamic Finance**

According to the Global Islamic Finance Report 2016, the potential size of Islamic financial services industry has grown from \$4 trillion in 2009 to \$7.1 trillion in 2015; yet the actual size of the industry was \$2.143 trillion in 2015, with an annual growth rate of 15%. The actual size of the industry is still 30% of its potential, but the gap is narrowing. The sector is led by the Islamic banking sector (75%) and the global Sukuk market (15%).

*Table 1: Potential and Actual Size of the Islamic Financial Services Industry*

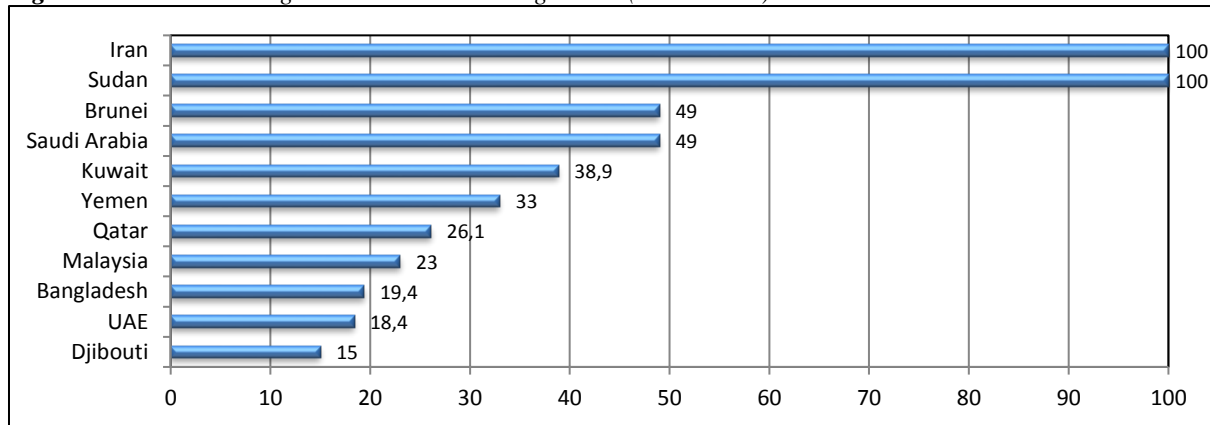
	2009	2010	2011	2012	2013	2014	2015
<b>Potential size of the global Islamic financial services industry (\$ trillion)</b>	4.0	4.4	4.8	5.3	5.9	6.5	7.1
<b>Actual size of the global Islamic financial services industry (\$ trillion)</b>	1.036	1.139	1.357	1.631	1.813	1.981	2.143
<b>Size gap (\$ trillion)</b>	2.964	3.261	3.483	3.693	4.043	4.47	4.953
<b>Growth in actual size of the global Islamic financial services industry (%)</b>	26	9.9	19.1	20.2	12.3	9.3	73
<b>Average growth rate between 2009-2015 (%)</b>							15
<b>Catch-up period - based on 10% growth in potential size and 15% growth in actual size (years)</b>							27

Source: Edbiz Consulting, GIFR 2016

As the largest segment of the global Islamic finance industry, the total asset of the Islamic Banking sector was approximately \$1.6 trillion in 2015. The Compound Annual Growth Rate (CAGR) was 16.1% between 2010 and 2014. The global Sukuk issuances were \$60.6 billion in 2015.

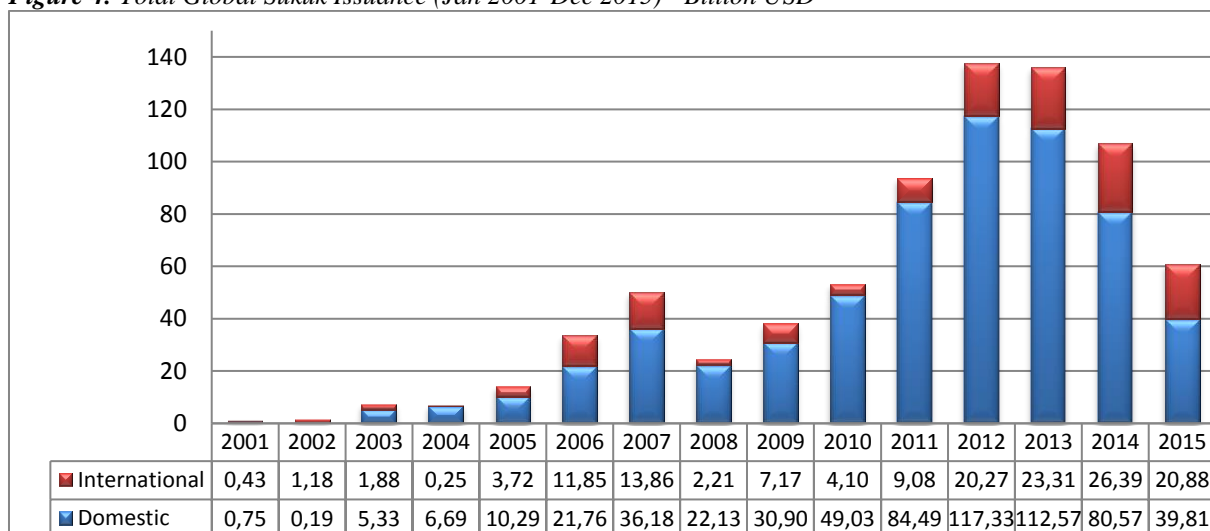
<sup>1</sup> OIC Member States' Stock Exchanges Forum Integrated Statistics Report - 2015

**Figure 3: Islamic Banking Share in Total Banking Assets (%- 1H2015)**



Source: IFSB, Islamic Financial Stability Report 2016

**Figure 4: Total Global Sukuk Issuance (Jan 2001-Dec 2015) - Billion USD**



Source: IIFM Sukuk Report 5<sup>th</sup> Edition

As of October 2015, the total value of the Islamic Funds was \$71.3 billion (IFSB, 2016). The main hub for Islamic funds is Saudi Arabia with a 40% share of total Islamic Funds.

The global takaful gross contribution was \$22.1 billion and growth rate of gross premiums was 15.5% in 2014. The main jurisdictions for the sector are the GCC, Iran and East Asia and Pacific region. According to Islamic Financial Stability Report 2016 of IFSB, Saudi Arabia (36.6%- \$8.1 billion), Iran (33.6%- \$7.5 billion) and Malaysia (13.6%- \$3 billion) are the top three countries, accounting for 83.8% of the total global contributions in 2014.

### **COOPERATION EFFORTS UNDER THE COMCEC: THE COMCEC STRATEGY AND FINANCIAL COOPERATION**

Financial Cooperation is one of the six cooperation areas of the COMCEC Strategy adopted by the 4<sup>th</sup> Extraordinary Islamic Summit in 2012. Efforts for enhancing financial cooperation under the COMCEC have been intensified with the implementation of the COMCEC Strategy. These efforts are carried out under the COMCEC Financial Cooperation Working Group and COMCEC Project Funding Mechanism as well as cooperation among the Stock Exchanges, COMCEC Capital Markets Regulators and Central Banks and Monetary Authorities.

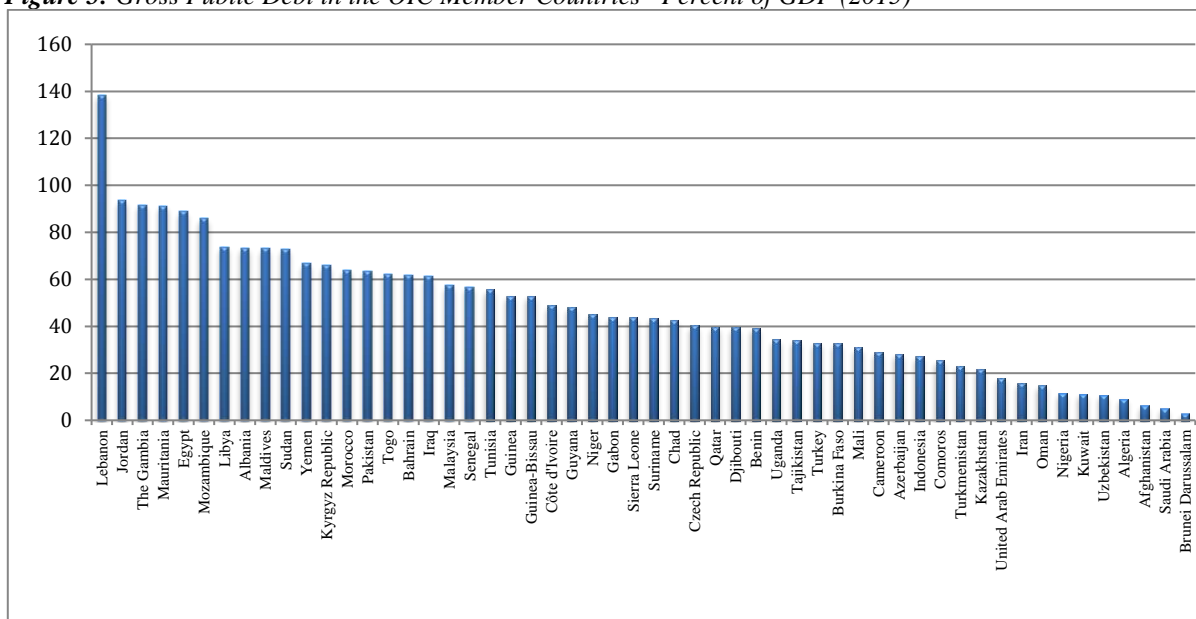
**- Eight Meeting of the Financial Cooperation Working Group**

Over the past decades, a number of financial crises occurred due to public debt problems (Mexico-1994, Turkey-1994, Russia-1998, Argentina-2001, European Debt Crisis-2010). Financial stress experienced recently by some Euro Area countries such as Greece, Ireland, and Portugal revealed that unhealthy public finances might cause economic disturbances for all countries regardless of their economic development level. Furthermore, today, public debt is used as a tool to develop financial markets, to regulate capital movements, and to determine risk-free rate as well as to finance budget deficits. In this regard, sound public debt management is a crucial task for not only undeveloped countries but also for developed ones.

Given the importance of the issue, the Eight Meeting of the COMCEC Financial Cooperation Working Group was held on March 30<sup>th</sup>, 2017 in Ankara with the theme of “*Improving Public Debt Management in the OIC Member Countries*”.

The research report submitted to the Working Group highlighted that the average public debt level during the 1980-2015 period was between 40% and 80% of GDP with an increasing tendency in the World<sup>2</sup>. The ratio of public debt to GDP in the OIC member countries varied between 3% and 138% in 2015.<sup>3</sup> The average public debt to GDP ratio was 36.7% in 2012 and rose to 46.1% in 2015. The public debt to GDP ratio is expected to reach 51.1% by the end of 2017. The decline in oil prices in recent years has led to an increase in budget deficits and debt to GDP ratios in the member countries with a significant share of oil income in their economies.<sup>4</sup>

**Figure 5: Gross Public Debt in the OIC Member Countries –Percent of GDP (2015)**



Source: WEO (2016), IMF

The research report and the discussions during the Meetings highlighted that in order to improve public debt management there are some crucial steps need to be taken by the member countries. Some of the main challenges faced by member countries and the policy options to deal with these challenges could be defined as below:

<sup>2</sup> Improving Public Debt Management in the OIC Member Countries, COMCEC Coordination Office 2017

<sup>3</sup> IMF estimations, World Economic Outlook Database October 2016

<sup>4</sup> Improving Public Debt Management in the OIC Member Countries, COMCEC Coordination Office 2017

- The major challenges faced by the OIC member countries:
  - Effects of macroeconomic shocks on the structure of the public debt: exchange rate risk, higher refinancing risk, interest rate risk and strong economic dependency on exogenous variables, e.g. prices for natural resources
  - Unclear institutional responsibilities for public debt management
  - Lack of formal debt management strategy
  - Dependency on external borrowing caused by underdeveloped domestic public debt market
  - Short average maturity of public debt
- The policy advice highlighted by the Working Group can be summarized as the following:
  - Strengthening/Setting up an independent Public Debt Management Unit with well-defined functions and a dedicated debt management strategy
  - Developing/Improving domestic debt market
  - Broadening and diversifying the creditor base
  - Lengthening the average maturity of public debt
  - Apply macroeconomic risk management methods

All the documents prepared for the Working Group Meeting is available on the COMCEC website ([www.comceec.org](http://www.comceec.org)).

The Ninth Meeting of the Financial Cooperation Working Group will be held on October 26th, 2017 in Ankara with the theme of “Diversification of the Islamic Financial Instruments. During the Meeting, the participants will be expected to elaborate existing Islamic financial products and services used at the national and global level and to suggest policy recommendations on diversification of Islamic financial instruments.

#### - **COMCEC Project Funding Mechanism**

The second mechanism of the implementation of the COMCEC Strategy is the COMCEC Project Funding Mechanism (CPFM). Within the framework of the CPFM, the COMCEC Coordination Office provides grants to the cooperation projects of the Member States registered to the Financial Cooperation Working Group and the OIC Institutions operating in the field of economic and commercial cooperation. The projects to be financed should be in line with the objectives and the principles of the Strategy.

Detailed information on COMCEC Project Funding mechanism is available in the COMCEC PFM Website: ([pcm.comceec.org](http://pcm.comceec.org)).

#### - **Other Ongoing Efforts under the COMCEC:**

- **OIC Member States’ Stock Exchanges Forum:** Cooperation among the Stock Exchanges was launched in 2005 in line with the decision taken by the 20<sup>th</sup> Session of the COMCEC. The Forum has held 10 meetings so far. The 10<sup>th</sup> Meeting of the Forum was held on October 27<sup>th</sup>, 2016 in İstanbul.

In line with the proposal put forward by H.E. Recep Tayyip Erdoğan, President of the Republic of Turkey and Chairman of COMCEC in his statement at the opening speech of the 30<sup>th</sup> Session of the COMCEC, the Forum secretariat started to work on the “Gold Exchange Initiative for the OIC Member Countries”. The 32<sup>nd</sup> Session welcomed the Forum’s proposal to establish a highly adaptable web-based gold trading and clearing platform with the ultimate aim of a gold exchange/platform among the volunteering member countries. The 32<sup>nd</sup> Session

also requested the Forum/Forum's Secretariat to carry out necessary studies for the suggested platform/exchange. Furthermore, interested member states were invited to actively participate in the Forum's Task Force to support the suggested platform/exchange through accelerating the process of integration of exchanges and harmonization of regulatory frameworks by the 32<sup>nd</sup> Session.

The detailed information regarding the activities of the forum is available on [www.oicexchanges.org](http://www.oicexchanges.org).

- **COMCEC Capital Market Regulatory Forum:** The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of 27<sup>th</sup> Session of the COMCEC. The Forum has held 5 meetings so far. The 5<sup>th</sup> Meeting of the COMCEC Capital Market Regulators Forum was held on October 27<sup>th</sup>, 2016 in İstanbul.

H.E. Recep Tayyip ERDOĞAN, Chairman of the COMCEC made a proposal, in his opening speech, on establishing a Real Estate Exchange among the OIC Member Countries. Accordingly, the Forum secretariat started to work on "Real Estate Securities Exchange Initiative". The 32<sup>nd</sup> Session took note of the Forum's proposal to establish COMCEC Real Estate electronic platform among the interested OIC Member States participating in the Forum. The Session also requested the Forum/ the Forum's Secretariat to conduct comprehensive studies to identify necessary stages towards establishing the suggested platform, with the support of the relevant national authorities and securities exchanges from volunteering the member countries. The interested member states were invited to actively participate in the studies to support the suggested platform by identifying their authorized bodies to expedite further technical work for establishing the platform by the 32<sup>nd</sup> Session.

The details regarding the Forum activities are available on the Forum web-site. ([www.comceccmr.org](http://www.comceccmr.org))

- **Cooperation among the Central Banks and Monetary Authorities:** In line with the relevant resolution of the 24<sup>th</sup> Session of the COMCEC, cooperation among the Central Banks and Monetary Authorities of the Member Countries has been revitalized.

The 32<sup>nd</sup> Session of the COMCEC welcomed of the offer of the Central Bank of Turkey to host the 15<sup>th</sup> Meeting of the Central Banks and Monetary Authorities of the OIC Member States in the second half of 2017.

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