

 **FINANCIAL COOPERATION**



# **CCO BRIEF ON FINANCIAL COOPERATION**

**COMCEC COORDINATION OFFICE**  
**May 2024**

## BRIEF ON FINANCIAL COOPERATION

### I. Introduction

Financial cooperation is essential for promoting the flow of capital, boosting financial knowledge, controlling financial risks, overseeing financial entities, diversifying product offerings, and expanding and strengthening financial markets. Hence, regional or global financial cooperation is significant for ensuring international financial system stability and could thereby contribute to improving the economic and social situation on a global scale. Nevertheless, developments in recent years have affected the financial sector as in every sector.

Amid a barrage of shocks during the past four years, the global economy has proved to be surprisingly resilient. In the aftermath of the pandemic, the global economy has experienced a highly volatile period, with supply chain disruptions, a war triggering a worldwide energy and food crisis, and a globally synchronized monetary policy tightening following a significant surge in inflation. Despite many depressive predictions, the global economy avoided a recession, the banking system proved largely resilient, and major emerging market economies did not suffer sudden stops. Moreover, the inflation surge did not trigger uncontrolled wage-price spirals. Instead, almost as quickly as global inflation went up, it has been coming down.<sup>1</sup>

There are some signs that the global outlook has started to brighten, even though growth remains modest. The impact of tighter monetary conditions continues, especially in housing and credit markets, but global activity is proving relatively resilient, inflation is falling faster than initially projected, and private sector confidence is now improving. Supply and demand imbalances in labor markets are easing, with unemployment remaining at or close to record lows; real incomes have begun to turn up as inflation moderates, and trade growth has turned positive. According to the OECD, Global GDP growth is projected to be 3.1% in 2024, unchanged from 2023, before edging up to 3.2% in 2025 helped by stronger real income growth and lower policy interest rates. By the end of 2025, inflation is projected to be back on target in most major economies.<sup>2</sup>

It is rare for countries to bring inflation rates down without triggering a downturn, but this time a “soft landing” seems increasingly possible. Despite these welcome developments, numerous challenges remain, and decisive actions are needed. Most of the progress on inflation came from the decline in energy prices and goods inflation below its historical average, however, services inflation remains high and could derail the disinflation path. Therefore, bringing inflation down to target remains the priority.<sup>3</sup>

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1 IMF, World Economic Outlook, April 2024

2 OECD Economic Outlook, May 2024

3 World Bank Group Flagship Report, Global Economic Prospects, January 2024

## 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, following similar growth in 2022. At the same time, Sukuk issuance has continued to drive the industry's expansion, although overall issuance volumes have slowed. According to S&P, while volumes are generally expected to decline in 2023, new issuance is still projected to exceed maturing Sukuk, resulting in another positive contribution from the Sukuk market to industry growth in 2023. The Islamic Funds and Islamic Insurances sectors are also expected to continue to expand.<sup>4</sup>

During the preparation of this report, annual reports of institutions such as IIFM and IFSB utilized for data on the Islamic Finance sector had not been published yet. Thus, this section includes data from 2023. This document will be updated with the most updated data before the 40<sup>th</sup> COMCEC Session.

Navigating through what remains a challenging global financial condition, the global Islamic financial services industry (IFSI) in 2022 demonstrated soundness and resilience and also recorded structural development. Yet, the dynamics of economic recovery and financial stability offer a test of resilience based on the structural, political, economic, and financial peculiarities of the various jurisdictions where Islamic finance is practiced. Regarding the size of the Islamic financial sector, the total assets of the Islamic finance sector increased from USD 3,06 trillion in 2021 to USD 3,25 trillion in 2022, marking a slower growth of 6.2% YoY growth rate [2021: USD 3.06 trillion with growth of 13%].

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

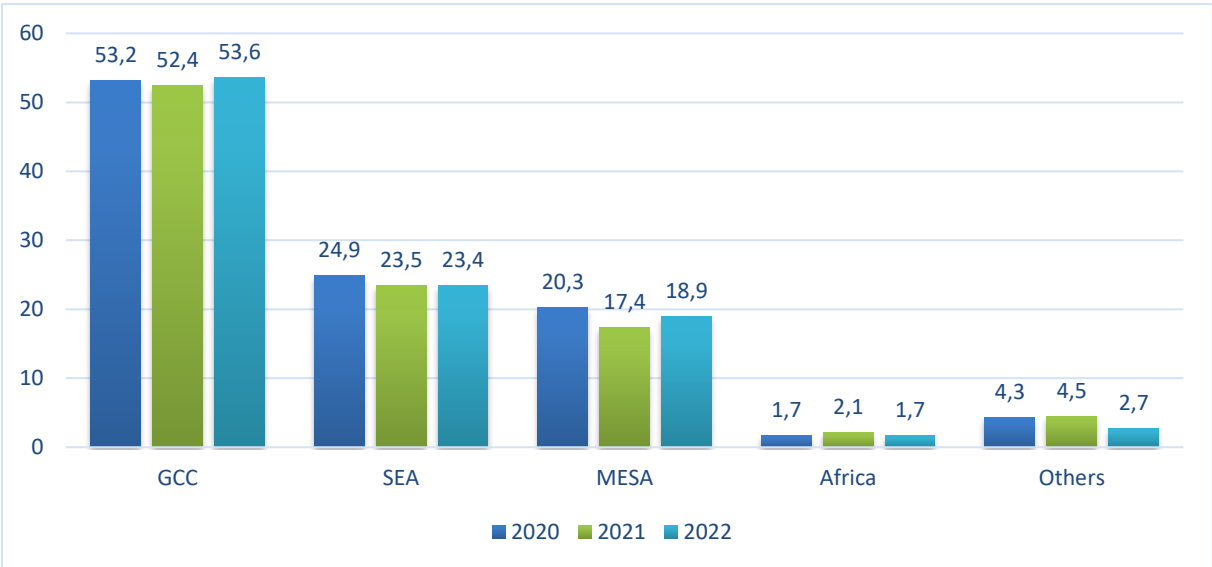
Region	Islamic Banking Assets	Outstanding Sukuk	Islamic Funds Assets	Islamic Insurances Contributions	Total	Share (%)
<b>Gulf Cooperation Council (GCC)</b>	1342.9	356.6	24.1	16.7	1740.4	53.6
<b>South-East Asia (SEA)</b>	307.2	411.4	32.8	6.0	757.4	23.3
<b>Middle East and South Asia (MESA)</b>	478.3	57.8	62.9	5.9	604.9	18.6
<b>Africa</b>	49.6	2.9	1.9	0.8	55.2	1.7
<b>Others</b>	71.2	1.0	14.9	0.6	87.7	2.7
<b>Total</b>	2249.2	829.7	136.6	30.0	3245.5	100.0
<b>Share (%)</b>	69.3	25.6	4.2	0.9	100.0	

*Source: Islamic Financial Services Industry Stability Report 2023*

<sup>4</sup> S&P Global Islamic Finance Outlook, 2023-2024

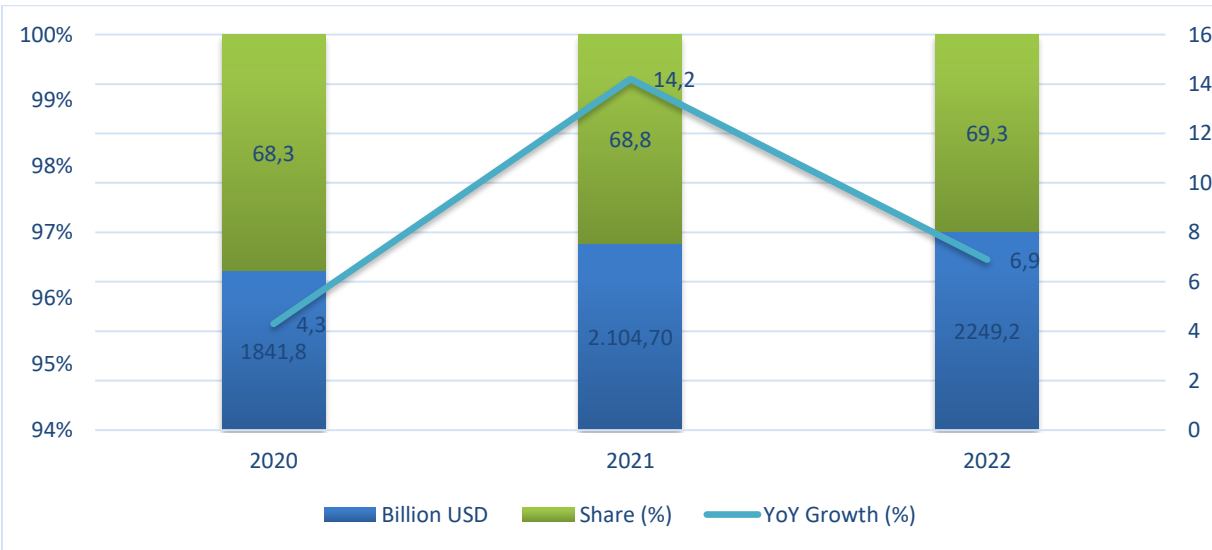
Regarding the concentration of Islamic finance, according to the region, the GCC region still had the most significant share (53.6%), USD 1,730.3 billion in 2022. GCC is followed by Southeast Asia, one of the potential regions for the growth of the Islamic financial market, with regional countries such as Malaysia and Indonesia recording USD 757.4 billion in total assets and a 23.3% share in the global Islamic finance sector in 2022. The market share of the Middle East and South Asia (MESA), which significantly decreased from 20.3% (in 2020) to 17.4% in 2021, has seen a rebound by achieving to raise its share to 18.6% in 2022. On the other hand, Africa, which had 2.1% of the worldwide industry in 2021, underperformed in 2022, and its share decreased to 1.7% from 2.1% with a USD 55.2 million asset size.

**Figure 1: Regional Distribution of Global IFSI Assets (%) (2020-2022)**



Source: Compiled from 2021, 2022 and 2023 Islamic Financial Services Industry Stability Reports

**Figure 2: YoY Performance of Islamic Banking Sector (2020-2022)**



Source: Compiled from 2021, 2022 and 2023 Islamic Financial Services Industry Stability Reports

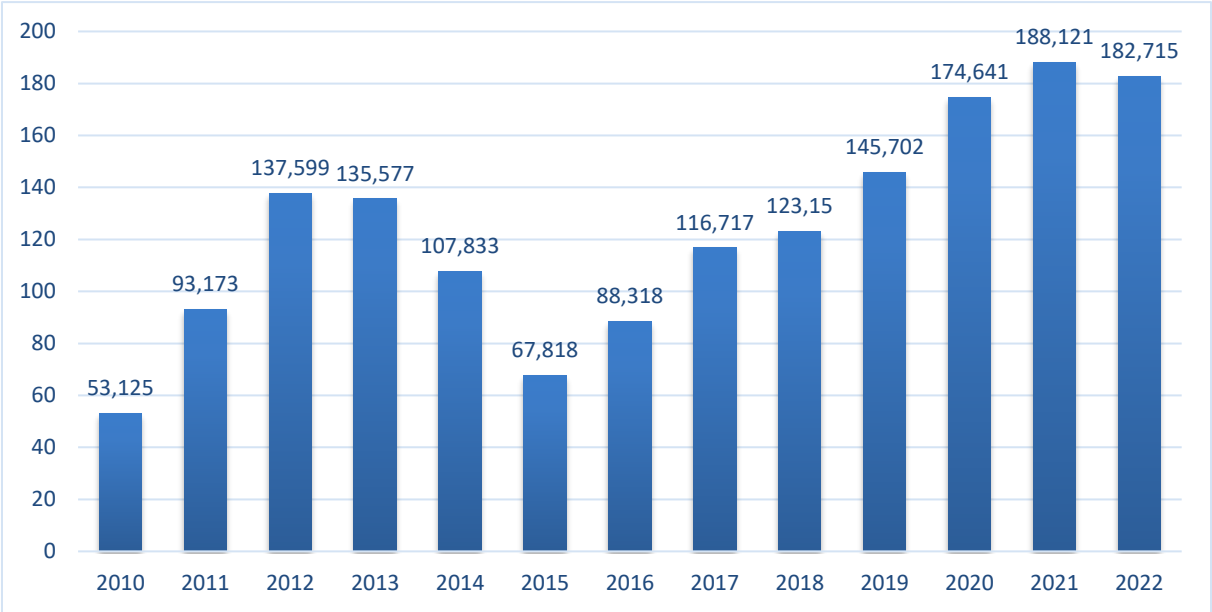
The Islamic Finance industry consists of three main segments as banking, capital markets and Islamic Insurances. Islamic banking sector is the dominant component of the Islamic finance industry. The Islamic banking segment retained its dominance in terms of asset size of USD 2.25 trillion as of the end of 2022 (2021: USD 2.10 trillion) accounting for 69.3% of the value of global IFSI assets (2021: 68.7%). In 2022, the segment recorded a 6.9% y-o-y growth in assets.

The overall Islamic capital market (ICM) segment, consisting of Sukuk, Islamic funds, and Islamic equities registered a slower, single-digit, growth rate for the first time in five years.

ICM’s value of USD 966.3 billion (2021: USD 910.9 billion) accounted for a share of 29.8% of global IFSI assets as of the end of 2022 (2021: USD 30.5 billion).

The Sukuk sub-segment retained its dominance within the ICM segment registering a growth of 7.0% y-o-y in 2022 (12.5%: 2021), while Islamic funds grew marginally by 1.0% y-o-y during the same period. On the other hands, the Islamic Insurances segment registered a growth of 16.1% y-o-y to reach USD 30.0 billion (2022: USD 25.8 billion) as of the end of 2021. Notwithstanding, the segment’s share of global IFSI assets remains 0.9%.

**Figure 3: Global Sukuk Issuances (2010-2022, USD billion)**

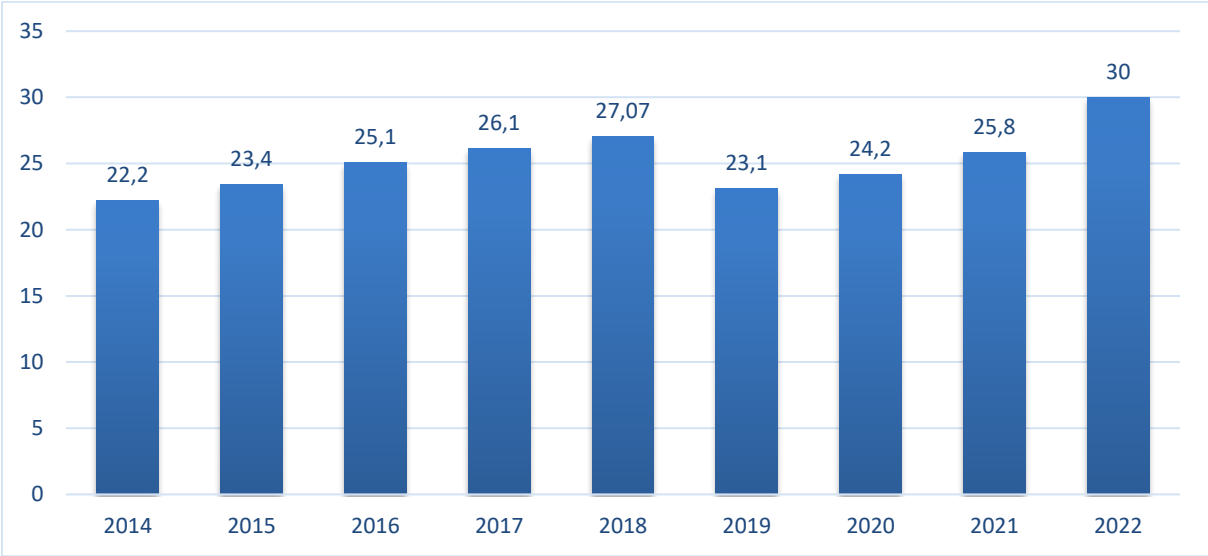


Source: IIFM Sukuk Report 2023

Total global issuance amounted to USD 182.715 billion which confirms the leading position of Sukuk as the key financing instrument. Global Sukuk issuance has shown a slight decrease of around negative 2.96% p.a. or USD 188.121 billion in 2021 compared to USD 182.715 billion in 2022. The issuance volume during 2022 was mainly due to sovereign Sukuk issuances from Asia, GCC, Africa and certain other jurisdictions while Malaysia continues to dominate the overall Sukuk

market while the issuances from Saudi Arabia and Indonesia maintained its upward trend and increased with good volume.

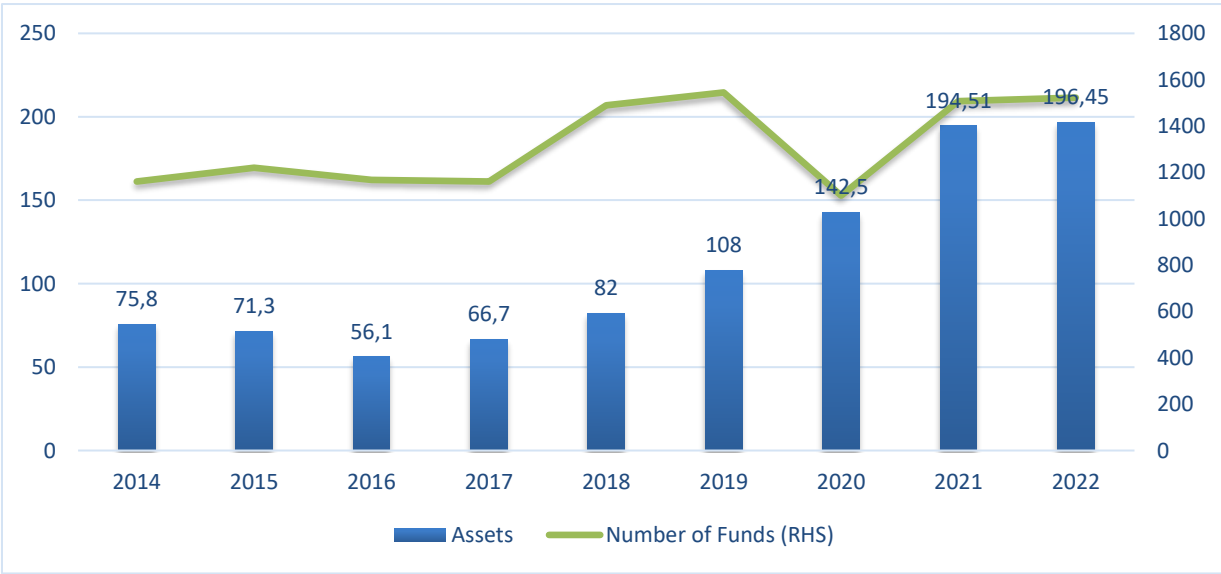
**Figure 4: Trend of Global Islamic Insurances Contributions (USD billion) (2014-2022)**



Source: Islamic Financial Services Industry Stability Report 2023

The global Islamic insurance industry recorded a year-on-year contributions growth of 16.1% in 2022 to reach USD 30 billion, far exceeding the annual growth of 5.4% attained in 2021. Over the past 12-year period (2011–22), the industry has grown at a compound average growth rate of 6.4%. The top seven markets, which generated roughly 95% of global contributions, are Saudi Arabia, Iran, Sudan, Brunei, Malaysia, and Indonesia.

**Figure 5: Assets under Management and Number of Islamic Funds (USD billion)**



Source: Islamic Financial Services Industry Stability Report 2023

### **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 39<sup>th</sup> COMCEC Session, the COMCEC Financial Cooperation Working Group elaborated on the topic “Digital Transformation of Payment Systems in OIC Member Countries” in its 21<sup>st</sup> and will also address the same issue at its 22<sup>nd</sup> Meeting.

#### **a. Digital Transformation of Payment Systems in OIC Member Countries**

##### **(21<sup>st</sup> Meeting of the Financial Cooperation Working Group)**

The 21<sup>st</sup> Meeting of the COMCEC Financial Cooperation Working Group (FCWG) was held on April 30<sup>th</sup>, 2024, in a virtual-only format with the theme of “Digital Transformation of Payment Systems in OIC Member Countries”. The first draft version of the report, along with a country case study, was submitted to the 21<sup>st</sup> FCWG meeting. The final version of the Report will be submitted to the 22<sup>nd</sup> Meeting of the Working Group to be held in 16-17 September 2024.

The main objective of this study is to provide an analysis and elaboration on payment systems in different jurisdictions, with a particular focus on the initiatives in OIC Member Countries and the need for digitalization in payment systems, emerging technologies in digital payment systems, key components, and parties involved in the digital transformation, the challenges and prospects of digital payment systems in 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 good practices to be analyzed and the case studies to be conducted within the framework of this study and a guideline to realizing these recommendations. The outcomes and possible policy advice 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)).

#### **b. 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 countries 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.

In 2024, the project titled “Digital Finance and Payment Systems Training for SME Value Chain Strengthening” is being implemented by Federal Republic of Nigeria. The project aims at helping SMEs increase their efficiency and productivity, reach new markets and reduce costs by encouraging them to adopt digital payment systems. A training namely “Empowering SME’s through advanced financial technologies” and a workshop on “Digital Payments Proficiency: Hands on Learning for SMEs” will be held within the framework of the project.

**c. 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 17 meetings so far. The 18<sup>th</sup> Meeting of the Forum will be held in September-October 2024. 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 Fund. In this context, an important financial product, “OIC COMCEC 50 Shariah International Investment Fund,” based on the Index, became 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.

Within this scope, the 39<sup>th</sup> COMCEC Session called upon the Member Countries to support the promotion of the S&P OIC/COMCEC Shariah International Fund, which includes shares from the OIC/COMCEC 50 Shariah Index, developed under the coordination of the OIC Exchanges Forum, to the investors and the finance community in their respective countries.

The Forum has also been working on the Gold Exchange Initiative for the OIC Member Countries. In this respect, the 39<sup>th</sup> COMCEC Session requested the Secretariat of the OIC Exchanges Forum to complete technical preparations for the OIC Gold Exchange Project, based on the block-chain model, in cooperation with Central Banks of the interested Member Countries

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 twelve meetings so far. The 13<sup>th</sup> Meeting of the Forum will be held on September-October in 2024.

The 39<sup>th</sup> COMCEC Session, recalling the relevant resolutions of the COMCEC Ministerial Sessions, requested the Secretariat of the COMCEC Capital Market Regulators Forum to expedite the necessary legal, administrative, and technological preparations for the establishment of the



COMCEC Real Estate Electronic Platform and invited the Member Countries, which have not done so yet, to identify their authorized bodies as well as notify them to the Forum’s Secretariat for enhancing coordination.

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 Bangladesh, Egypt, Indonesia, Iran, Kuwait, Lebanon, Malaysia, Maldives, Morocco, Pakistan, Palestine, Qatar, and Saudi Arabia have 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 6<sup>th</sup> Meeting of the Forum will be in September-October 2024.

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

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