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# INTERNATIONAL ISLAMIC FINANCIAL MARKET

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**ABSTRACT: -** Islamic finance is increasingly attracting attention among investors worldwide, especially in 2019 which saw a double-digit growth in assets. Despite the tumultuous year for global financial markets last year due to the COVID-19 pandemic, there is growing interest due to three reasons—greater appreciation around the role that Islamic finance plays in responsible investing; geographical interest in markets where Islamic finance is gaining prominence; as well as digital transformation, which makes Islamic investments more accessible.

**KEYWORDS:** Covid-19 Impact on Islamic Finance, shariah, sukuk, takaful, halal

## INTRODUCTION

The acceleration of technology as a result of COVID-19 has also benefited the Islamic finance industry as more financial institutions are now offering their products via digital platforms, making it easier for Muslim and non-Muslim investors to access. Sustainability has also become a more important consideration for investors, which could potentially lead to increased take-up by non-Muslim investors who are drawn to the ethical and responsible investing dynamics of Islamic finance products and services.

This broader appeal is necessary to drive growth in Islamic finance assets globally. Until now, investor demand has, understandably, been concentrated in jurisdictions where Islamic finance is of systemic importance. The Gulf Cooperation Council (GCC) region still accounts for the largest share of global Islamic finance assets (45.4%), followed by the rest of the Middle East and South Asia (25.9%) and Southeast Asia (23.5%).

But there remains significant opportunities elsewhere in the world. For instance, Africa offers growth potential as African sovereigns and financial institutions use Sukuks as alternative funding sources and issuance is supported by increasing financing needs in Africa, especially for infrastructure projects. Beyond Africa, the UK presents a huge prospect for the Islamic finance market. The country became the first western nation to issue a sovereign Sukuk in 2014 and is currently the biggest center for Shariah-compliant finance in the West. It is also home to the world's first actively managed equity Shariah-compliant exchange-traded fund (ETF) launched in September 2020.

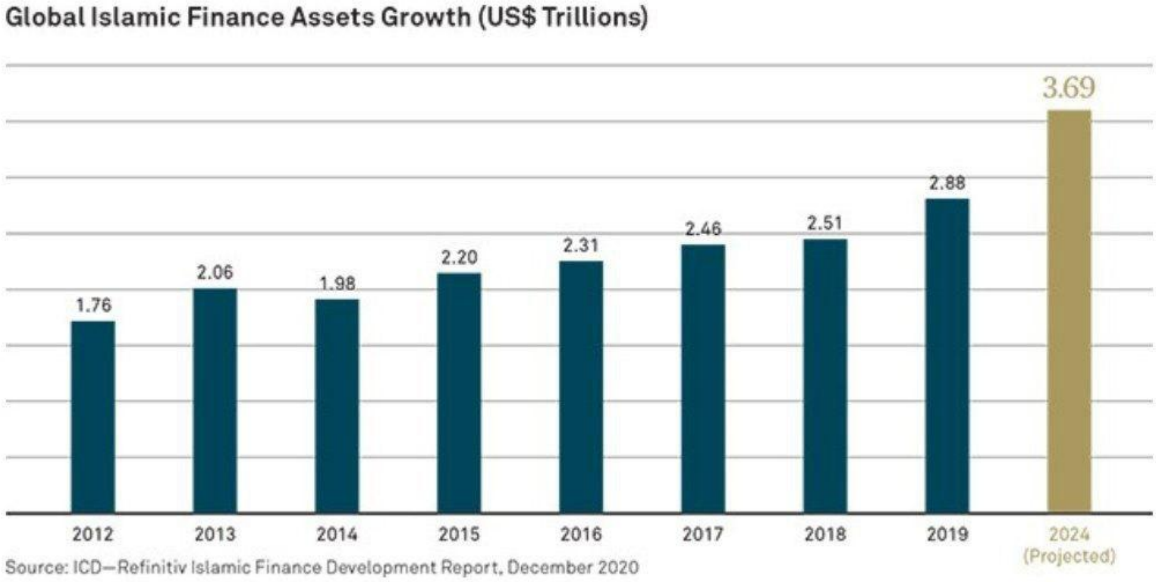
As more awareness and knowledge of Islamic finance starts to build up in non-Muslim countries, we expect to see steady growth in Islamic finance assets and expansion in Shariah-compliant investment products and services to cater to the rising demand.

**Breakdown of the Global Islamic Financial Services Industry by Segment and Region (US$ Billions)**

| Region | Banking Assets | Sukuk Outstanding | Islamic Funds' Assets | Takaful Contributions | Total | Share |
|---|---|---|---|---|---|---|
| GCC | 854.0 | 204.5 | 36.4 | 11.70 | 1,106.6 | 45.4% |
| Southeast Asia | 240.5 | 303.3 | 26.7 | 3.02 | 573.5 | 23.5% |
| Middle East (ex-GCC) and South Asia | 584.3 | 19.1 | 16.5 | 11.36 | 631.3 | 25.9% |
| Africa | 33.9 | 1.8 | 1.6 | 0.55 | 37.9 | 1.6% |
| Others | 53.1 | 14.7 | 21.1 | 0.44 | 89.3 | 3.7% |
| **Total** | **1,765.8** | **543.4** | **102.3** | **27.07** | **2,438.6** | **100%** |
| **Share** | **72.4%** | **22.3%** | **4.2%** | **1.1%** | **100.0%** | |

## ANALYSIS OF THE LITERATURE ON THE SUBJECT

Islamic financing emerged 50 years ago, in countries with large Muslim populations who were keen to ensure their sources of funding were governed by the requirements of Shariah and the principles of Islam. In 2019, Islamic finance assets amounted to US$2.88 trillion, the highest recorded growth for the industry since the global financial crisis. The prospects look positive: by 2024, this is set to rise to US$3.69 trillion. While Muslim countries have turned to Shariah financing to fund their thirst for capital, another underlying reason for its popularity is that Shariah financing is beginning to broaden its appeal among non-Muslim countries too.




**ANALYSIS AND RESULTS**

DUBAI, May 3 (Reuters) - The $2.2 trillion global Islamic finance industry is expected to grow 10%-12% over 2021-2022 due to increased Islamic bond issuance and a modest economic recovery in the main Islamic finance markets, S&P Global Ratings said.

The industry continued to grow last year despite the COVID-19 pandemic, although at a lower pace than in 2019, with global Islamic assets expanding by 10.6% in 2020 against growth of 17.3% the previous year.

Islamic finance, which bans interest payments and pure monetary speculation, has been on the rise for many years across markets in Africa, the Middle East and Southeast Asia, but it remains a fragmented industry with uneven implementation of its rules.

"Over the next 12 months, we could see progress on a unified global legal and regulatory framework for Islamic finance ... we believe that such a framework could help resolve the lack of standardisation and harmonisation that the Islamic finance industry has faced for decades," S&P said on Monday.

The industry is expected to receive some support in the coming two years in Saudi Arabia, where mortgages and corporate lending are expected to rise as the country pushes ahead with plans to diversify the economy.

Investments in Qatar for the 2022 soccer World Cup and the Expo event in Dubai later this year are also expected to support growth.

The ratings agency forecast global issuance of Islamic bonds, or sukuk, to reach $140-155 billion this year, up from roughly $140 billion in 2020, thanks to abundant liquidity and sustained financing needs among corporates and governments.

S&P also highlighted that the full impact of the coronavirus crisis has yet to materialise and more requests for sukuk restructurings and maturity extensions, as well as higher default rates, are expected this year.

"We see pressure on real estate developers, given the drop in real estate prices in the GCC

(Gulf Cooperation Council) and building risks in the commercial real estate sector," S&P said.

"Similarly, companies related to aviation, tourism, travel, and hospitality - sectors that have been severely hit by COVID-19 - will take several quarters to recover to prepandemic levels."

**CONCLUSION**

Today, Islamic finance is a multi-trillion dollar industry that is no longer operating on the fringes of global financial markets. In the coming years, Shariah-compliant assets are expected to keep growing, driven by rising interest from investors beyond Muslim economies due to:

- Increasing demand for a sustainable, stakeholder-focused and socially responsible financial system, emphasizing synergies between ESG investing and Islamic finance
- Greater digitalization and fintech collaboration creating new avenues for growth and enhancing transparency
- Opportunities for scalability and industry efficiencies via greater harmonization of Shariah practices and standards

When moving in this direction, investors will require the infrastructure, insights and related solutions to safeguard and manage their Islamic finance assets across every stage of the investment life cycle.

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