



**FINANCIAL COOPERATION**



**COMCEC**

**CCO BRIEF**  
**ON**  
**FINANCIAL**  
**COOPERATION**

**COMCEC COORDINATION OFFICE**

**May 2023**

## **BRIEF ON FINANCIAL COOPERATION**

### **I. Introduction**

Financial cooperation plays a vital role for facilitating capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets. Hence, regional or global financial cooperation is essential to ensure international financial system stability and thereby should contribute to improving the economic and social situation on a global scale. Nevertheless, the developments in recent years have affected the financial sector as in every sector.

As we all witnessed after the pandemic, many countries have gone through tough times caused by reasons such as high global inflation, rising energy prices, supply-demand mismatch, labour market rigidities, geopolitical risks, etc. Additionally, global growth has slowed to the extent that the global economy become perilously close to falling into recession only three years after emerging from the pandemic-induced recession. Very high inflation has triggered unexpectedly rapid and synchronous monetary policy tightening around the world to contain it, including across major advanced economies. Although this tightening has been necessary for price stability, it has contributed to a significant worsening of global financial conditions, which is exerting substantial pressure on activity. This pressure is set to deepen given the lags between changes in monetary policy and its economic impacts, and the fact that real rates are expected to continue to increase. Asset prices have been in broad, synchronous decline, investment growth has weakened substantially, and housing markets in many countries are worsening rapidly.<sup>1</sup>

Due to such problems, IMF estimated that global growth will decrease to 2.8 percent this year before rising modestly to 3.0 percent in 2024. Global inflation will reduce, although more slowly than initially anticipated, from 8.7 percent in 2022 to 7.0 percent this year and 4.9 percent in 2024. In spite of this unfavorable predictions, IMF indicated that the global economy appears poised for a gradual recovery from the powerful blows of the pandemic and regional conflicts. Supply-chain disruptions have been unwinding, while the dislocations to energy and food markets caused by the war are receding. Additionally, it is expected that the massive and synchronous tightening of monetary policy by most central banks will start to bear fruit, with inflation moving back to ward its targets.<sup>2</sup>

### **II. Islamic Finance**

The global Islamic Finance Industry continues its growth path. S&P Global Ratings expects around 10% growth across the industry in 2023-2024 after expanding by a similar number in 2022. At the same time, Sukuk issuances continued to spur the industry's expansion despite slowing issuance volumes overall. While generally, volumes diminish in 2023, S&P still believes that new issuance will exceed maturing Sukuk, resulting in another positive contribution of the Sukuk market to industry growth in 2023.<sup>3</sup>

In the time of preparation process of this report, annual reports of institutions such as IIFM, IFSB utilized for data on Islamic finance sector have not been published yet. Thus, this section includes data from the year of 2022. This document will be updated with the most updated data before the 39<sup>th</sup> COMCEC Session.

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<sup>1</sup> World Bank Group, Report of the Global Economic Prospects, January 2023

<sup>2</sup> IMF, Report of the World Economic Outlook, April 2023.

<sup>3</sup> S&P Global Islamic Finance Outlook, 2022

The asset size of the Islamic finance sector increased to an estimated USD 3.06 trillion in 2021 (from USD 2.75 trillion in 2020). The sector sustained its growth momentum with a growth rate of 11.3% year-on-year based on significant improvement, especially in the Islamic banking and Islamic capital markets segments in some key markets. 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.

The global Islamic banking assets are representing 68.7% of the industry's total assets and Islamic Capital Market (ICM) is representing 30.5%. Furthermore, the Sukuk market remains dominant in the ICM sector with an estimated value of USD 775.7 million and a y-o-y growth of 12.5%. Islamic funds grew by 6% from the previous year. The overall takāful sector's direct contributions increased by 4.8% y-o-y to USD 24.2 billion in 2020, after a significant decline (-14.8%) in 2019. (IFSB, 2022)

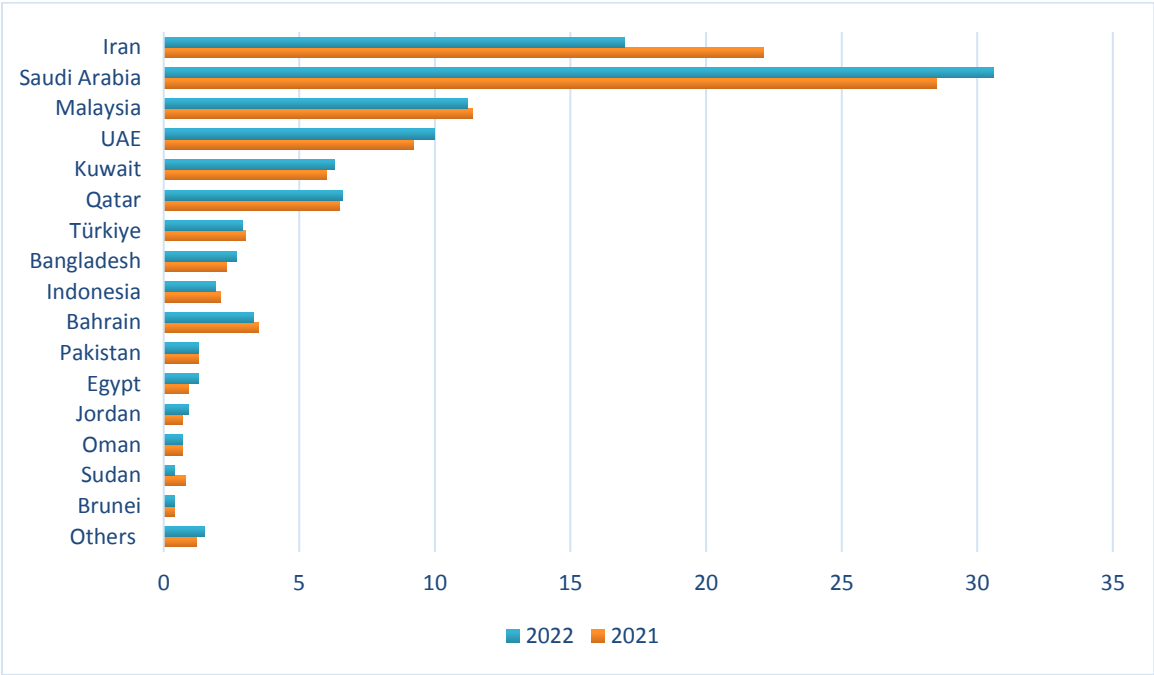
**Table 1: Breakdown of IFSI by Sector and by Region, US\$ Billion**

Region	Islamic Banking	Outstanding Sukuk	Islamic Funds' Assets	Takaful Contributions	Total	Share (%)
<b>GCC</b>	1,212.5	332.3	46.0	12.7	1,603.5	52.4
<b>South-East Asia</b>	287.5	390.3	37.5	4.7	720.0	23.5
<b>Middle East and South Asia</b>	477.1	26.9	22.0	5.6	531.6	17.4
<b>Africa</b>	58.2	1.8	4.0	0.6	64.6	2.1
<b>Others</b>	68.8	24.4	45.1	0.7	139.0	4.5
<b>Total</b>	2,104.1	775.7	154.6	24.3	3,058.7	100.0
<b>Share (%)</b>	68.7	25.4	5.1	0.8	100.0	

*Source: Islamic Financial Services Industry Stability Report 2022*

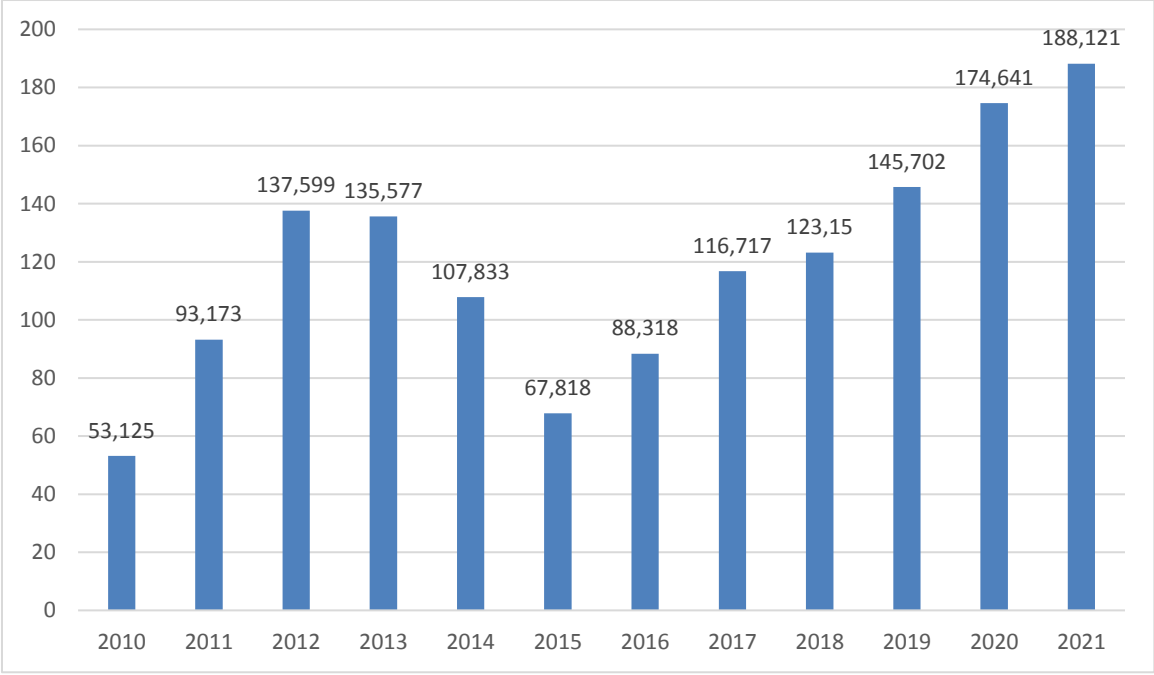
Total assets of Islamic banking grew a 6.1 per cent and increased from USD 1,765.8 billion to USD 1,841.8 billion in 2020. In terms of regions, GCC is the main contributor to the global Islamic banking assets with USD 1,212.5 billion in 2021. It is followed by MESA, South-East Asia, Africa, and other countries with 477.1 billion, USD 287.5 billion, USD 58.2 billion, and USD 68.8 billion, respectively.

**Figure1: Share of Global Islamic Banking Assets by Country (%)**



Source: IFSB Islamic Financial Stability Report 2021-2022

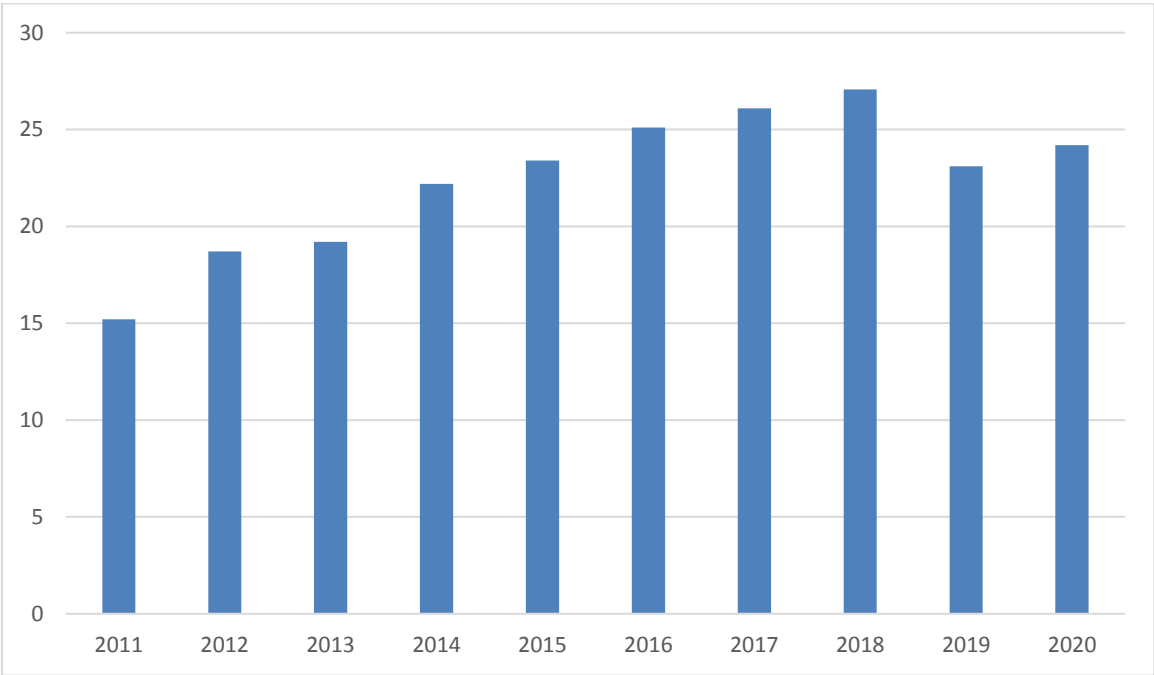
**Figure2: Global Sukuk Issuances (2001-2021, USD billion)**



Source: IIFM Sukuk Report 2022

Total global issuance increased 7.72 percent in volume from USD 174.60 billion in 2020 to USD 188,12 billion in 2021 [YoY growth was 19.84% in 2020]. In 2021, the increase in Sukuk issuance was mainly driven by the trajectory continuation of economic stimulus measures implemented by the governments. Malaysia has maintained a dominant share in terms of both volume and value, and remains the largest domestic Sukuk issuer with 44.01% (USD 61.045 billion). The countries like the Bahrain, Indonesia, Saudi Arabia, Pakistan, Qatar and Türkiye are emerging ones.

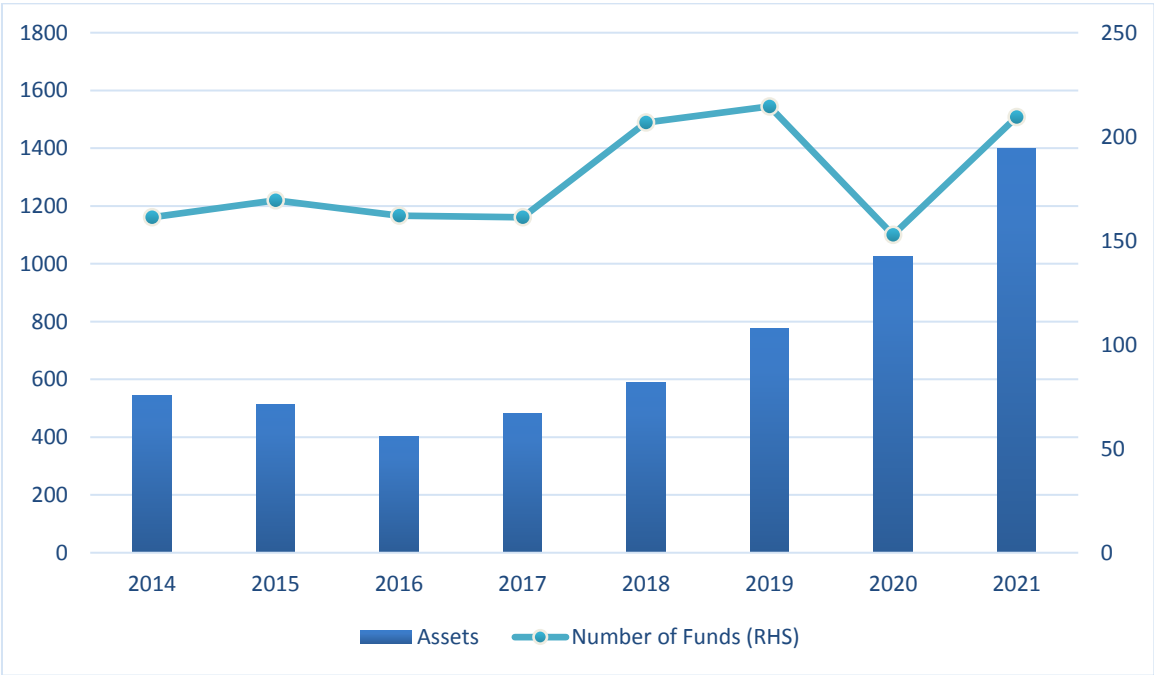
**Figure3: Trend of Global Takaful Contributions (USD billion)**



Source: Islamic Financial Services Industry Stability Report 2022

The overall takāful sector’s direct contributions increased by 4.8% y-o-y to USD 24.2 billion in 2020, after a significant decline (–14.8%) in 2019. The decline was attributed to significant changes in the exchange rate (USD) used to denominate Iranian data. The top seven markets, which generated roughly 95% of the overall contributions, are Saudi Arabia, Iran, Sudan, Brunei, Malaysia, UAE and Indonesia.

**Figure4: Assets under Management and Number of Islamic Funds (USD billion)**



Source: Islamic Financial Services Industry Stability Report 2021

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

The idea of enhancing financial cooperation under the COMCEC dates back to its initial meetings. Cooperation efforts in this area have been intensified and deepened in recent years. The COMCEC Strategy has defined finance as one of the cooperation areas of COMCEC. Deepening and widening of financial cooperation among OIC Member Countries has been defined as an important objective of the Strategy. Within this framework, As decided at the 38<sup>th</sup> COMCEC Session, the COMCEC Financial Cooperation Working Group elaborated on the topic “Improving Cooperation among Central Banks in Terms of Digital Currencies: Challenges and Prospects for OIC Member Countries” in its 19<sup>th</sup> and will also address the same issue at its 20<sup>th</sup> Meeting.

#### **A. Improving Cooperation among Central Banks in Terms of Digital Currencies: Challenges and Prospects for OIC Member Countries (19<sup>th</sup> Meetings of the Financial Cooperation Working Group)**

The 19<sup>th</sup> Meeting of the COMCEC Financial Cooperation Working Group (FCWG) was held on May 9<sup>th</sup>, 2023, in a virtual-only format with the theme of “Improving Cooperation among Central Banks in Terms of Digital Currencies: Challenges and Prospects for OIC Member Countries”. The first draft version of the report along with a country case was submitted to the 19<sup>th</sup> FCWG meeting. The final version of the Report will be submitted to the 20<sup>th</sup> Meeting of the Working Group to be held in October 2023.

The main objective of this study is to provide an analysis and elaboration on digital currencies, the current initiatives in different jurisdictions on CBDCs, with a particular focus on the initiatives in OIC member countries, the roles and responsibilities among government institutions for introducing and regulating digital currencies, and the challenges and prospects of digital currencies for OIC member countries. Based on the analysis of the framework, the study will also provide concrete policy recommendations to the OIC Member countries, particularly considering the lessons learned from the practices to be analyzed and the case studies to be conducted within the framework of this report. The outcomes and possible policy advices of this study will be presented for their consideration.

All the reports submitted to the Meetings and the presentations made during the Meetings are available on the COMCEC web page ([www.comcec.org](http://www.comcec.org)).

#### **The COMCEC Project Funding Mechanism**

COMCEC Project Funding (CPF) is the other important instrument of the Strategy. Projects financed under the CPF need to serve cooperation among member counties and must be designed in accordance with the objectives and the expected outcomes defined by the Strategy in the finance section. Projects also play important roles in realization of the policy recommendations formulated by the member countries during the FCWG meetings.

Under the 9<sup>th</sup> Call for Project Proposals, SESRIC implemented the project called “Strengthening Financial Literacy and Promoting Islamic Finance in the OIC Member Countries”. The project aimed at contributing to the efforts put by OIC member countries towards improving their awareness raising mechanisms on Financial Literacy and Islamic Finance. Two virtual trainings namely “The Role of Central Banks in Increasing Financial Literacy” on 5-6 September 2022 and “Using Financial Technologies in Islamic Finance” on 7-8 September 2022 were conducted. Also, a workshop on “Best Practices on Promoting Financial Literacy and Islamic Finance in the OIC Member Countries” was held in Istanbul with the participation of 30 member countries.

Furthermore, under the 10<sup>th</sup> Call for Project Proposals, SESRIC will implement the project called “Improving the Role of Islamic Finance in Supporting Microenterprises and SMEs in Post Pandemic Period” for the benefit of 40 Member Countries. The project aimed at enhancing the human and institutional capacities of the beneficiary Central Banks and Monetary Authorities, in addition to creating a platform for the exchange of knowledge, expertise and best practices among the participating MCs. The project will spot the light on the various factors that create challenges for MSMEs and will introduce integrated successful solutions and support mechanisms that could play a crucial role in ensuring their resilience against any possible future shocks/ crisis and consequently their added value to the economy in a sustainable manner.

#### **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 16 meetings so far. The 17<sup>th</sup> Meeting of the Forum will be held on September-October, in 2023. Along with the efforts to increase cooperation between stock exchanges, the Forum has realized some important projects such as the OIC/COMCEC 50 Shariah Index. Index-based S&P/OIC COMCEC International Investment Fund has become available to international investors in August, 2022. It remains important to increase the size of the Fund and continue to bring it to the attention of investors.
- The Forum has also been working on Gold Exchange Initiative for the OIC Member Countries. According to relevant resolution of the 38<sup>th</sup> COMCEC Session, the Forum Secretariat is expected to advance the technical preparations on the new block chain-based model for the establishment of the OIC Gold Exchange in cooperation with central banks, and report to the 39<sup>th</sup> COMCEC Session and Follow-up Committee Meeting. Regarding this, a technical working group established by COMCEC after the 38<sup>th</sup> Ministerial Session is evaluating the feasibility of OIC Gold Project. So far, the working group has held 5 meetings.

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

- **The COMCEC Capital Market Regulatory Forum:** The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of the 27<sup>th</sup> Session of the COMCEC. The Forum has held eleven meetings so far. The 12<sup>th</sup> Meeting of the Forum will be held on September-October in 2023.

The 38<sup>th</sup> COMCEC Session took note of the completion of the GEFAS Platform (Real Estate Based and Developing Financial Instruments Information System) designed to be an information hub for real estate themed capital market instruments and invited the interested Member Countries to encourage their relevant authorities to join this platform and provide the necessary information to be published in GEFAS.

Regarding this, the Forum has launched the online data platform GEFAS for real estate based and newly developing financial instruments in 2022. This Platform aims to enhance efficiency and transparency in the capital markets by providing investors with easier access to online information regarding real estate based investment products. So far, due to the interest shown to the platform from numerous Forum Members, the stock market links of Saudi Arabia,

Malaysia, Kuwait, Pakistan, Bangladesh, Qatar, Maldives and Palestine have all recently been integrated into the GEFAS platform.

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

- **OIC-COMCEC Central Banks Forum:** In the 16<sup>th</sup> Meeting of the Central Banks and Monetary Authorities of the OIC Member States, the central banks of the OIC Member States decided to continue its activities as the “OIC-COMCEC Central Banks Forum”. The 34<sup>th</sup> COMCEC Session took note of the communique of the said meeting as well as the decision on the establishment of the “OIC-COMCEC Central Banks Forum”. Within this framework, the 5<sup>th</sup> Meeting of the Forum will be on September-October, in 2023.

The details regarding the Forum activities are available on the Forum website. ([www.comceccentralbanks.org](http://www.comceccentralbanks.org))

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