



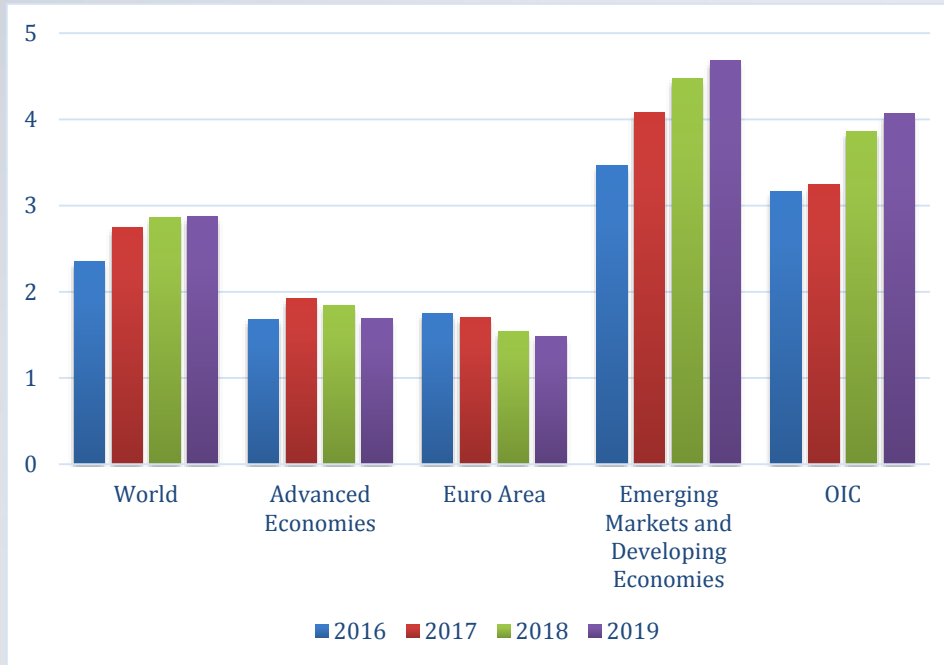
# OUTLINE

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

# Global Economic and Financial Developments

Comparison of the GDP Growth Rates of Selected Country Groupings (% Growth)



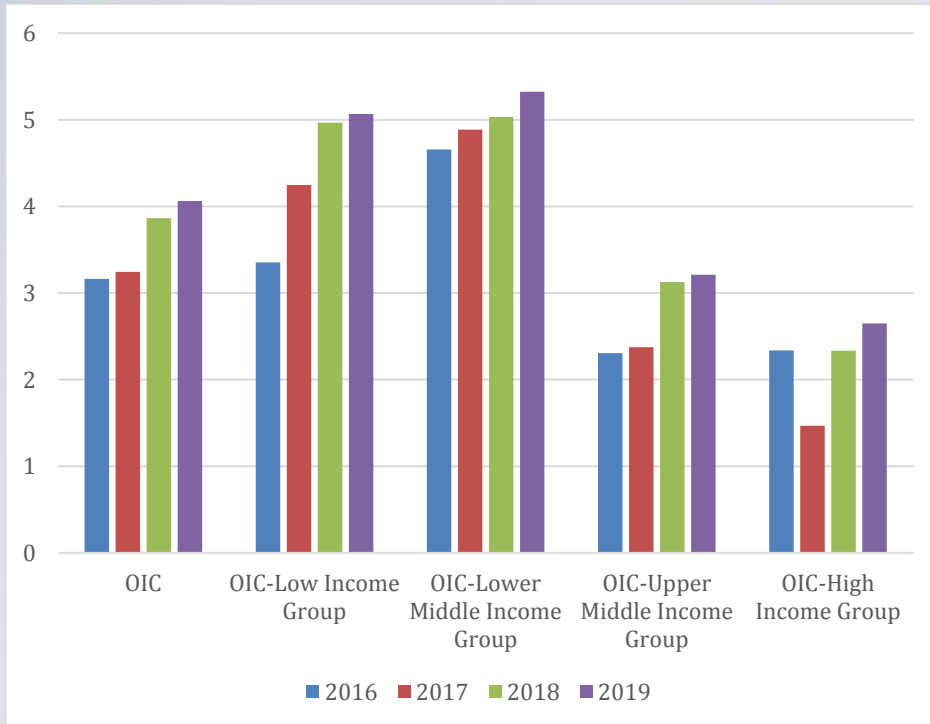
Source: World Bank Global Economic Prospects, June 2017

## World Economic Growth:

- ✓ In 2016, the world economy expanded by 2.4 percent, the slowest rate of growth since the Great Recession of 2009. The main reasons of the sluggish growth are:
- ✓ Weak pace of global investment,
- ✓ Declining world trade growth,
- ✓ Lack of access to finance
- ✓ Low commodity prices for commodity-exporting countries
- ✓ Conflict and geopolitical tensions

# Global Economic and Financial Developments

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



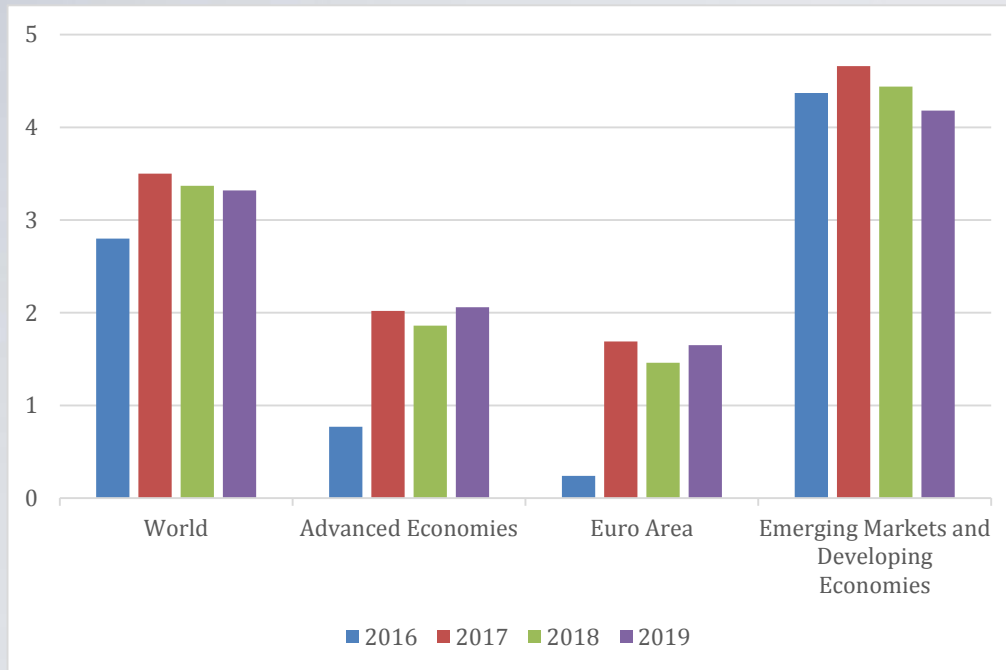
Source: World Bank Database

## OIC Economic Growth:

- ✓ The GDP growth rates of OIC countries has slowed down to 3.3% in 2015, as compared to 4.1% in 2014, and expected to stay around this level during 2016 and 2017.
- ✓ Decline in oil prices and macroeconomic distress (Saudi Arabia, Iran, Nigeria and United Arab Emirates)
- ✓ The OIC growths are expected to increase to 3.9 and 4.1 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)



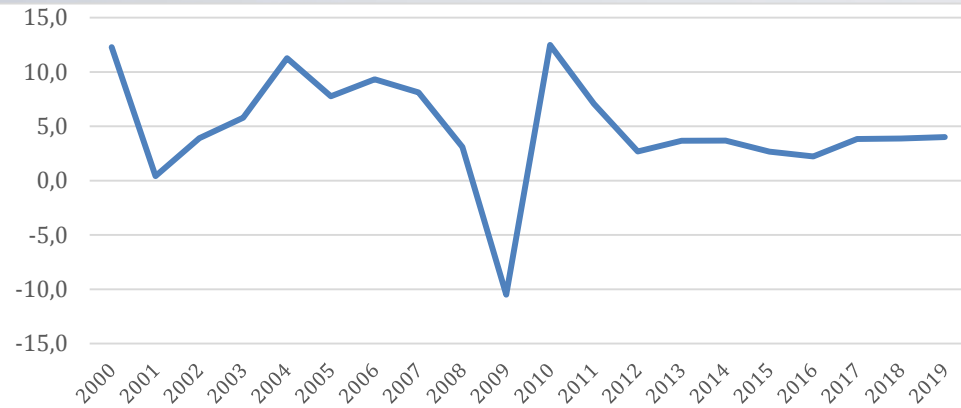
Source: IMF WEO April 2017

## Inflation Rates:

- ✓ In 2016, average global inflation increased slightly to 2.4 percent from 2.1 percent in 2015
- ✓ In 2017, inflation is expected to surge for all countries
- ✓ Inflation realized below 1 % in the advanced economies and the Euro area in 2016.
- ✓ After 2017, inflation is expected to lower slightly for the following years.

# Global Economic and Financial Developments

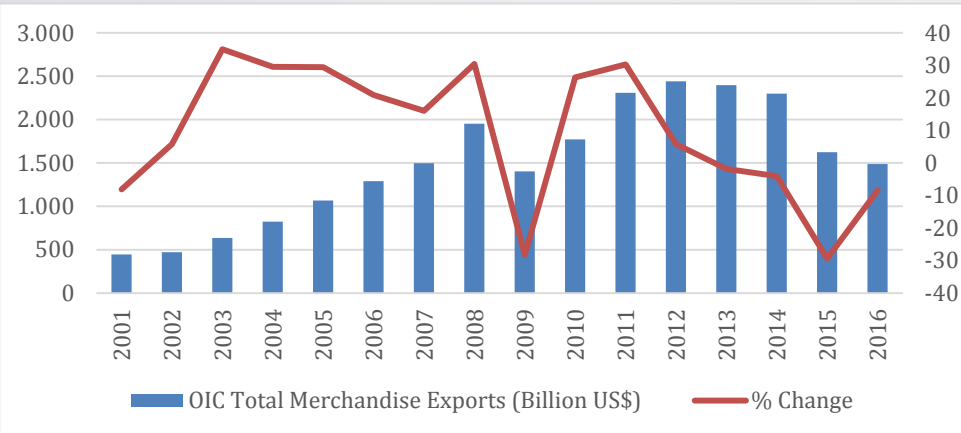
**World Trade Volume of Goods and Services (% Change)**



## World Trade Developments:

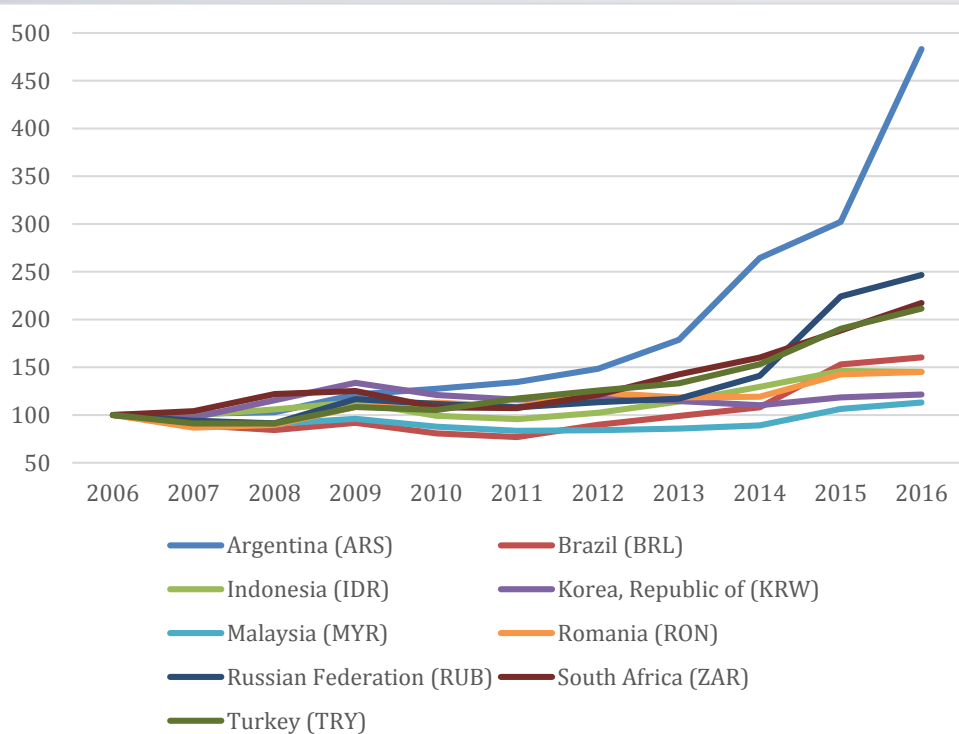
- ✓ Global trade growth realized as 2.2 percent in 2016. The growth rate is expected to be around 4 % during 2017-19.
- ✓ The recovery in trade growth in 2017 is supported by stronger import demand, increased trade flows of China.
- ✓ Total merchandise exports from OIC countries fell sharply in 2009.
- ✓ It started to pick up rapidly 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, export decreased by 29 percent and dropped to \$1.6 trillion.
- ✓ 2016 witnessed further decline for the OIC countries by 8.5 percent and realized as \$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:

- ✓ The quantitative easing have had spillover effects on the financial markets of the emerging-market economies.
- ✓ Since investors were attracted to the higher rates in many emerging economies and this has been reversed by the surge of the interest rates in the US.
- ✓ 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.

# Financial Outlook of the OIC Countries

## 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

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 a sufficient size.
- ✓ **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

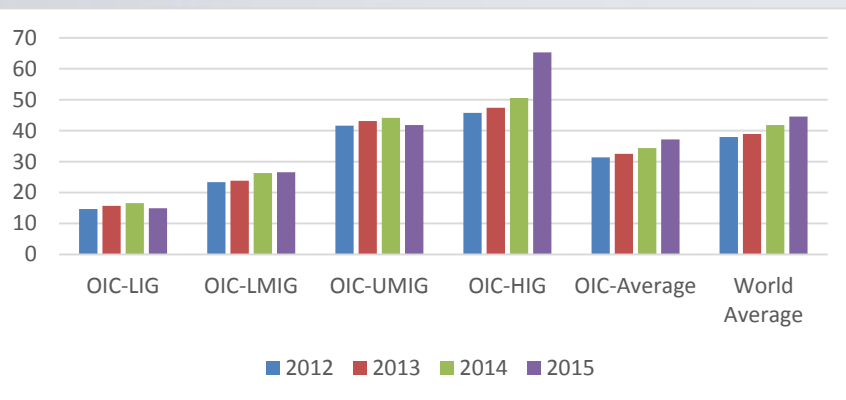
# Financial Outlook of the OIC Countries

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

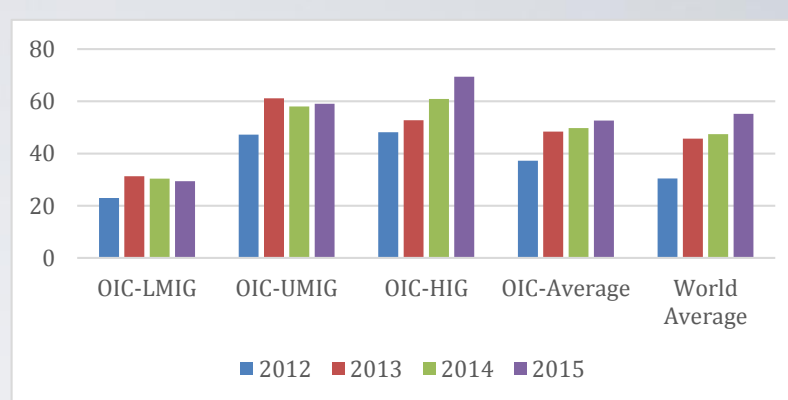
	Indicator Code	Name of the Indicator
<b>DEPTH</b>	GFDD.DI.01	Private credit by deposit money banks to GDP (%)
	GFDD.DI.02	Deposit money banks' assets to GDP (%)
	GFDD.DM.01	Stock market capitalization to GDP (%)
	GFDD.DM.02	Stock market total value traded to GDP (%)
<b>ACCESS</b>	GFDD.AI.01	Bank accounts 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

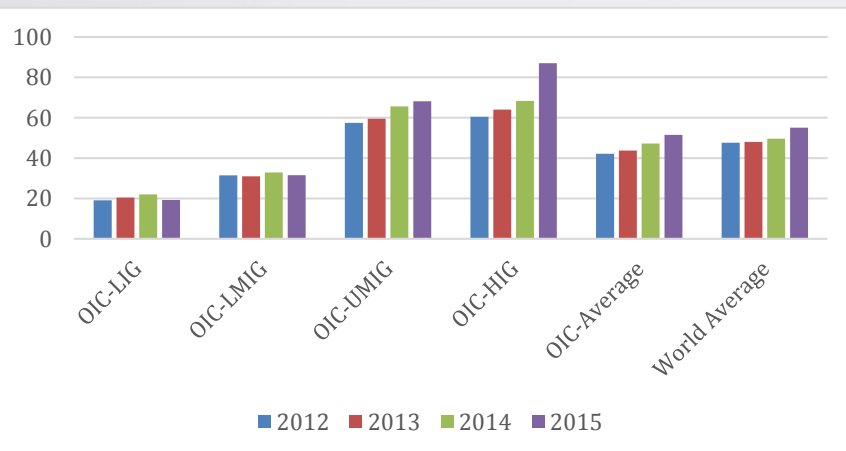
Private Credit by Deposit Money Banks to GDP (%)



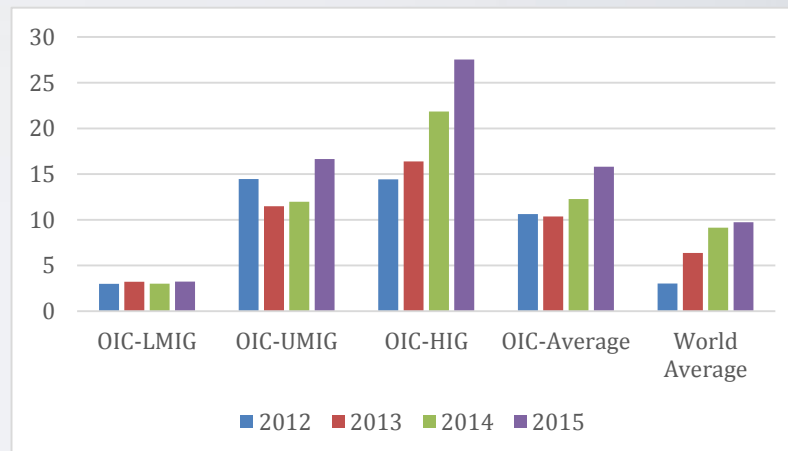
Stock Market Capitalization to GDP (%)



Deposit Money Banks' Assets to GDP (%)

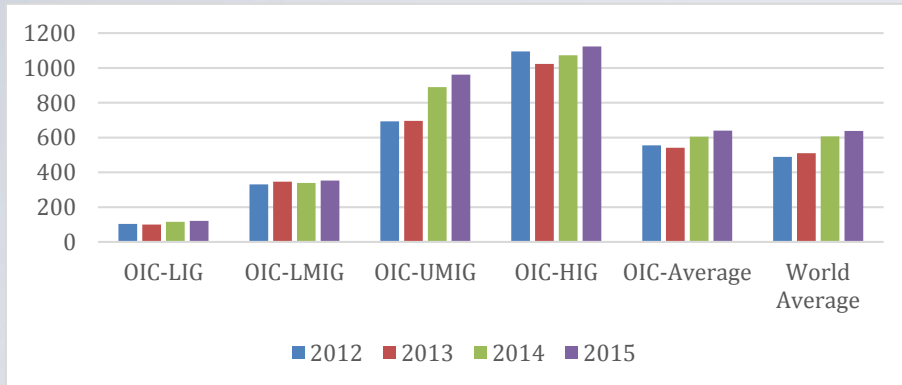


Stock Market Total Value Traded to GDP (%)

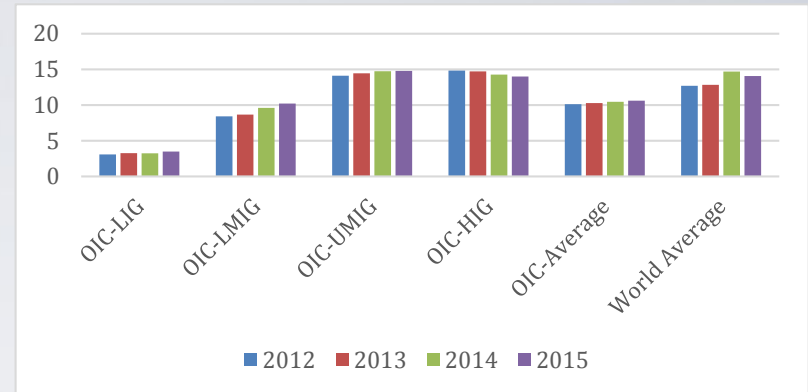


# Financial Access

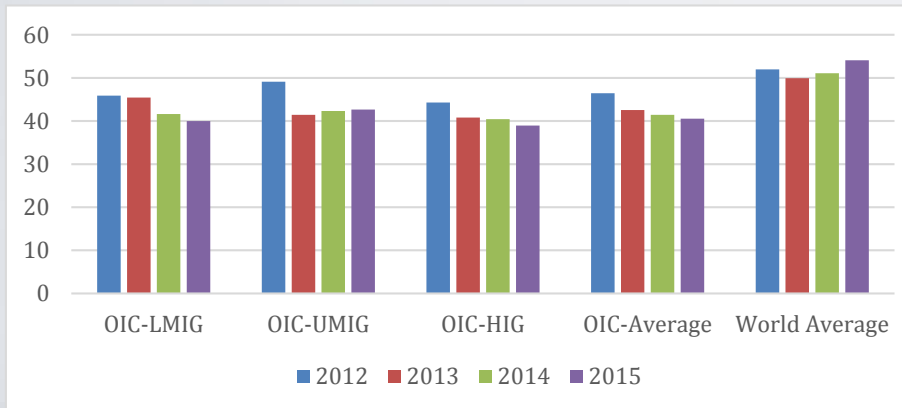
Bank Accounts per 1,000 Adults



Bank Branches per 100,000 Adults

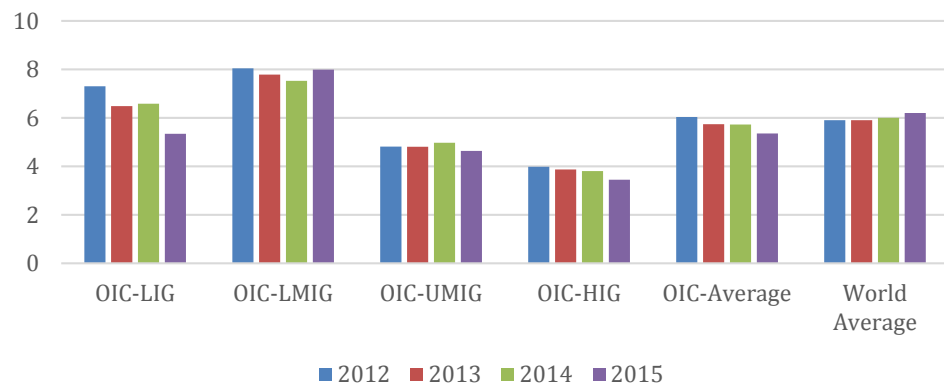


Market Capitalization Excluding Top 10 Companies to Total Market Capitalization (%)

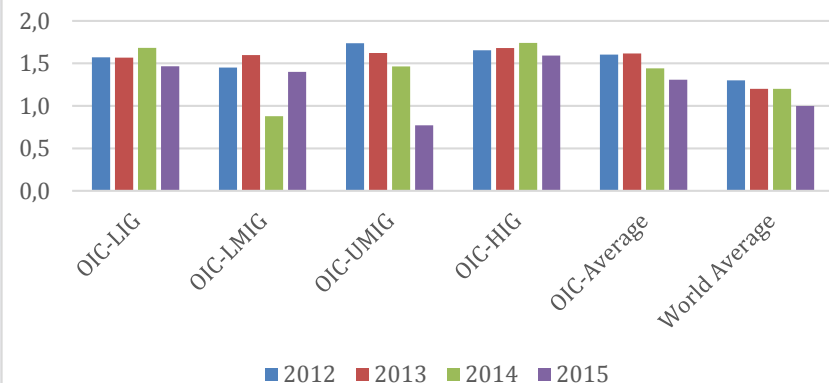


# Financial Efficiency

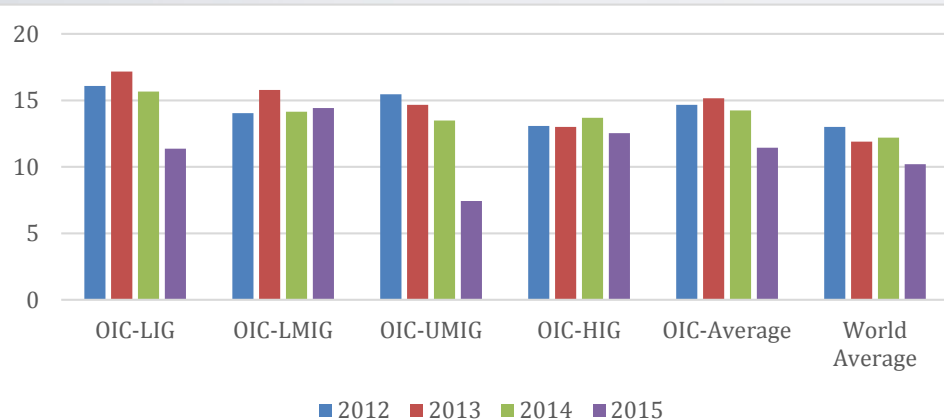
Bank Lending-Deposit Spread (%)



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

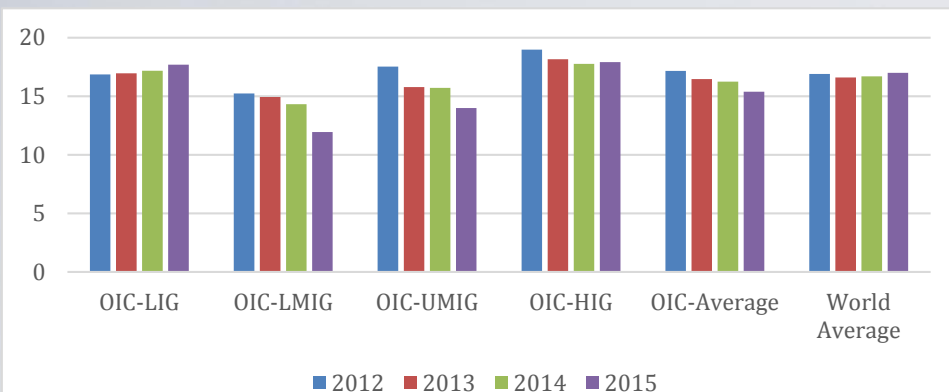


Bank return on equity (% , after tax)

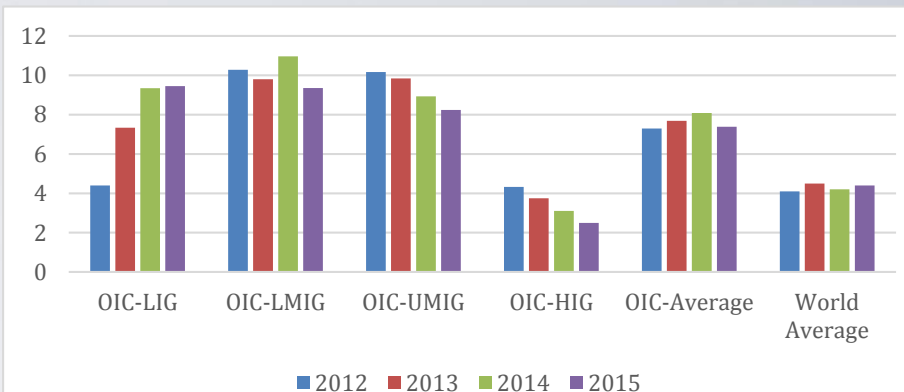


# Financial Stability

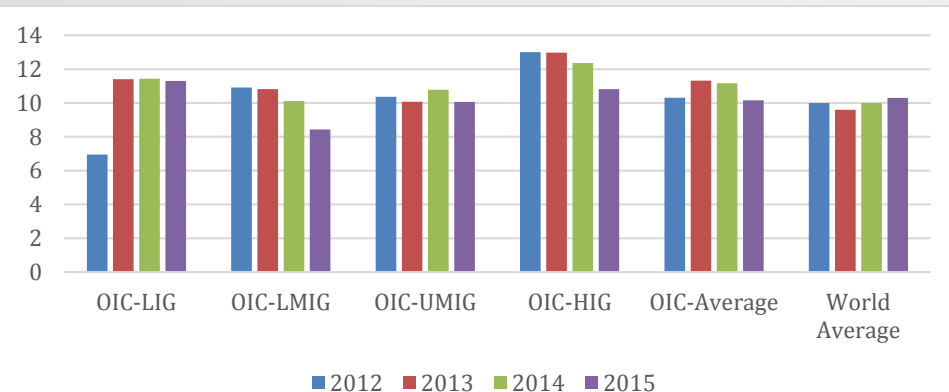
Bank regulatory capital to risk-weighted assets (%)



Bank Non-performing Loans to Gross Loans (%)



Bank Capital to Total Asset (%)



# Islamic Finance

## 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.

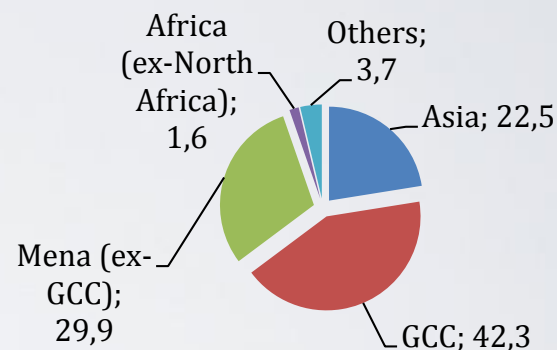


# Islamic Finance

## Recent Developments

- ✓ 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 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
Total	1,493.4	318.5	56.1	25.1	1,893.1

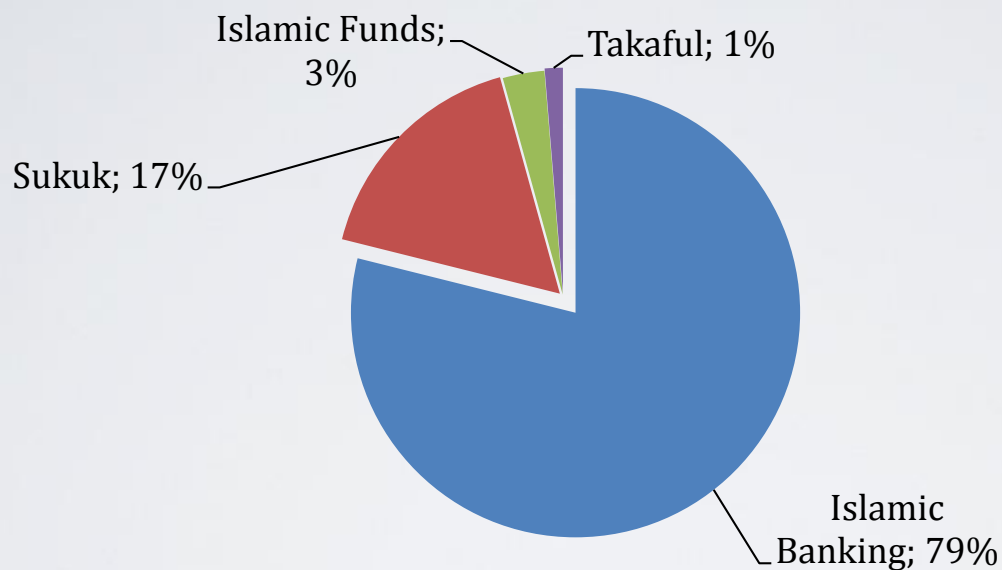


Source: IFSB as of 1H 2016

# Islamic Finance

## Recent Developments

- ✓ 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.



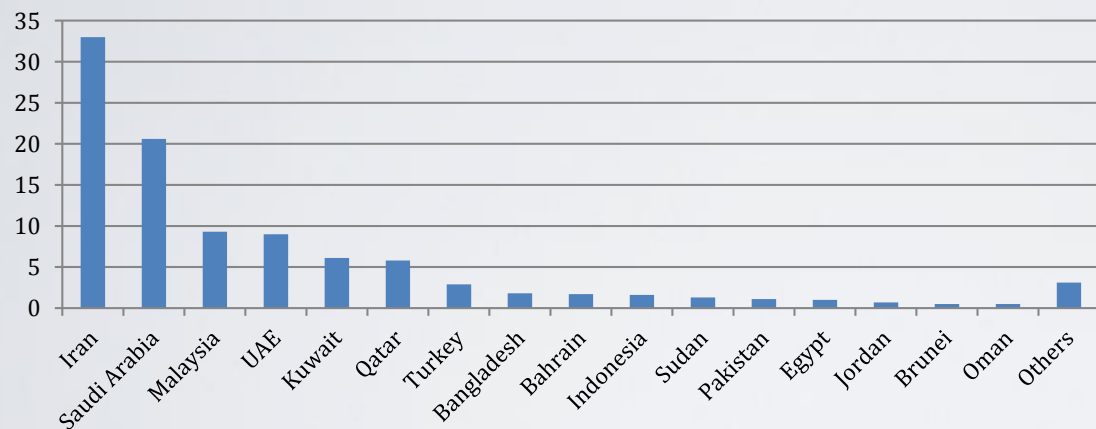
Source: IFSB, as of 1H 2016

# Islamic Finance

## Banking

- ✓ Islamic banking assets valued at USD 1.49 trillion in 2016 and it represents approximately 79% of the industry's total assets.
- ✓ While the assets increased steadily during 2012-2016, the US Dollar values of Islamic banking assets in several countries were affected negatively by exchange rate fluctuations in 2016 and 2015.

Shares of Global Islamic Banking Assets (1H2016) (%)



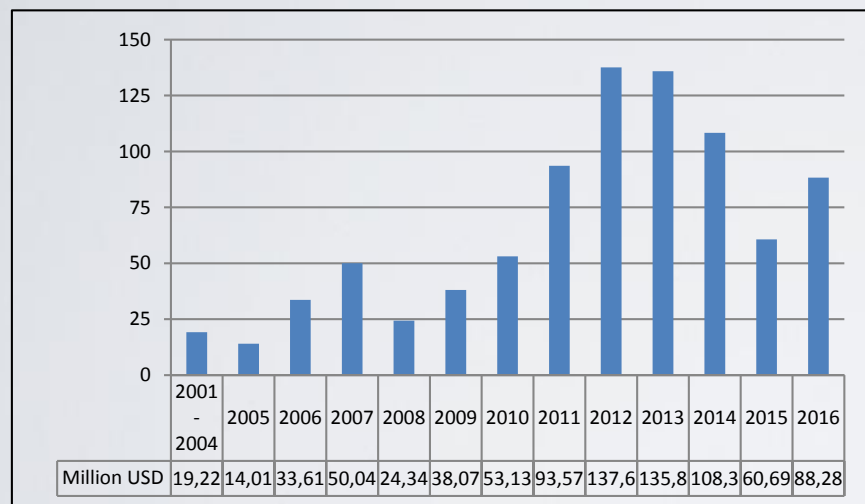
Source: IFSB, as of 1H 2016

# Islamic Finance

## Capital Markets

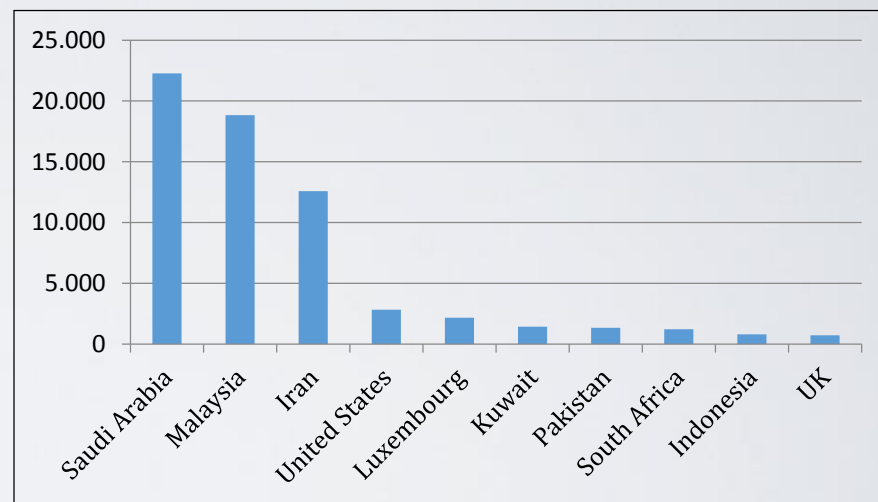
- ✓ The sukuk market has expanded to new regions in recent years with the bulk of issuances coming from sovereign and quasi-sovereign entities. Total global issuances increased around 44% and amounted to USD 88.3 billion in 2016.
- ✓ Islamic funds as another investment vehicles in the capital markets and shown considerable developments recently. Saudi Arabia and Malaysia are the leaders in Islamic funds market. In 2015 Saudi Arabia, Malaysia and Iran make up 81% of total global Islamic funds market.

### Global Sukuk Issuances



Source: IIFM

### Top Countries in Islamic Funds AUM Outstanding (2015) (Million US\$)

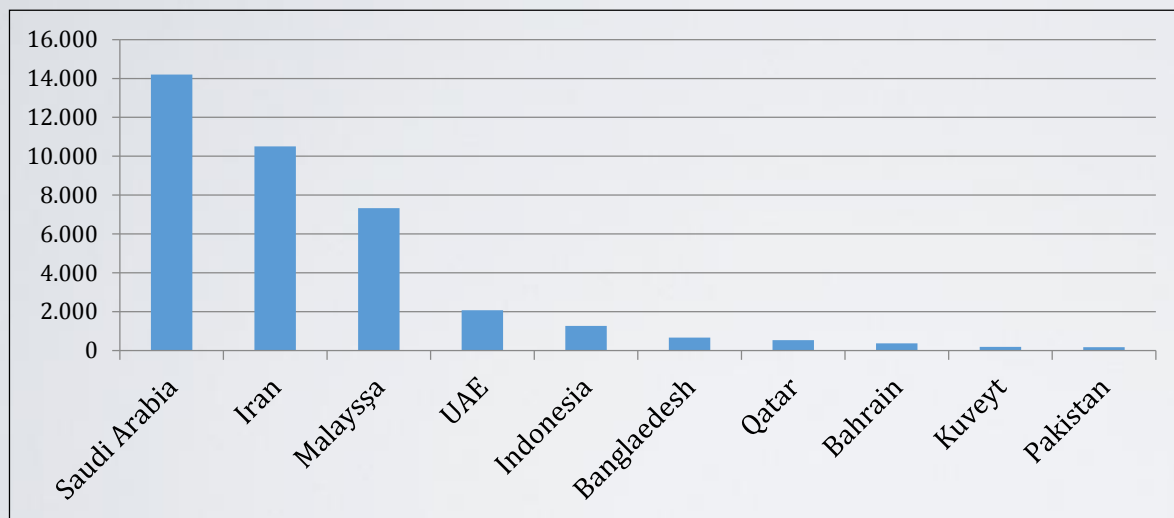


# Islamic Finance

## Takaful

- ✓ Although takaful has a small volume and it is rather an underdeveloped segment of Islamic finance, its popularity has increased recent years and becoming an important component of Islamic financial industry
- ✓ Saudi Arabia is the biggest takaful market as its insurance market is based fully on a cooperative insurance model. Besides Saudi Arabia, Iran and Malaysia are the prominent players in takaful industry

**Top Countries In Takaful Assets (2015) (USD MN)**



Source: IIFM



# Thank You

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