

 **FINANCIAL COOPERATION**



CCO BRIEF ON FINANCIAL COOPERATION

COMCEC COORDINATION OFFICE
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I. Introduction

Financial cooperation is a crucial element in the promotion of capital flows, the enhancement of financial literacy, the management of financial risks, the supervision of financial institutions, the diversification of financial products and the expansion and reinforcement of financial markets. It is therefore evident that regional or global financial cooperation is of significant importance in ensuring the stability of the international financial system, and thus has the potential to contribute to improvements in the global economic and social situation. However, developments in recent years have affected the financial sector as in every sector.

In the face of a series of unexpected challenges over the past four years, the global economy has demonstrated a noteworthy capacity for resilience. In the aftermath of the pandemic, the global economy has experienced a period of considerable volatility, characterised by supply chain disruptions, the onset of a worldwide energy and food crisis precipitated by geopolitical tensions, and a globally synchronised tightening of monetary policy in response to a significant surge in inflation. Notwithstanding numerous pessimistic forecasts, the global economy evaded a recession, the banking system demonstrated considerable resilience, and major emerging market economies did not experience sudden stops. Furthermore, the surge in inflation did not give rise to uncontrolled wage-price spirals. Conversely, the global inflation rate has declined at a similar pace to its initial increase.

There are indications that the global outlook is beginning to improve, despite the fact that growth remains modest. The repercussions of more stringent monetary policies persist, particularly in the real estate and credit markets. However, global economic activity has demonstrated a degree of resilience, with inflation decelerating at a faster rate than initially projected and private sector confidence undergoing an improvement. The imbalances in the global labour market are gradually diminishing, with the unemployment rate remaining at or near its lowest level. Real incomes have begun to increase as inflationary pressures subside, and international trade is experiencing a positive growth trajectory. 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.¹

It is rare for countries to reduce inflationary pressures without subsequently experiencing a recessionary downturn. However, recent developments suggest that a "soft landing" may be attainable. Nevertheless, despite these encouraging signs, numerous challenges remain, and

¹ OECD Economic Outlook, May 2024

decisive action is imperative. While the decline in energy prices and goods inflation below its historical average have contributed to the reduction in inflationary pressures, services inflation remains elevated, posing a risk of derailing the disinflationary trajectory. Consequently, the primary objective remains the achievement of price stability.²

II. Islamic Finance

Islamic finance has become a key aspect of the global financial system, showing significant growth but remaining concentrated in certain regions. In 2023, the sector's total assets grew to USD 3.38 trillion, up from USD 3.25 trillion in 2022, with a Year-over-Year (YoY) growth rate of 4.1%. This growth occurred despite economic uncertainties, though it represents a slight slowdown from the previous year's 6.1% YoY growth.

The Gulf Cooperation Council (GCC) region remains the dominant player, holding 53% of the global Islamic finance market, valued at USD 1.8 trillion. East Asia and the Pacific (EAP), particularly Malaysia and Indonesia, account for 23% of the market with USD 769 billion in assets, showing strong growth potential. The Middle East and North Africa (MENA) region follows with a 13% market share, while Europe and Central Asia (ECA) hold 7%.

Sub-Saharan Africa (SSA) and South Asia (SA) have minimal market shares of 1% and 3%, respectively, indicating untapped potential for future growth. Overall, while the GCC leads by a large margin, the growing interest in regions like EAP points to a dynamic and expanding global Islamic finance landscape.

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

Region	Islamic Banking	Sukuk Outstanding	Islamic Funds	Takaful Contributions	Total	Share
East Asia and the Pacific (EAP)	313.83	411.25	38.13	5.75	768.96	23%
Europe and Central Asia (ECA)	79.7	102.02	46.24	0.61	228.57	7%
Gulf Cooperation Council (GCC)	1463.91	292.96	28.16	14.64	1799.67	53%
Sub-Saharan Africa (SSA)	13.36	3.2	3.5	0.01	20.07	1%
South Asia (SA)	83.58	19.63	5.13	0.24	108.58	3%
Middle East and North Africa [MENA (exc.GCC)]	417.79	6.3	0.07	2.79	426.95	13%
Others	-	14.64	11.06	-	25.70	1%
Total	2,372.17	850	132.29	24.04	3,378.50	
Share	70%	25%	4%	1%	100%	

Source: 2024 Islamic Financial Services Industry Stability Report

² World Bank Group Flagship Report, Global Economic Prospects, January 2024

The Islamic financial sector comprises three main sectors: Islamic banking, Islamic capital markets, and Islamic insurance (Takaful). This sector has witnessed varying degrees of growth and shifts in market share among its components. Dominating the Islamic finance landscape, Islamic banking accounted for a substantial 70.2 percent of the sector in 2023, marking a slight increase from 69.3 percent in the previous year as shown in Table 4. This segment demonstrated resilience and growth, with its assets expanding by 5.5 percent to reach USD 2,372.2 billion in 2023, up from USD 2,249.2 billion in 2022. Within the Islamic capital markets, two main sectors stand out: Sukuk (Islamic bonds) and Islamic funds. Sukuk, a pivotal financing tool that aligns with Sharia principles, along with Islamic funds, comprised 25.2 percent of the Islamic financial sector in 2023, slightly down from 25.6 percent in the previous year. Despite this marginal decline, Sukuk continues to be a preferred choice for Islamic financial instruments. On the other hand, Islamic funds experienced a contraction of 3.2 percent in 2023, reducing their share to 3.9 percent from 4.2 percent in 2022. The takaful segment, which offers Sharia-compliant insurance products, saw a reduction in its market share to 0.7 percent in 2023, down from 0.9 percent in 2022. This decrease reflects a significant year-on-year decline, highlighting challenges in the Takaful industry.

Table 2: YoY Performance of Islamic Finance by Sector (2022-2023)

Sector	2022		2023		
	Billion USD	Share (%)	Billion USD	Share (%)	YoY Growth (%)
Islamic Banking	2,249.2	69.3	2,372.2	70.2	5.5
Outstanding Sukuk	829.7	25.6	850.0	25.2	2.4
Islamic Funds' Assets	136.6	4.2	132.3	3.9	-3.2
Islamic Insurances Contributions	30.0	0.9	24.0	0.7	-19.9
Total	3,245.5	100.0	3,3785	100.0	4.1

Sources: Compiled from 2023 and 2024 Islamic Financial Services Industry Stability Reports

a. COMCEC Financial Cooperation Working Group

The 21st Meeting of the COMCEC Financial Cooperation Working Group (FCWG) was held on April 30th, 2024, in a virtual-only format with the theme of “*Digital Transformation of Payment Systems in OIC Member Countries*”.

The first draft of the research report on the theme of the meeting, along with a country case study, was submitted to the 21st FCWG meeting. The final version of the report was presented to the 22nd Meeting of the Working Group that was organized on 16-17 September 2024.

The main objective of this report is to provide an analysis and elaboration on payment systems in different jurisdictions, with a particular focus on the initiatives in OIC Member Countries. The report also highlights 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.

The research report also provides concrete policy recommendations to the OIC Member Countries, particularly considering the lessons learned from analysed good practices and the case studies (Malaysia, Morocco, Mozambique and Türkiye) to realize these recommendations. The policy recommendations derived from the main findings of the report were discussed during the 22nd Meeting of the Working Group and finalized to be submitted to the 40th Session of the COMCEC for the consideration of the Member Countries' Ministers.

All the reports submitted to the Meetings and the presentations made during the Meetings are available on the COMCEC web page (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 should 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 20th Session of the COMCEC. The Forum held its 18th meeting virtually on October 1st, 2024. 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 39th 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 39th COMCEC Session requested the Secretariat of the OIC Exchange Forum to complete the technical preparations for the OIC Gold Exchange Project based on the block chain 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

The COMCEC Capital Market Regulatory 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 thirteen meetings so far. The 13th Meeting of the Forum was held virtually on October 16th, 2024.

Recalling the relevant resolutions of the COMCEC Ministerial Meetings, the 39th 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 to 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)

OIC-COMCEC Central Banks Forum: 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 its activities 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 6th Meeting of the Forum was organized on September 29th - 30th, 2024 in İstanbul.

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

