



**Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)**

COMCEC FINANCIAL OUTLOOK 2025



**COMCEC COORDINATION OFFICE
October 2025**



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PREFACE

The COMCEC Outlooks are prepared in each cooperation area to explore the global trends and the current situation in the OIC Member Countries in the respective area and enrich the discussions during the Working Groups Meetings by providing up-to-date data.

The COMCEC Financial Outlook 2025 is updated by Mehmet Akif ALANBAY to present a general outlook of the financial system of the OIC Member Countries, highlighting the potential areas for cooperation as well as evaluating the recent developments in the global economic and financial system.

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¹ E-book: <http://ebook.comcec.org>

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ABBREVIATIONS

AuM	Assets under management
BIS	Bank for International Settlement
COMCEC	Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
EAP	East Asia and the Pacific
ECA	Europe and Central Asia
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNI	Gross National Income
IFSI	Islamic Financial Services Industry
MENA	Middle East and North Africa
MESA	The Middle East and South Asia
NPL	Non-Performing Loans to Gross Loans
OIC	Organization of the Islamic Cooperation
OIC-HIGH	OIC-High Income Group
OIC-LIG	OIC-Low Income Group
OIC-LMIG	OIC Lower Middle-Income Group
OIC-UMIG	OIC-Upper Middle-Income Group
ROA	Return on Asset
ROE	Return on Equity
SA	South Asia
SSA	Sub-Saharan Africa

INTRODUCTION

As a large regional international organization, COMCEC is one of the four standing committees of the OIC responsible for enhancing economic and commercial cooperation among the Member States. Since the commencement of its activities in 1984, COMCEC has initiated many programs and projects towards improving financial cooperation among the OIC Member States. Besides, the COMCEC Strategy identified financial cooperation as one of the significant cooperation areas and envisaged the establishment of the Financial Cooperation Working Group as an essential instrument for strengthening financial cooperation among member countries. Furthermore, cooperation among the Stock Exchanges, Capital Market Regulators and Central Banks, and Monetary Authorities of the Member States are other crucial ongoing initiatives in financial cooperation under the COMCEC.

Financial Outlook has been prepared in order to provide an overview of the financial system of the OIC Member Countries by emphasizing the recent global economic and financial developments.

The Outlook comprises three main sections: the first gives a general overview of the financial system of the OIC Member Countries. It outlines financial access, depth, efficiency, and stability in addition to the weaknesses and strengths according to selected financial indicators. In this Outlook, the OIC Member Countries are classified according to their income levels. The second section briefly addresses the Islamic finance industry. The third section underlines the cooperation efforts under the COMCEC Strategy and the ongoing activities under the COMCEC in this field.

1. FINANCIAL OUTLOOK OF THE OIC MEMBER COUNTRIES

Financial markets have crucial roles for economies. In the 1950s and 1960s, financial institutions, especially state-owned institutions, had been used for promoting economic sectors through subsidized credit programs by governments. However, these state-led development programs became unsuccessful because of the inefficiencies and populist allocation of the sources, and the harmful effects of them were seen in the 1970s. Three main factors led the governments to follow financial liberalization: poor results, high costs, and pressures from globalization (Hanson & Ramachandran, 1990). Hence, financial markets started to be liberalized in the 1980s and 1990s, and the role of the markets in the development process increased.

The liberalization of financial markets during the 1990s and 2000s played an essential role in shaping today's global financial structure. The financial sector provides payment and transaction services as well as channels households' savings to various investment areas to the different sectors of the economy, such as households, enterprises, and governments. However, it can also cause fragility and crisis, as seen during the recent global financial crises in 2007-2008, alongside numerous banking crises in emerging markets and developing economies.

Some of the main functions of a financial system are identified as "the trading of risk, allocating capital, monitoring managers, mobilizing savings, and easing the trading of goods, services, and financial contracts" (Levine, 1997, p. 689). For the financial sector to contribute to the growth, the industry itself has to be resilient and be able to reduce its vulnerabilities. Given the complexity and dynamism of modern financial products and markets, appropriate institutions are needed to reduce the risks and vulnerabilities that can lead to severe and costly economic downturns (COMCEC, 2016).

The financial sector is significantly connected to the overall institutional framework in a country. Given that intertemporal financial transactions make it one of the most institution-sensitive sectors, a financial system can only thrive in an environment with active institutions that reduce agency conflicts between contract parties. There might also be reverse influences from a thriving financial sector to the institutional strengthening of a country (Beck, 2016).

A financial system consists of institutional units and markets that interact to mobilize funds for investment and provide facilities for the financing of commercial activity. The role of financial institutions within the system is primarily to intermediate between those that provide funds and those that need funds, and typically involves transforming and managing risk. In this regard, the financial system has significant effects on whole economic systems, and a healthy financial system contributes to economic growth by easing access to finance, increasing financial literacy, and allocating resources efficiently.

In order to achieve a well-functioning system, financial markets require depth, access, efficiency, and stability. 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 can successfully intermediate financial resources and facilitate transactions. Finally, stability refers to low market volatility plus low institutional fragility.

These characteristics of the market have been measured by using particular indicators to compare financial systems across countries and over time (Čihák et al., 2012).

In this regard, the purpose of this outlook is to shed light on recent financial developments by using the characteristics as mentioned above of the financial markets and to analyze the financial markets of the OIC countries over time.

The outlook utilizes several measures of the following four characteristics of financial institutions and markets to measure and benchmark financial systems:

- (a) Financial Depth: Measures the size of financial institutions and markets,
- (b) Financial Access: Measures the degree to which individuals can and do use financial institutions and markets,
- (c) Financial Efficiency: Measures the efficiency of financial institutions and markets in providing financial services,
- (d) Financial Stability: Measures the stability of financial institutions and markets in order to measure and benchmark financial systems in the OIC region (Čihák et al., 2012).

Although the above-referred study of the World Bank has developed several measures to compare the characteristics of the financial markets, the following indicators are selected to analyze the four measures of the financial markets in the OIC countries, as depicted in Table 1.

Table 1: Selected Financial Data on the OIC Member States

CATEGORY	INDICATOR CODE	NAME OF THE INDICATOR
ACCESS	GFDD.AI.01	Bank accounts per 1,000 adults
	GFDD.AI.02	Bank branches per 100,000 adults
	GFDD.AM.02	Market capitalization excluding top 10 companies to total market capitalization (%)
DEPTH	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 (%)
EFFICIENCY	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)
STABILITY	GFDD.SI.02	Bank non-performing loans to gross loans (%)
	GFDD.SI.03	Bank capital to total assets (%)
	GFDD.SI.05	Bank regulatory capital to risk-weighted assets (%)

Source: World Bank Global Financial Development Database (September 2022 Version)

In this Financial Outlook, OIC Member Countries have been categorized into four major groups based on the World Bank Income Grouping Methodology (according to their GNP per capita levels). According to this categorization, which is updated with 2025 figures, 15 countries [2022: 14] are in the OIC Low Income Group (OIC-LIG); 20 [2022: 21] are in the OIC Lower Middle Income Group (OIC-LMIG); 14 [2022: 13] are in OIC Upper Middle Income Group (OIC-UMIG), and 8 [2022: 8] are in OIC High Income Group (OIC-HIGH) as shown in Table 2².

Table 2: Categorization of OIC Member States

CATEGORY	COUNTRIES	NUMBER OF COUNTRIES
OIC-Low income group (1,135 USD or less)	Afghanistan, Burkina Faso, Chad, Gambia The, Guinea-Bissau, Mali, Mozambique, Niger, Sierra Leone, Somalia, Sudan, Syria, Togo, Uganda, Yemen	15
OIC-Lower middle income group (1,136 USD to 4,495 USD)	Bangladesh, Benin, Cameroon, Comoros, Cote d'Ivoire, Djibouti, Arab Rep. of Egypt, Guinea, Jordan, Kyrgyz Republic, Lebanon, Mauritania, Morocco, Nigeria, Pakistan, Palestine, Senegal, Tajikistan, Tunisia, Uzbekistan	20
OIC-Upper middle income (4,496 USD to 13,935 USD)	Algeria, Albania, Azerbaijan, Gabon, Indonesia, Iran, Iraq, Kazakhstan, Libya, Malaysia, Maldives, Suriname, Türkiye, Turkmenistan	14
OIC-High income group (13,935 USD or more)	Bahrain, Brunei Darussalam, Guyana, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	8

Source: Composed by the author according to the latest available classification of World Bank 2024, <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>, access date: 29 August 2025.

In 2023, among the 56 OIC member countries, Algeria and Iran distinguished themselves by advancing into higher economic categories, marking a significant improvement from their standings in 2022. Historically, both nations were part of the OIC-UMIG. However, due to economic challenges that emerged in recent years, their classifications were downgraded to the OIC-LMIG in 2019 for Algeria and in 2020 for Iran, respectively.

After achieving notable progress and being upgraded to the OIC-UMIG in the preceding year, Palestine faced challenges that led to its reclassification to the OIC-LMIG in 2023. This transition

² A complete list of the OIC member country groups based on income levels from 2016 to 2023 is also provided in the appendix. It should be noted that the analysis of the four characteristics of financial institutions and markets (depth, access, efficiency, and stability) for each OIC income level group has been conducted according to classifications for 2013-2020 due to the latest available data in the World Bank Financial Development Database. The classifications for each year between 2016 and 2023 are given as a reference to understand the recent changes in the groups of OIC member countries.

marked Palestine as the sole country within the OIC to move to a lower-income category during that year.

While quite a number of indicators are produced to measure the performances of financial institutions and markets, the data limitation, especially for the low-income and lower-middle-income group of the OIC countries, have led to employ a few benchmarks to assess the financial markets. These four characteristics of financial institutions and markets (depth, access, efficiency, and stability) with 12 indicators are used to capture financial systems' features and provide the empirical shape of the financial development in the OIC countries. The figures have been composed with the data from the latest World Bank Global Financial Development Database, which was updated in September 2022³ to analyze the recent developments in the financial markets in OIC countries. Historical coverage of the database is from 1960 to 2021; however, there are several yearly missing data for each indicator for many countries, including OIC member countries. The last eight years' figures (2013-2020) have been used to make the analysis more reliable. Also, OIC countries have been examined in terms of income level groups each year rather than country-based analysis; therefore, the figures indicate average values of available data for the four income categories. Data availability and accuracy are essential for developing a meaningful analysis in the financial sector. For the OIC countries, the lack of accurate and sufficient data for low-income group countries of the OIC is the main challenge while gathering data.

1.1 Financial Access

Financial access (inclusion) can briefly be defined as the use of financial services by individuals and firms. Financial access helps people and corporations benefit from new business opportunities, invest more in education, save for the future, insure against various risks, etc. This topic has been of growing interest worldwide and is considered one of the main areas, particularly in emerging markets and developing economies, for the further development of financial markets. The benefits of financial intermediation and markets are believed not to be used by all sectors and populations, resulting in adverse effects on inclusive economic growth, poverty alleviation, income distribution, efficient allocation of resources, etc.

Čihák et al. (2012, p. 12) highlight the importance of financial access to the different groups of economic units as follows: "A well-functioning financial system allocates capital based on the expected quality of the project and entrepreneur, not on the accumulated wealth and social connections of the entrepreneur". A well-functioning financial system that overcomes market frictions will more effectively provide financial services to a wide range of firms and households, not just large companies and wealthy individuals. Thus, to develop informative proxies of financial development, it is helpful to move beyond the financial depth and include indicators of financial access—the degree to which the public can access financial services.

A typical proxy variable of access to financial institutions is the number of bank accounts per 1,000 adults. Other variables in this category include the number of bank branches per 100,000

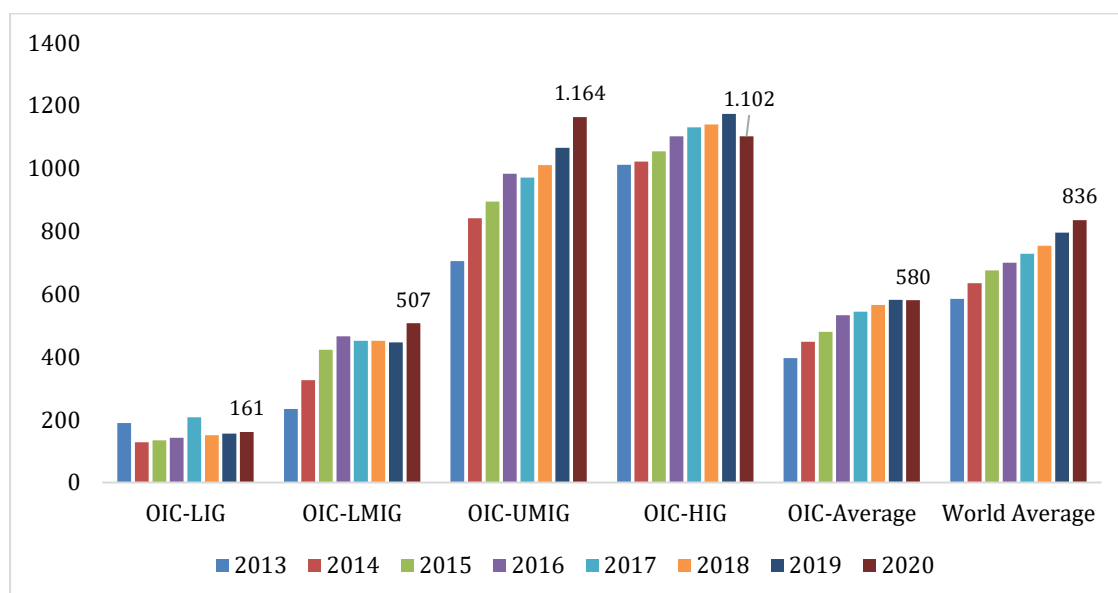
³ Although the September 2022 database includes 2021 data for some countries, the available data is not enough for OIC member countries. Therefore, the report covers 2020 figures in the database and updated previous statistics in the database for the earlier years (2013-2019).

adults (commercial banks), the percentage of firms with a line of credit. When using these proxies, the following points should be considered regarding their weaknesses: the number of bank branches is becoming misleading with the move towards branchless banking. The number of bank accounts does not suffer from the same issue, but it has its own limitations (in particular, it focuses on banks only and is not correct because some bank clients have numerous accounts) (Čihák et al., 2012).

Bank accounts per 1,000 adults is one of the leading indicators of access to financial services, which refers to 'the number of depositors with commercial banks per 1,000 adults'. As a result of the underdeveloped nature of economic and financial markets as well as the low level of financial inclusion, this level for low-income group countries has been lagging behind the world averages significantly.

While the world average was recorded as 836 in 2020, the OIC-LIG was realized as 161 in the same year (Figure 1). The level of bank accounts opened by adults in OIC-HIG and OIC-UMIG countries, which have exceeded the world averages significantly, was recorded as 1,102 and 1,164, respectively. This indicates a close correlation between economic growth, income level, and banking activities in a particular country. These figures indicate that the low-income group of OIC countries needs to develop their markets to increase financial inclusion to support their economic growth and poverty reduction.

Figure 1: Bank Accounts per 1,000 Adults

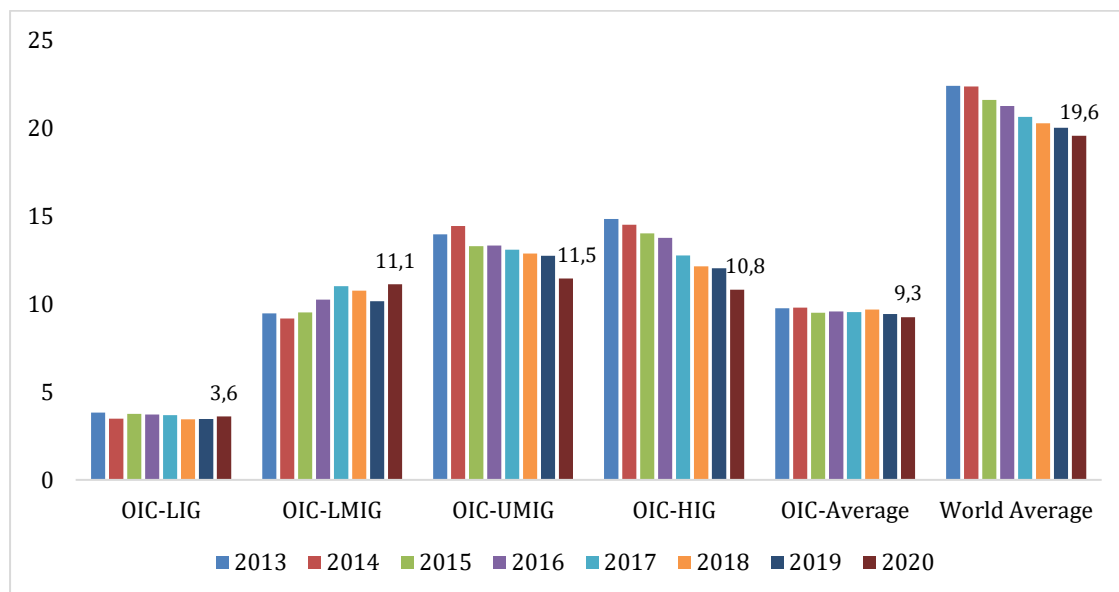


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Another indicator used to measure financial access is **the number of bank branches per 100,000 adults**, which refers to the number of commercial bank branches per 100,000 adults in an economy.

As depicted in Figure 2, the number of bank branches is consistent with the bank account as both indicate a low level of financial access recorded for the low-income group of OIC countries, which reached 3.6 branches per 100,000 adults in 2020, while the world average realized as 19.6 in the same year. Unlike the previous indicator, the UMIG and HIG groups of the OIC have shown lower performance than the world averages across the selected period. Although the financial markets and instruments have recorded considerable growth and diversified significantly over the years, the branches have not increased in parallel and even decreased for high-income countries in line with the global average trend. Among other factors, this can be explained by the widespread usage of branchless/internet banking. Also, it shows that high-income countries have already reached a peak in terms of branches and are going to more online branches. On the other hand, the policymakers in the low-income group countries should focus on enhancing banking activities and access to financial markets by investing in branchless banking initiatives that have emerged as a cost-effective option in recent years.

Figure 2: Bank Branches per 100,000 Adults



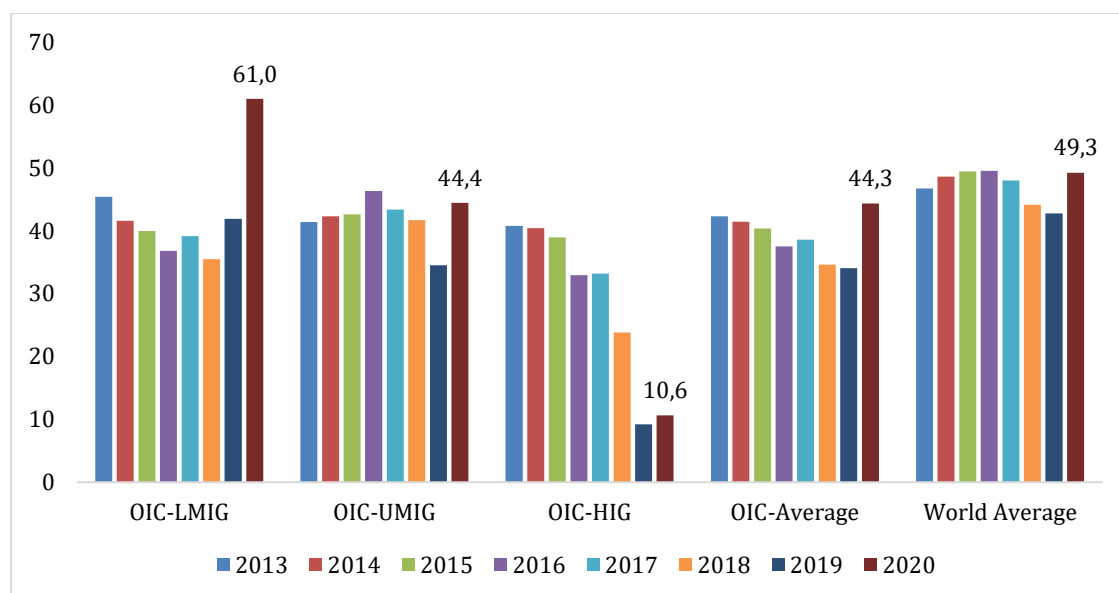
Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Data on access to financial markets are more limited. The data is scant, especially for countries with low-income and undeveloped stock exchange markets. Measures of market concentration are utilized to understand the level of access to stock and bond markets. Here, we used the **Market capitalization excluding top 10 companies to total market capitalization (%)** to approximate access to financial markets. This ratio is calculated as 'value of listed shares outside the ten largest companies to the total value of all listed shares'.

The world average fluctuated around 45-49 percent from 2013 to 2020 (Figure 3). As for the OIC countries, the ratios for all groups increased in 2020. As this ratio increases across the countries and country groups, it should be interpreted that the value of outstanding shares of

comparatively smaller companies is expanding, meaning access to the market is affected positively. Because the data is available only for those countries whose markets have the maturity as well as the undeveloped nature of stock exchanges in the OIC countries, it is understandable to have smaller shares in OIC states compared to the world averages.

Figure 3: Market Capitalization Excluding Top 10 Companies to Total Market Capitalization (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

As a result, regarding financial efficiency, the OIC averages for the selected indicators have been found around the world averages over the years chosen. As mentioned earlier, there is a close correlation between economic development, income level, and financial access. Therefore, the findings of the indicators under this characteristic sign that as the economies develop, financial access increases in parallel. OIC countries' high and upper-middle-income groups have performed much better than others. In this regard, the policies towards promoting financial access should focus on the low-income group countries as well as on the groups of financially deprived segments of other group countries.

1.2 Financial Depth

A reasonable level of financial depth is one of the crucial fundamentals for well-functioning financial markets and institutions to reach the desired role of finance in an economy to lead to economic growth, prosperity, and poverty reduction. As the financial institutions and markets are deepened, financial services have been diversified and sophisticated for financial consumers.

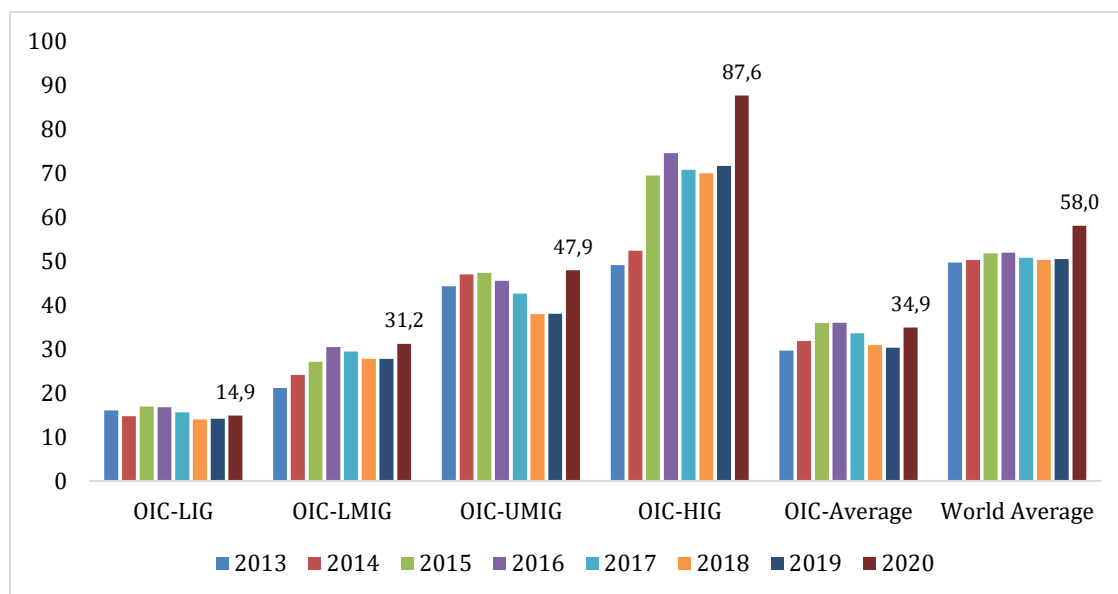
Financial depth captures the size of the financial sector relative to the economy. It is the size of banks, other financial institutions, and financial markets in a country compared to a measure of

economic output. The most commonly used variable to measure the depth of the markets and institutions is private credit relative to the GDP. Private credit excludes credit issued to governments, government agencies, and public enterprises. It also excludes credit issued by central banks. An alternative to private credit to GDP is total banking assets to GDP, a variable that is also included in the Global Financial Development Database. It could be accepted as a more comprehensive measure of size because it includes not only credit to the private sector but also credit to the government as well as bank assets other than credit. However, it is available for a smaller number of economies and has been used less extensively in the literature on financial development (World Bank, 2020). In order to measure the depth, private credit by deposit money banks to GDP, deposit money banks' assets to GDP, and stock market capitalization to GDP were used.

Private credit by deposit money banks to GDP refers to the financial resources provided to the private sector by domestic money banks as a share of GDP. Domestic money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits. Since the role of the private sector in economic growth has been increasing all over the world, this indicator provides a valuable measure of how financial markets and institutions are used and affect the economy in terms of size. Empirical research has shown that economies with better-developed banking and credit systems tend to grow faster over long periods (Demirguc-Kunt & Levine, 2008). In this regard, the domestic credit to the private sector to GDP ratio is a significant indicator to measure the financial depth of any country.

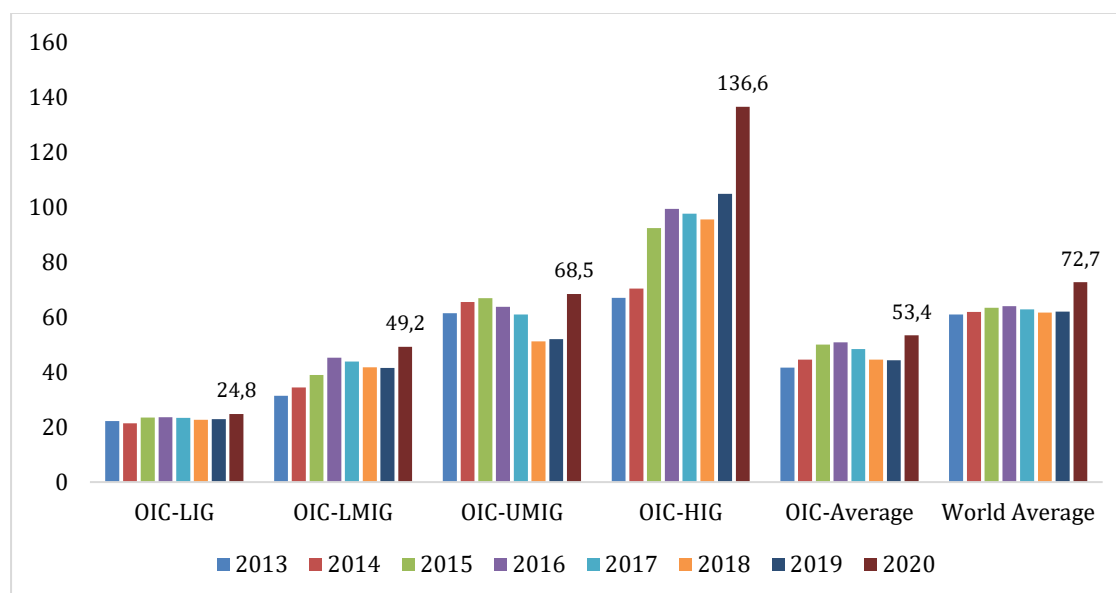
As shown in Figure 4, the OIC average of the private sector credit given by the domestic banks as a share of GDP is significantly lower than the world average, and it indicates the underdeveloped nature of the private sector in the OIC countries. The OIC average in 2020 reached 34.9%, while the world average for the same period was 58.0%. The rates have differed significantly across different income groups among the OIC countries. As seen from the graph below and as expected from the level of economic development, OIC-LIG and OIC-LMIG countries have low levels of private credits from the banking sector. OIC average has fluctuated for the last eight years. The rates for the OIC-HIG countries have increased significantly over the years, surpassing the world average and reaching 87.6% in 2020. As a result, it is found that there is a considerable gap between the world and the OIC Member States average. The figures indicate the underdeveloped nature of the private sector and banking. This issue can be seen as an essential obstacle to the investment and economic growth of the OIC member countries.

Figure 4: Private Credit by Deposit Money Banks to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

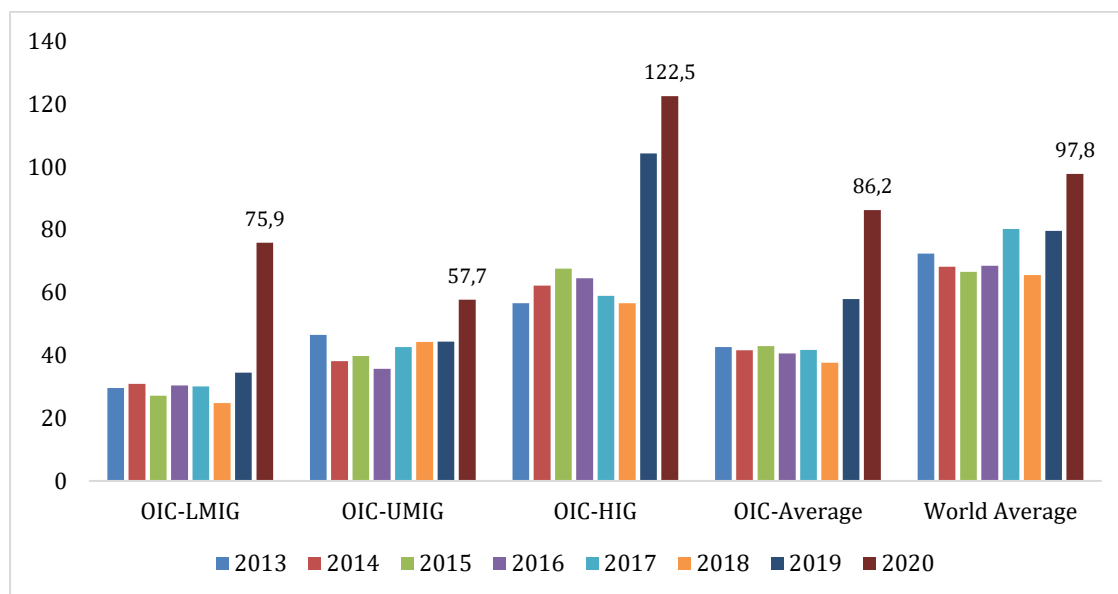
Deposit money banks' assets as a share of GDP is another indicator used to measure the depth of financial institutions and markets. According to the World Bank (2019), this measure refers to total assets held by deposit money banks as a share of GDP, and assets include claims on the domestic real nonfinancial sector, including central, state, and local governments, nonfinancial public enterprises, and the private sector. Compared to private credit, this indicator also includes credit to government and bank assets other than credit. The results for the OIC average and various income groups are similar to the previous indicator. As shown in Figure 5, the OIC average fluctuated over the years and was below the world average. On the other hand, the OIC-HIG group has surpassed, and OIC-UMIG moved closer to the world averages in recent years. Since this indicator includes the banks' claims on the government, the results for these two groups indicate the increasing role of the government in using financial markets more than the low-income groups. It is also noted that the positive development path of the OIC-LIG income started again in 2020.

Figure 5: Deposit Money Banks' Assets to GDP (%)

Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

In order to measure the depth of the financial markets, stock and bond markets could be used as an indicator. To approximate the size of the stock markets, the most common choice in the literature is stock market capitalization to GDP (Čihák et al., 2012). This indicator refers to the total value of all listed shares in a stock market as a percentage of GDP. Regarding this indicator, the low-income group of OIC member countries does not have data; therefore, the analysis is conducted on the rest of the country groups. The world average recorded significant growth in 2020 and reached 97.8%. Although the OIC average was significantly lower than the world average in the previous years, the gap narrowed with the notable increase in the OIC average in 2020. The recent rise stemmed from the data of Saudi Arabia, which increased from 63.1 in 2018 to 303.5 in 2019 and continued in 2020. One of the factors behind the significant increase in the Stock Market Capitalization to GDP ratio of Saudi Arabia was the public offering of Aramco, one of the largest companies in the world, in 2019. The same effect of Saudi Arabia's data was also valid for OIC-HIG.

Figure 6: Stock Market Capitalization to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

A well-established, stable, and functioning stock market will ease the accumulation and attraction of long-term capital for sustainable economic growth and development. The stock market has a crucial role in financial markets, and the smooth functioning of the stock market is accepted as a substantial condition for the financial sector's evolution. This is also considered a prerequisite to sustainable economic growth and development that makes the national economy to enhance more foreign investors. A well-functioning stock market plays a vital role in encouraging liquidity, mobilizing and assembling savings, producing information for prospective investments and capital allocation. Therefore, it is accepted that the existence of an active and stable stock market can stimulate the rate of economic growth (Azam, Haseeb, Samsi, & Raji, 2016).

As a result, as highlighted in the literature, macroeconomic and institutional factors play an important role in stock market development. Macroeconomic factors such as real income, developments in the banking sector, interest rates, private capital flows, inflation, and exchange rates have effects on stock market development. As for the institutional factors, legal environment, regulations, legal protection of investors, corporate governance, financial liberalization, trade openness, etc., an economy can affect the development of the stock market. As the stock markets consist of various financial instruments such as securities, public and corporate bonds, future and option contracts, a stable and well-functioning stock market helps attract foreign investors. The findings and analysis of these two indicators, stock market capitalization and stock market total value traded, show that stock markets in the OIC member

countries have a potential for further expansion to enhance and enlarge the development of the markets for meeting the financing needs of corporations.

The OIC countries have shown significant fluctuations among various income groups over the selected period in terms of financial depth. While the high-income and upper-middle-income countries have performed better than the other groups, the averages of the indicator for other groups have been recorded below the world averages.

1.3 Financial Efficiency

The structure and operation of the financial system have undergone remarkable changes in the past couple of decades due to significant improvements in technology, product innovation, and integration in the global financial system, competition in financial services, and policy, regulatory, and trade reforms. These developments have led to dynamic and sophisticated global financial markets and fostered economic growth; at the same time, however, specific problems and issues have plagued the financial system (OECD, 2010). In this regard, among other characteristics, the efficiency of the financial intermediaries and markets has emerged as an essential tool for understanding the financial system.

As for intermediaries, efficiency is primarily constructed to measure the cost of intermediating credit. Efficiency measures for institutions include indicators such as overhead costs to total assets, net interest margin, lending-deposits spread, non-interest income to total income, and cost to income ratio, return on assets, and return on equity, etc. Regarding financial markets, efficiency measures focus less on directly measuring the cost of transactions and more on measuring transactions. A primary measure of efficiency in the stock market is the turnover ratio. The logic of using this variable is that the higher the turnover (the more liquidity), the more efficient the market (Čihák et al., 2012).

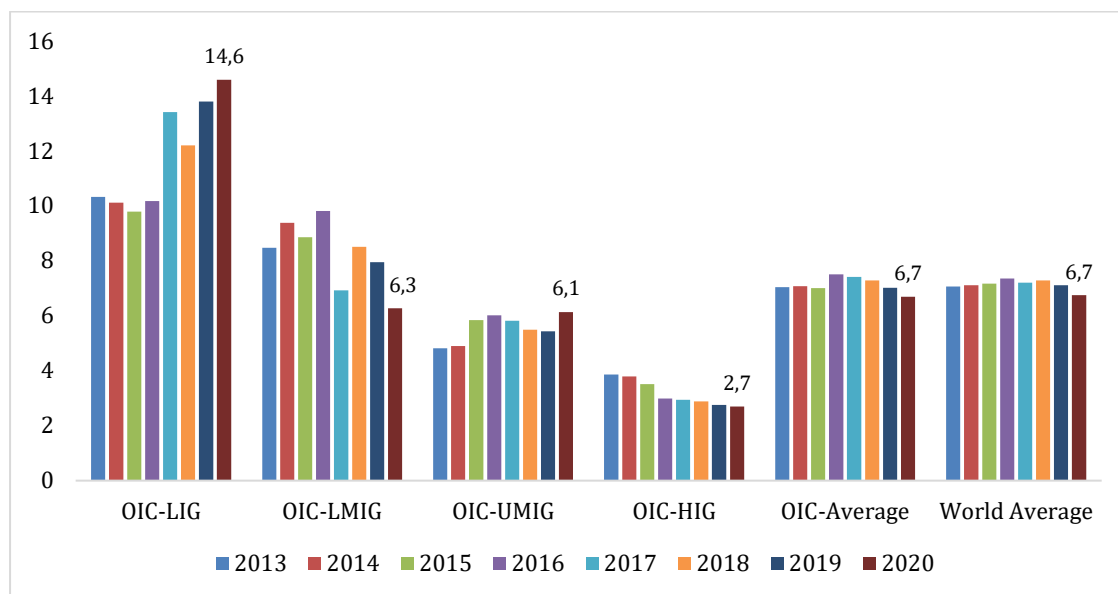
In this report, the following measures for institutions and markets are used to understand and compare the efficiency of the financial system among the countries and country groups.

Bank lending deposit spread refers to the difference between the lending and deposit rates. The lending rate is the rate banks charge on loans to the private sector, and the deposit interest rate is the rate commercial banks offer on three-month deposits.

There is an indirect correlation between economic development and interest rate spreads, as shown in Figure 7, as the advanced and high-income economies tend to have lower spreads than the lower-income groups. As the financial markets become more developed and the institutional structure of the financial system is more mature, the competition among the intermediaries goes up, and leading to interest rate spreads decrease. This paves the way for a better economic environment and a conducive atmosphere for investment.

Figure 7 depicts that OIC-LIG lending deposit spread, which was around 14.6 during the selected period and was relatively higher than the OIC average rate. On the other hand, the spreads of OIC-LMIG, OIC-UMIG and OIC-HIGH were relatively lower than the world average and realized as around 6.3 percent, 6.1 percent and 2.7 percent, respectively, during the same period.

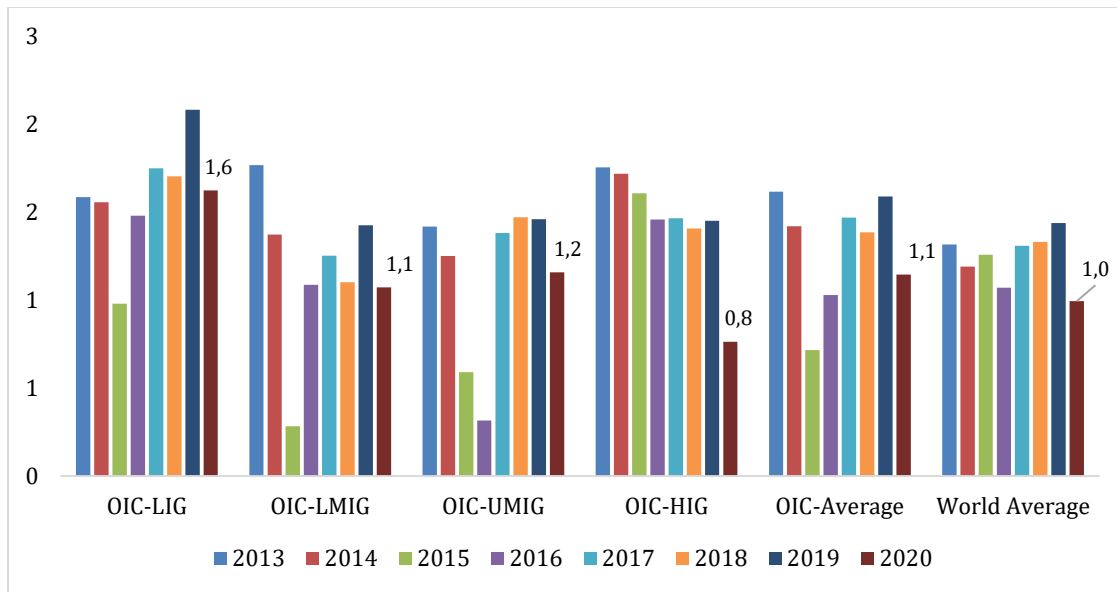
Figure 7: Bank Lending-Deposit Spread (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Bank Return on Asset (ROA) is another indicator used to measure the efficiency of financial intermediaries. It is calculated as a ratio of commercial banks' after-tax net income to yearly averaged total assets. This indicator measures the profitability of a company relative to its total assets. Therefore, it gives an idea about the efficiency of a financial intermediary in using its assets to generate earnings. The higher ratio indicates better performance for individual corporations and banks as well as for the financial system as a whole.

As shown in Figure 8, OIC average ROA data fluctuated between 1.0% to 2.0% and above the world average in 2020. Lower ROA data could be interpreted as the efficiency of economies. Also, this situation could be explained by the weak asset base of financial intermediaries, lack of competition, and shallow market structure. The world average realized as 1.6 percent in 2013, wavered over the selected period, and decreased to 1.0 percent in 2020.

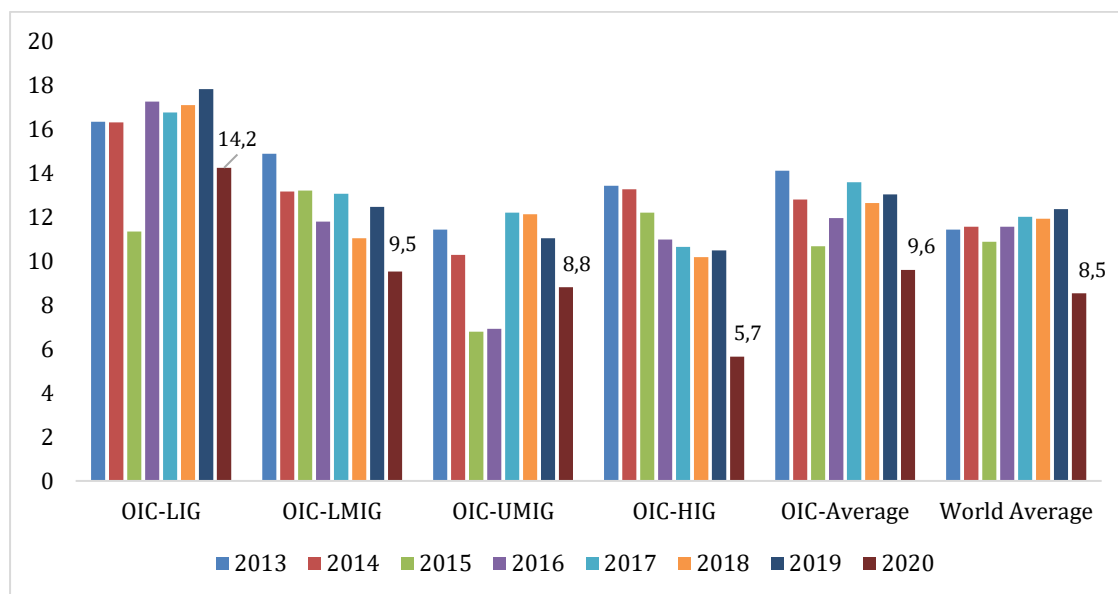
Figure 8: Bank Return on Assets (ROA) (% , after-tax)


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Bank Return on Equity (ROE) is another ratio used to measure the efficiency of financial intermediaries. The ROE measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated as a ratio of commercial banks' after-tax net income to yearly averaged equity.

Figure 9 shows the ROE data for OIC income groups and the average world performance during 2013-2020, when the OIC group recorded a better performance than the world. The world average decreased to 8.5 percent in 2020. OIC-LIG and OIC-LMIG countries had the highest ROE across the OIC average and other income groups at 14.2 and 9.5, respectively.

Figure 9: Bank Return on Equity (ROE) (% , after-tax)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

As a result, in terms of the efficiency characteristic, the OIC average has performed slightly similar to the world average for the selected indicators between 2013 and 2020.

1.4 Financial Stability

The importance of financial stability is highlighted by the World Bank (2020) as follows: “A stable financial system is capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy’s natural rate, and eliminating relative price movements of real or financial assets that will affect monetary stability or employment levels. A financial system is in a range of stability when it dissipates financial imbalances that arise endogenously or as a result of significant adverse and unforeseen events. The system will absorb the shocks primarily via self-corrective mechanisms, preventing adverse events from disrupting the real economy or other financial systems. Financial stability is paramount for economic growth, as most transactions in the real economy are made through the financial system”.

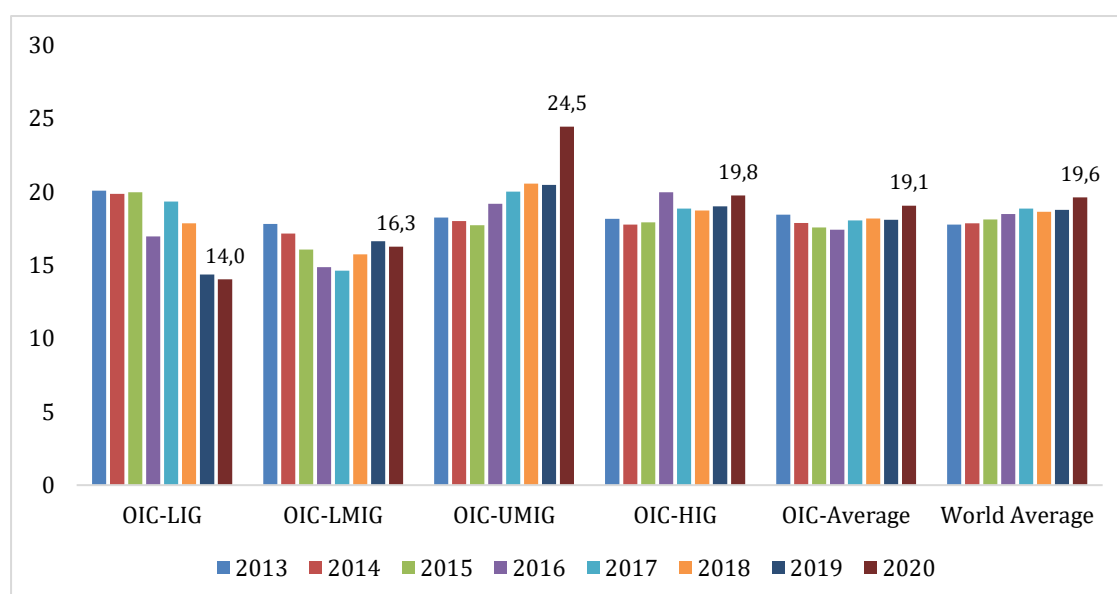
Financial stability is an essential feature of a well-functioning financial sector. The recent rapid growth of the financial industry should be accompanied by proper risk management and regulation in order to refrain from systemic risks that can be a severe threat to global financial stability. In this regard, the system has created various mechanisms to measure systemic risk, stress tests, and other tools for financial stability. As the global financial markets have been integrated over the recent decades, the importance of financial stability has increased since it is closely connected with macroeconomic stability, economic growth, employment, etc.

In this part of the report, bank regulatory capital to risk-weighted assets, bank capital to total assets ratio, and banks non-performing loans to total gross loans variables are used to measure the financial stability of financial institutions in the OIC Member States.

Bank regulatory capital to risk-weighted assets refers to the capital adequacy of deposit takers. It is a ratio of total regulatory capital to its assets held, weighted according to the risk of those assets. This ratio is used as an essential indicator to measure the robustness of financial institutions during financial shocks. Global financial regulatory institutions, for example, the Bank for International Settlement (BIS), recommend financial institutions banks to hold an adequate amount of capital to protect from systemic risks.

The following figure shows that OIC-UMIG has the highest scores over the selected period compared to the other income groups and the world average. This can be explained by the robustness and strong asset structure of the banking system for this group. Among the OIC income groups, OIC-LIG has the lowest scores in regulatory capital to risk-weighted assets, which was realized as 14.0 percent in 2020, and OIC-LMIG followed it with 16.3 percent. These results indicate that the financial sector in all OIC member country groups except OIC-LIG and OIC-LMIG are less vulnerable to financial stress than the world average.

Figure 10: Bank Regulatory Capital to Risk-Weighted Assets (%)

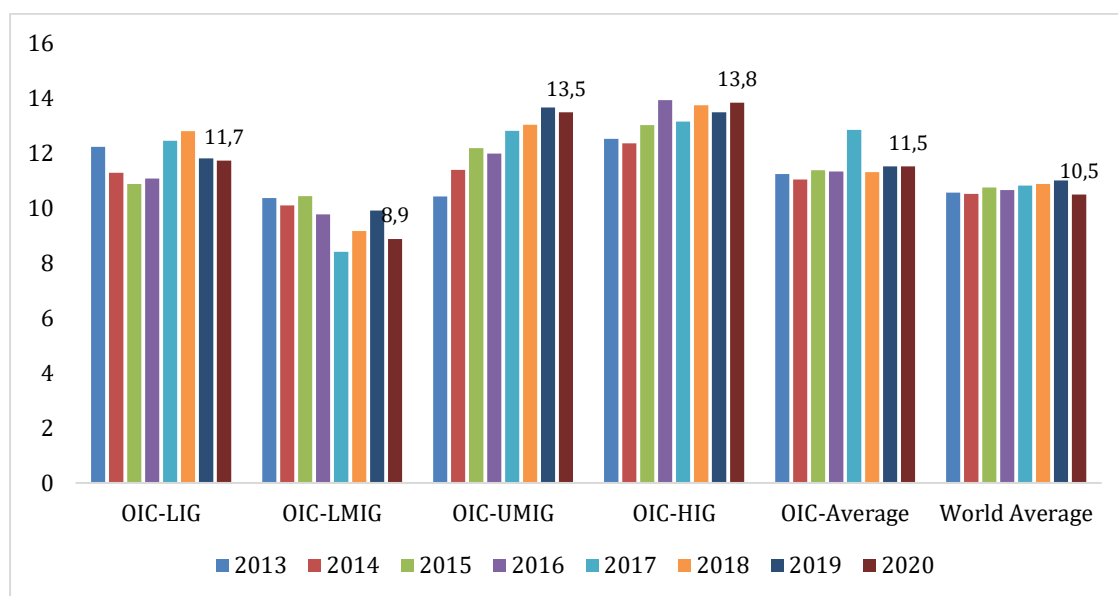


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Another indicator used to measure the stability of financial intermediaries is the ratio of **bank capital and reserves to total assets**. Capital and reserves include funds contributed by owners, retained earnings, general and special reserves, provisions, and valuation adjustments. Capital includes tier 1 capital (paid-up shares and common stock), which is a common feature in all countries' banking systems, and total regulatory capital, which includes several specified types

of subordinated debt instruments that need not be repaid if the funds are required to maintain minimum capital levels (these comprise tier 2 and tier 3 capital). Total assets include all nonfinancial and financial assets. The OIC-HIG and OIC-UMIG countries' average performance was better than any other OIC groups and the world average for 2013-2020.

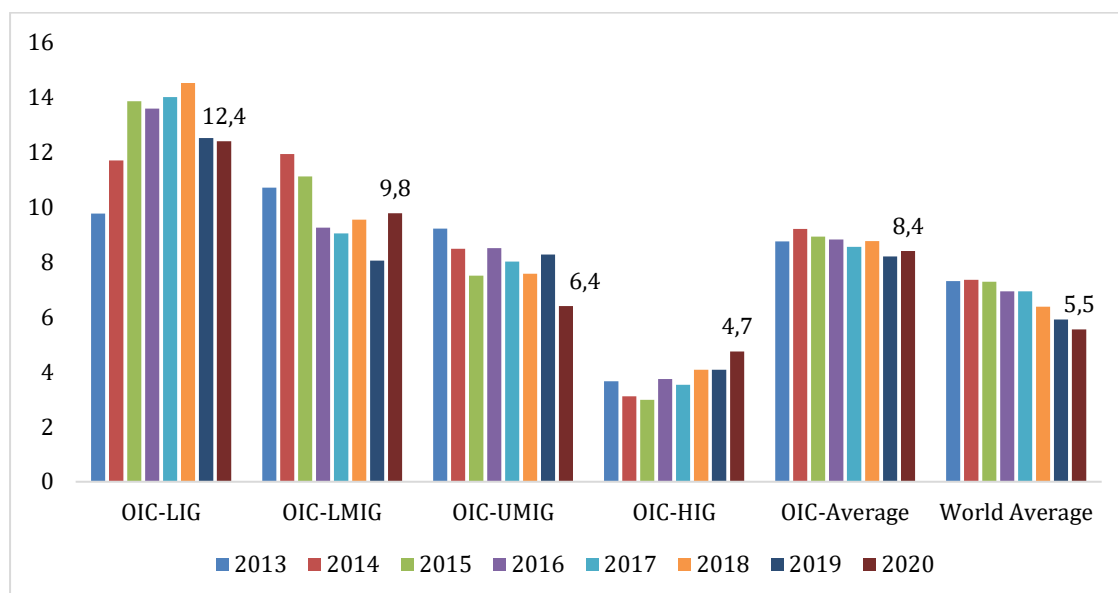
Figure 11: Bank Capital to Total Asset (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

The non-performing bank loans to gross loans (NPL) ratio is calculated as defaulting loans (payments of interest and principal past due by 90 days or more) to total gross loans (total value of loan portfolio). The loan amount recorded as non-performing includes the gross value of the loan as recorded on the balance sheet, not just the overdue amount. As this ratio increases, the possibility of insolvency in the banking sector also increases.

Figure 12 depicts that the best-performing group among the OIC countries is OIC-HIG, of which NPL ratios are below the world average between 2013 and 2020. On the other hand, OIC-UMIG performed well in recent years, and the ratio decreased from 8.3 in 2019 to 6.4 in 2020, and below the OIC average.

Figure 12: Bank Non-performing Loans to Gross Loans (%)


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Financial stability is a very crucial characteristic to measure the robustness of financial institutions and markets. This characteristic has an overarching impact on all other financial measures and indicators and reflects the health of all economies as its impact systemically affects the overall economic structure. The selected indicators reveal that the OIC averages are hovering around the world average. On the other hand, some country groups have performed better than the world average.

2. ISLAMIC FINANCE

Islam encompasses all facets of human life, providing guidelines and principles based on its ontological sources, the Quran and Sunnah. From an Islamic perspective, the economy is an integral component of the Islamic framework, which includes *aqidah* (beliefs and faith), *shariah* (laws and practices), and *akhlaq* (ethics and morality). *Shariah* outlines the norms for everyday human actions for *ibadat* (divine worship) and *muamalat* (interpersonal dealings). The Islamic economic system pertains to the economic aspects of *muamalat*, aligning with *shariah*'s directives. Thus, Islamic economics presents a unique outlook, addressing all economic facets of life with its principles and values at both the individual and societal levels.

Islam emphasizes justice in all parts of society and aims to realize and promote human well-being (Chapra, 2000) through individuals, organizations, or institutions. In other words, the main target of the Islamic economy is to achieve human welfare and articulate knowledge through operational institutions. Islamic financial institutions are one of the main components and functional parts of the Islamic economic system through which foundational principles of the system can be realized in society.

Islamic finance is becoming one of the most significant aspects of the modern global financial system. Although the Islamic finance industry has grown substantially, it has mostly succeeded in a limited number of regions. There is a considerable amount of opportunity for the industry to grow further by increasing public awareness.

Based on the Vision and the guiding Core Principles of the COMCEC Strategy, finance, especially Islamic finance, has been a relevant field of study for the Financial Cooperation Working Group that brings together the relevant experts from the Member Countries regularly to produce knowledge, share experiences, and best practices, and develop a shared understanding. In this context, the Financial Cooperation Working Group prepares analytical reports on various topics in the Islamic finance industry, such as Islamic finance architecture, Islamic insurance (*takaful*), and Islamic pension funds, written by leading academics and practitioners. These reports generate knowledge for not only scholars but also policymakers by introducing country case studies and providing recommendations.

Furthermore, in 2025, the Financial Cooperation Working Group focused on the role of Islamic finance in combatting climate change and natural disasters. A detailed technical report titled "Promoting Sustainable and Environmentally Friendly Islamic Financial Instruments to Combat the Adverse Effects of Climate Change and Natural Disasters in the OIC Member Countries" has been prepared to elaborate on the topic.

2.1 Concept and the Brief Modern History of Islamic Finance

Islamic finance is based on, basically, two injunctions, which are a prohibition of *riba* and *gharar*. The former is broader than the current interest, and it is an expropriation of the wealth of either borrower or lender (Ebrahim, Jaafar, Omar, & Osman Salleh, 2016). Prohibition *gharar* is another principle of Islamic finance that "arises in a contract when the consequences of a transaction are not clear, and there is uncertainty about whether a transaction will take place." Operations of Islamic financial institutions must be free from these two, *riba* and *gharar*. Also,

they must avoid non-halal trade businesses in terms of both intermediations and investments, such as alcohol.

The history of modern Islamic banking can be traced back to Mit Ghamr Saving Bank, founded in Egypt in 1963. Several other local Islamic financial institutions operated in Muslim countries, such as the Muslim Pilgrims Savings Corporation (Tabung Hajj) in Malaysia in the 1960s and an interest-free credit institution in Pakistan in the late 1950s (Warde, 2000). Many commercial Islamic banks were established in Middle Eastern countries that benefitted from petrodollars after the 1970s. Since then, it has gained ground in global markets and emerged as an alternative and ethical form of finance against the conventional one. Over the years, the industry's market and development trends have been shaped by certain phenomena, including deregulation, increased openness of the markets, technological change, and global and regional socio-economic developments.

Islamic banks realized Islamic finance at first, then new institutional models and instruments emerged, such as takaful companies and sukuk. The industry has gained new momentum with the onset of the new millennia. The global and regional communities have coordinated the efforts to increase the awareness of the world towards this new ethical form of finance. The efforts have been shaped to provide the recognition and acceptance of Islamic finance by the mainstream drivers of the industry. The standardization efforts paved the way for establishing international standard-setting bodies at the global scale and regulation and legal environment created by local authorities. Another historic juncture for the development of the industry has been the 2008 global financial crisis. Since the core pillars of Islamic finance require a ban on speculation, asset-backing principles, and risk-sharing, the industry has proved its soundness and maturity against financial crises. Therefore, Islamic finance has been recognized as part of global finance with its growing customer base, asset size, diversified instruments, and geographical spread. Also, the importance of Islamic finance in the global financial system has been recognized by institutions ranging from international organizations to global financial institutions.

Islamic finance has emerged as a valuable tool for financing development worldwide, including in non-Muslim countries. Major financial markets are discovering substantial evidence that Islamic finance has already been mainstreamed within the global financial system. The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually. Total assets are estimated at over USD 3.5 trillion, covering bank and non-bank financial institutions, capital markets, money markets, and insurance. In many Muslim-majority 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, Germany, South Africa, and Hong Kong. Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally- and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare (World Bank, 2015).

The growing market shares and rising domestic systemic importance of Islamic finance underscore the importance of developing robust regulatory frameworks for prudential regulation and supervision in Islamic finance jurisdictions.

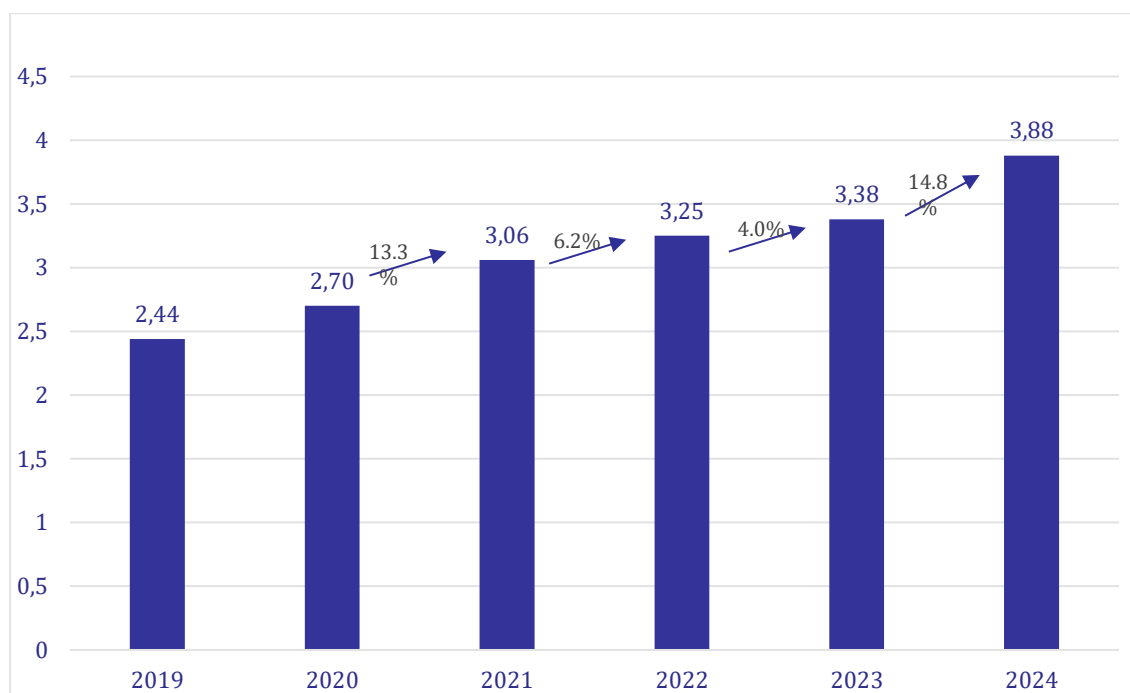
2.2 Islamic Finance Outlook

Regarding the size of the Islamic financial sector, according to the latest data (IFSB, 2025), global Islamic finance total assets, which consist of Islamic banking, sukuk, takaful, and Islamic funds, grew steadily from USD 2.44 trillion in 2019 to USD 3.38 trillion in 2023, with varying annual growth rates.

By 2024, the sector is projected to reach USD 3.89 trillion, marking the strongest annual growth in recent years at 14.8%.

The consistent upward trend reflects the expanding demand for Shariah-compliant financial products across different regions.

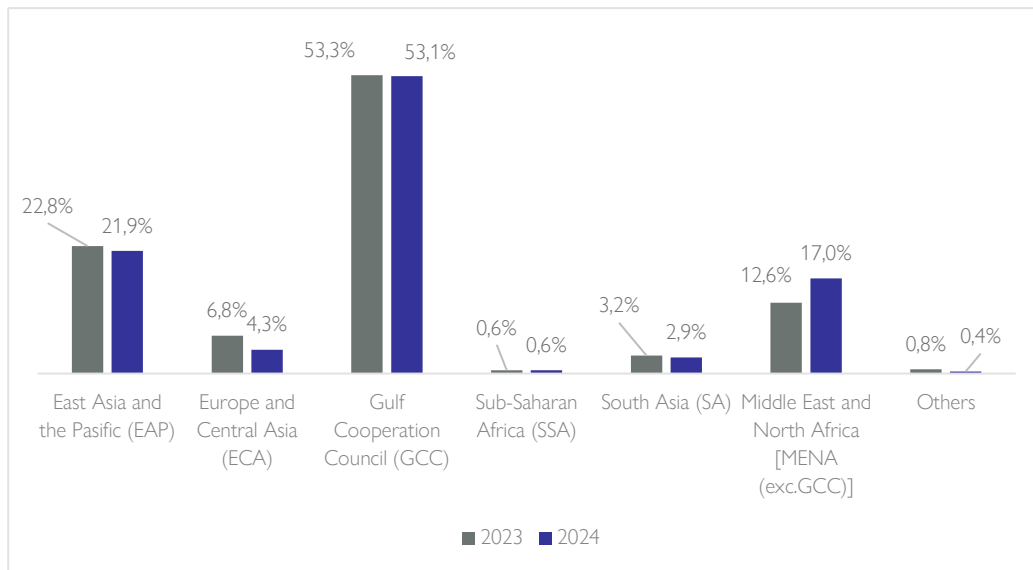
Figure 13: Global Islamic Finance Total Asset Size (USD in Trillion)



Source: 2025 Islamic Financial Services Industry Stability Report

The concentration of Islamic finance in terms of the region was not changed in 2024. The GCC maintains the dominant share at over 53% in both 2023 and 2024.

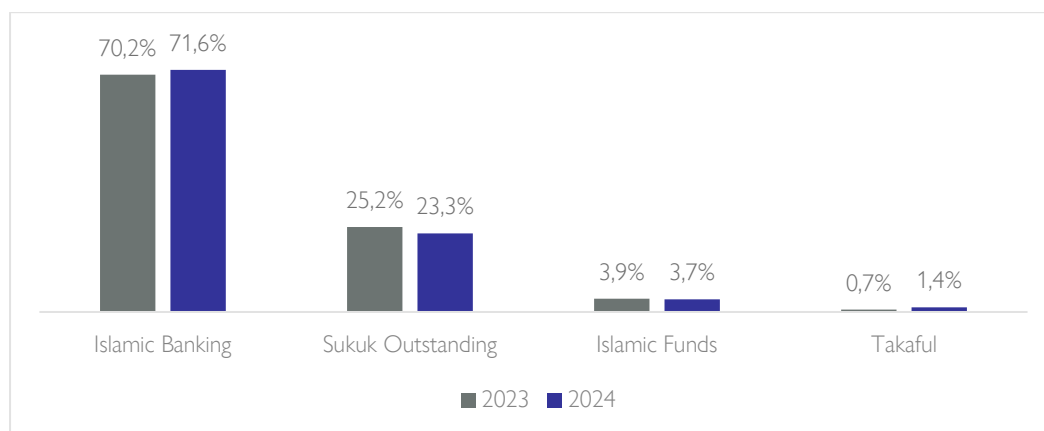
East Asia and the Pacific follow with around 22%, while the Middle East and North Africa (excluding GCC) slightly increase their share from 12.6% in 2023 to 17% in 2024.

Figure 14: Breakdown of IFSI by Region (%)

Source: Compiled from IFSB 2024 and IFSB 2025

Islamic banking remains the dominant component of global Islamic finance, increasing slightly from 70.2% in 2023 to 71.6% in 2024.

Meanwhile, the share of sukuk declines from 25.2% to 23.3%, while takaful grows modestly from 0.7% to 1.4%, and Islamic funds see a small dip from 3.9% to 3.7%.

Figure 15: Breakdown of IFSI by Islamic Finance Segments (%)

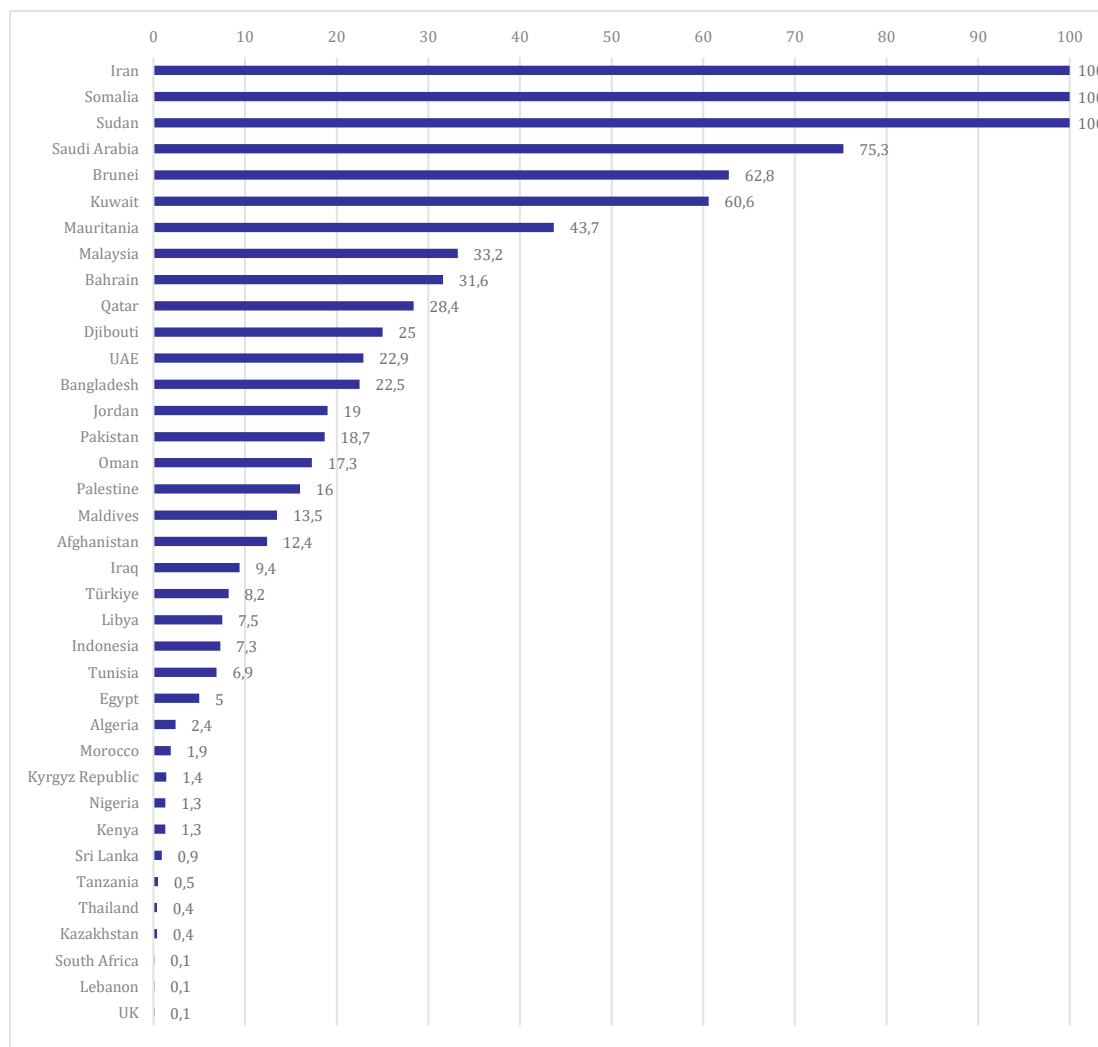
Source: Compiled from IFSB 2024 and IFSB 2025

2.3 Islamic Banking

In 2024 Q3, Iran, Somalia, and Sudan reported full Islamic banking dominance (100% of assets), while Saudi Arabia, Brunei, and Kuwait also held majority shares above 60%.

A total of 17 jurisdictions had systemic significance (above 15%), underlining the wide geographic integration of Islamic banking.

Figure 16: Islamic Banking Sectors Domestic Share (2024-Q3, %)

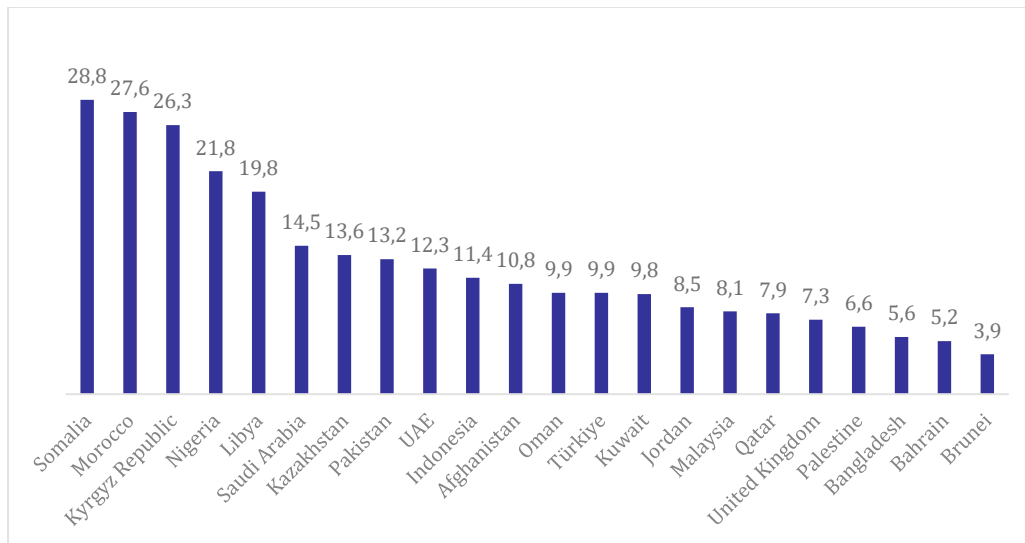


Source: IFSB 2025

Somalia, Morocco, and the Kyrgyz Republic recorded the fastest growth in Islamic banking assets, with compound annual growth rates (CAGR) above 25%.

In contrast, more mature markets like Brunei and Bahrain saw modest growth below 6%, suggesting slower expansion in established jurisdictions.

Figure 17: 5-Year CAGR of Islamic Banking Assets (2019Q3-2024Q3, %)

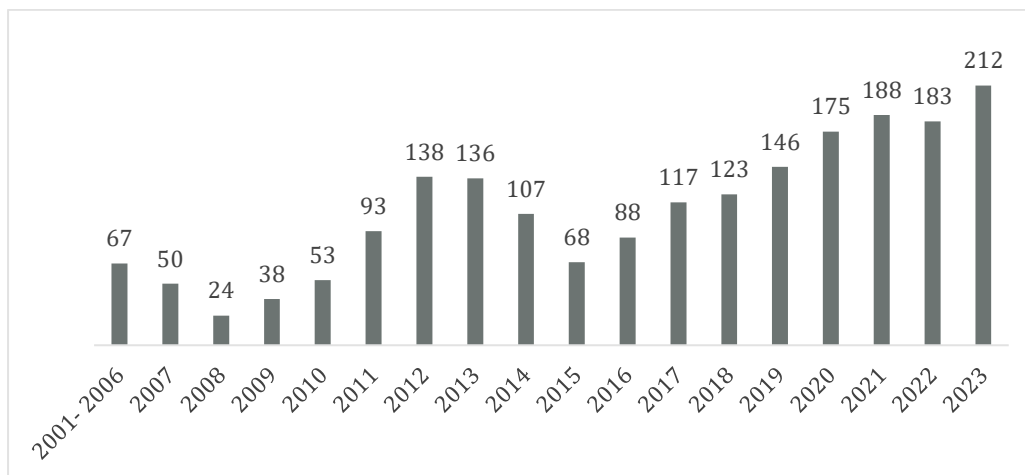


Source: IFSB 2025

2.4 Islamic Capital Markets

The total global sukuk issuances increased by 16 percent in volume from USD 183 billion in 2022 to USD 212 billion in 2023 [YoY growth was -3% in 2022] (IIFM, 2024).

Figure 18: Global Sukuk Issuances (2001-2023, USD billion)

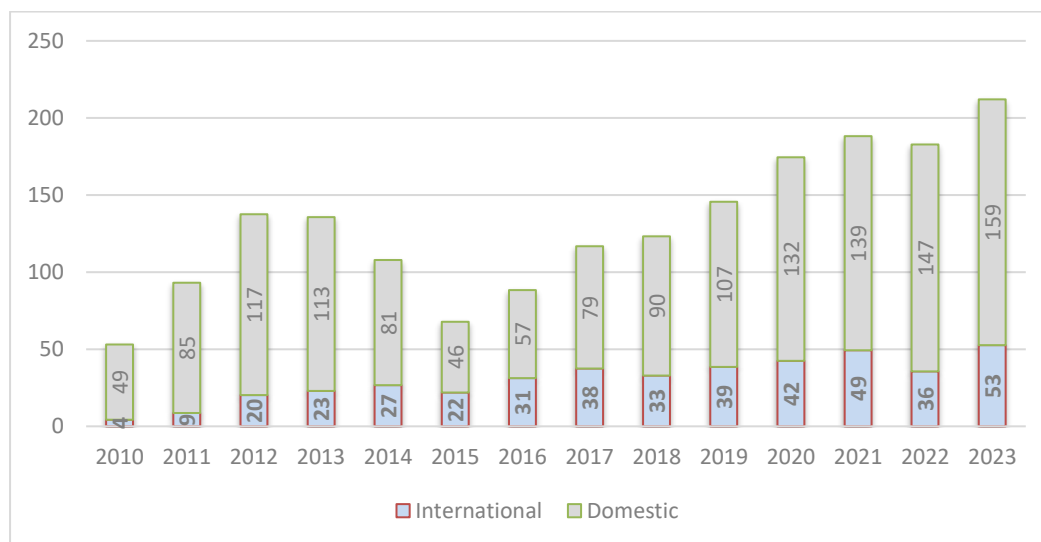


Source: IIFM 2024

Domestic issuances consistently dominate the market, reaching USD 159 billion in 2023 compared to USD 53 billion for international sukuk.

While both segments have grown over time, the sharper rise in domestic issuances highlights their greater role in meeting financing needs across Islamic finance markets.

Figure 19: International & Domestic Issuances (USD million)

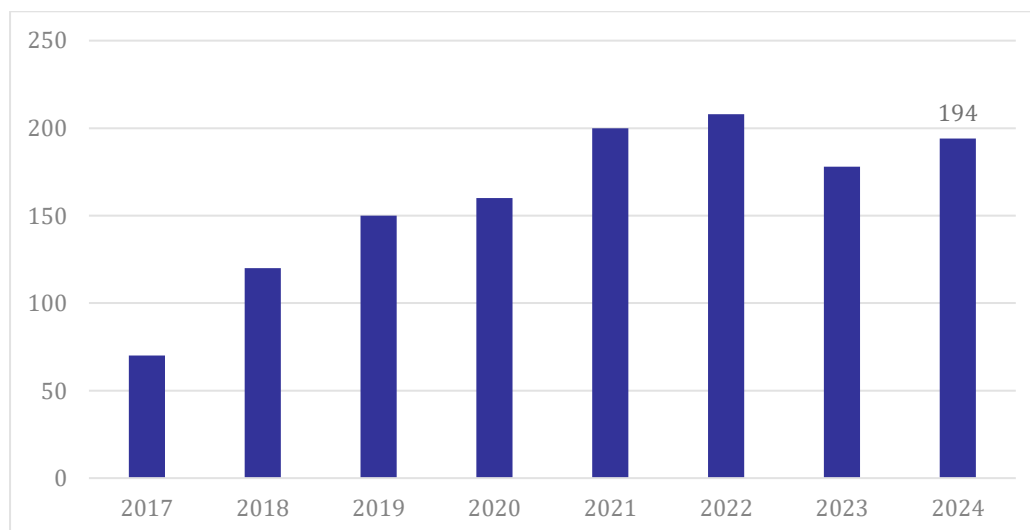


Source: IIFM 2024

The worldwide Islamic funds sector experienced steady growth compared to the prior year, with total assets under management (AuM) rising by 9.2% to USD 193.6 billion.

This rebound comes after a downturn in 2023 and was primarily driven by strong performance in global equity markets.

Figure 20: Assets under Management of Islamic Funds (USD billion)

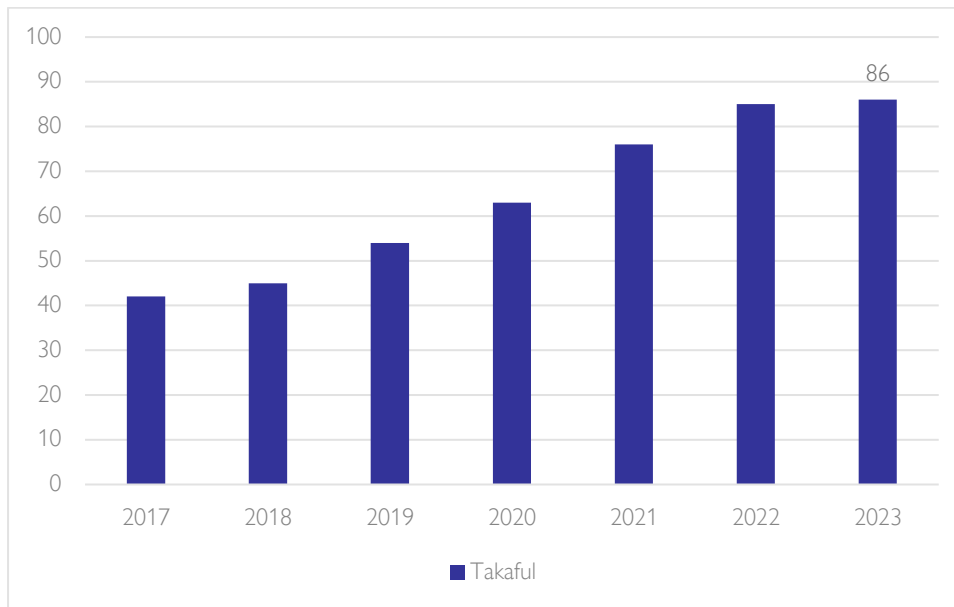


Source: IIFM 2024

2.5 Takaful

The takaful industry continued its upward trend in most countries in recent years. There is a steady rise in global takaful contributions from 2017 to 2023, increasing from around 42 to 86. In 2023, the total number of takaful operators reached 364.

Figure 21: Global Takaful Assets Growth (USD Billions)



Source: ICD-LSEG Report 2025

3. FINANCIAL COOPERATION UNDER THE COMCEC

The financial cooperation area has great potential for the socio-economic development of the OIC member countries. However, this potential has not been fully utilized due to several reasons. First of all, the majority of the OIC Member States' financial markets are not working efficiently to support sustainable economic growth and development, and this issue especially affects the low and lower-middle-income OIC member countries adversely. In addition, various economic and financial difficulties such as the small size of their financial markets, lack of diversified financial products and inefficiency of their financial institutions have adverse effects on economic development. In this regard, financial cooperation has emerged as an essential area for the COMCEC to help the Member States to overcome the issues in this area.

The ideas for enhancing financial cooperation under the COMCEC date back to its initial meetings. The Cooperation efforts in this area have been intensified and deepened in recent years. The COMCEC Strategy, adopted by the 4th Extraordinary Islamic Summit in 2012, defined finance as one of the cooperation areas of COMCEC. Furthermore, there are also several ongoing efforts in this field, such as cooperation among the Stock Exchanges Forum, COMCEC Capital Markets Regulators Forum, and the Meetings of Central Banks and Monetary Authorities.

3.1 COMCEC Strategy: Financial Cooperation

COMCEC Strategy defines "deepening financial cooperation among the member countries" as the strategic objective of the COMCEC in this field. The Strategy identifies, "Regulatory and Supervisory Cooperation", "Capital Flows", "Visibility of Financial Markets", "Training, R&D Activities and Statistics" as output areas in its finance section and specifies several expected outcomes under each of them.

3.1.1 Regulatory and Supervisory Cooperation

COMCEC aims to help improve the quality of regulation, supervision, and cooperation among regulatory and supervisory bodies in the OIC Member States. The expected outcomes defined by the Strategy are as follows:

- Developed legal, regulatory and institutional framework,
- More standardized contracts and more harmonized regulations,
- Converged listing requirements, trading rules and technical infrastructure,
- Strengthened arbitration procedures, credit information and credit registry system, risk measurement and risk management systems.

3.1.2 Capital Flows

Attracting capital flows at competitive rates is one of the major common challenges faced by the many OIC Member States. In this regard, COMCEC will support to ease the capital flows within the member countries through contributing to the removal of institutional and regulatory barriers and developing relevant platforms. The Strategy envisages the following expected outcomes:

- Enhanced access to capital at competitive rates,
- Diversified portfolios,
- Increased investment opportunities.

3.1.3 Visibility of Financial Markets

Financial visibility is an important criterion for attracting more FDI and capital flows as well as the deepening of the markets. In this regard, COMCEC will help to enhance the visibility of financial markets in the member countries. As for the Visibility of Financial Markets, the expected outcomes introduced by the Strategy are as follows:

- Enhanced awareness on Islamic financial markets,
- Increased issuance and listing of securities,
- Attracted foreign investment.

3.1.4 Training, R&D Activities and Statistics

The lack of sound statistical capacity as well as the lack of diversified products, mainly because of the limited R&D activities are the main challenges for the OIC Member States. In this framework, COMCEC attaches great importance to training and R&D activities to improve human capital in its member countries for sustainable economic growth. COMCEC also assists the OIC Member States in monitoring their financial markets and financial institutions to ensure their efficiency and stability. The expected outcomes of the Strategy concerning this Output Area are:

- Enhanced diversification and variety of financial products,
- Developed platforms for payment and settlement systems and post trade services,
- Developed human resources and increased financial literacy,
- Reliable and consistent financial system database and creation of indicators of financially sound systems,
- Enhanced monitoring of financial institutions and markets.

3.2 Implementation of the Strategy

In line with its objectives and expected outcomes, the COMCEC Strategy brings well-identified operational instruments, i.e. the Working Groups and the COMCEC Project Funding Mechanism.

3.2.1 COMCEC Financial Cooperation Working Group

The COMCEC Financial Cooperation Working Group aims to bring the relevant finance experts from the OIC Member States regularly together and to serve as a regular platform for the Member Country experts to discuss their common issues in finance sector and share their knowledge, experiences and best practices, for disseminating knowledge, developing common understanding and approximating policies among Member Countries. The Working Group has

held 24 meetings so far. The proceedings of the above-mentioned Meetings and the presentations made during these Meetings are available on the COMCEC web page (www.comcec.org).

In its recent meetings, the Financial Cooperation Working Group has been focusing on different aspects of Islamic Finance, namely risk management, Islamic Finance strategies, financial architecture, diversification of instruments, Sukuk, and Islamic fund management. Furthermore, it will also elaborate on infrastructure financing through Islamic Finance, takaful, Shariah governance, standardization, Entrepreneurs and SMEs financing and Islamic Social finance in its future Meetings.

3.2.2 COMCEC Project Funding Mechanism

The other important instrument for the implementation of the COMCEC Strategy is the new COMCEC Project Funding Mechanism. Through its Project Funding Mechanism, the CCO provides grants to the selected projects proposed by the relevant OIC institutions and Member States that have already registered with the Financial Cooperation Working Group.

Under the 12th Call for Project Proposals under the CPF, two projects were selected in the financial cooperation area to be implemented in 2025. These projects are as follows:

Benin has implemented the project titled “Experience Sharing in Designing a Legal Framework for Building an Islamic Finance Lead Unit” in partnership with Malaysia. This project aimed to understand the process of establishing a legal framework for an Islamic Finance Lead Unit, which would facilitate the mobilization of Islamic green finance to mitigate climate change impacts and enhance disaster resilience. As part of the project, a study visit and a training activity were carried out.

Sierra Leone implemented the project titled “Capacity Building for Strengthening Digital Payment Systems in the Financial Sector” in partnership with The Gambia and Nigeria. The project aimed to enhance the skills of selected professionals in the digital payments sector by providing advanced knowledge and practical experience. A study visit and a training activity were conducted under this project.

3.3 Ongoing Activities under the COMCEC

3.3.1 OIC Member States Stock Exchanges Forum

Cooperation among the Stock Exchanges was launched in 2005 in line with the decision taken by the 20th Session of the COMCEC. The Forum held its 19th meeting virtually on September 23rd, 2025. In addition to efforts to enhance cooperation between stock exchanges, the Forum has realised some important projects, such as the OIC/COMCEC 50 Shariah Index Fund. In this context, an important financial product, the 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 raise investor awareness.

In this context, the 40th COMCEC Session called upon member countries to support the promotion of the S&P OIC/COMCEC Shariah International Fund, which includes stocks from the

OIC/COMCEC 50 Shariah Index developed under the coordination of the OIC Exchanges Forum, to investors and the financial community in their respective countries.

The Forum has also been working on the Gold Exchange Initiative for the OIC Member Countries. In this regard, the 40th COMCEC Session requested the Secretariat of the OIC Exchange Forum to complete the technical preparations for the OIC Gold Exchange Project based on the blockchain model in cooperation with the Central Banks of the interested Member Countries.

The detailed information regarding the activities of the Forum is available on www.oicexchanges.org

3.3.2 COMCEC Capital Markets Regulators Forum

The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of the 27th Session of the COMCEC. The Forum has held fourteen meetings so far. The 14th Meeting of the Forum will be held virtually on October 15th, 2025.

Recalling the relevant resolutions of the COMCEC Ministerial Meetings, the 40th COMCEC Session 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 that have not yet done so to identify their competent authorities and notify them to the Forum Secretariat for enhanced coordination.

In this context, the Forum launched the GEFAS online data platform for property-based and emerging 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 on real estate-based investment products.

So far, due to the interest shown in the platform from numerous Forum Members, the stock market links of Azerbaijan, 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)

3.3.3 Cooperation among the Central Banks and Monetary Authorities

In the 16th Meeting of the Central Banks and Monetary Authorities of the OIC Member States, the central banks of the OIC Member States decided to continue the activities of the Forum as the “OIC-COMCEC Central Banks Forum”. The 34th 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 7th Meeting of the Forum was organized on September 28th-29th, 2025, in İstanbul.

The details regarding the Forum activities are available on the Forum website. (www.comceccentralbanks.org)

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