WORLD BANK GROUP
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Global Islamic Finance Development Center

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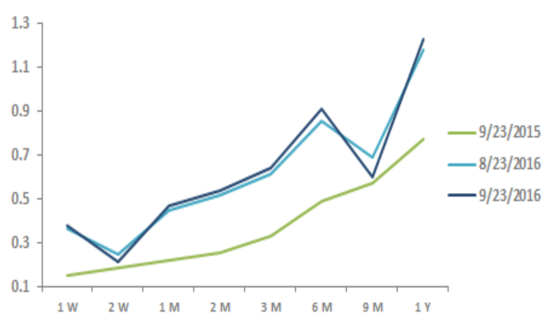
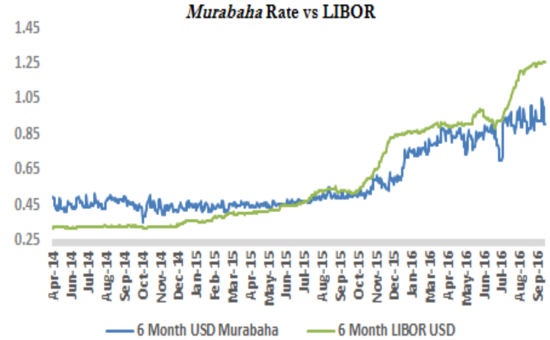
	Value	MoM	QoQ	YoY
	9/23/16	8/23/16	6/23/16	9/23/15
Equity				
Dow Jones Islamic Index	2992.84	▼-0.30%	▲3.92%	▲11.94%
Dow Jones Global Index	325.64	▲0.02%	▲3.42%	▲9.66%
MSCI Islamic Index	1154.09	▼-1.04%	▲1.77%	▲10.65%
MSCI World Index	1740.55	▲0.12%	▲2.88%	▲9.01%
MSCI Emerging Market Index	920.92	▲1.59%	▲10.23%	▲16.31%
Fixed Income				
LIBOR 6 Month	1.2588	▲0.030	▲0.330	▲0.732
Murabaha USD 6 Month	0.9078	▲0.049	▲0.041	▲0.416
Dow Jones *Sukuk* Index	104.57	▼-0.34%	▲1.57%	▲2.21%
Bloomberg Emerging Market Bond Index	160.49	▲0.28%	▲4.77%	▲13.73%
Insurance				
Bloomberg *Takaful* Index	117.74	▼-7.15%	▼-11.19%	▼-10.65%

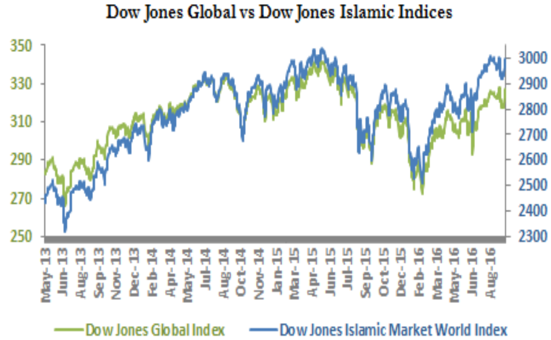
Mark-up *Murabaha* USD Rates



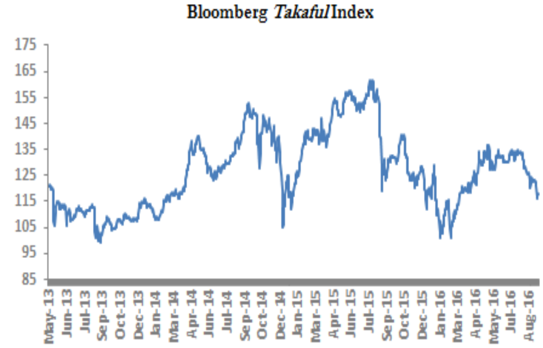
Murabaha Rate vs LIBOR



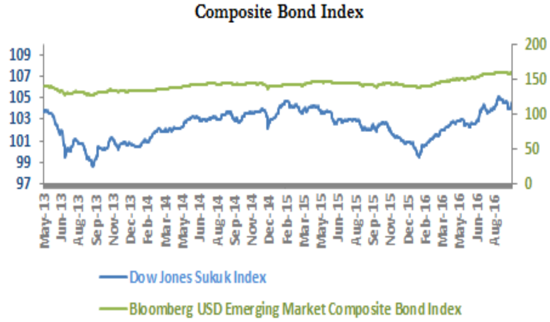
Dow Jones Global vs Dow Jones Islamic Indices



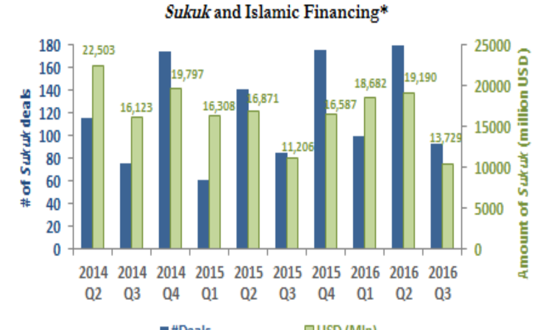
Bloomberg *Takaful* Index



Dow Jones *Sukuk* Index vs Bloomberg Emerging Market Composite Bond Index



Sukuk and Islamic Financing*



* Bloomberg

Islamic banks unlikely to return to double-digit asset growth over the next two years as world economies adjust to new normal of oil prices

Photo Credit: genevasbe.com

Islamic banks are bracing for a tumultuous month leading up to what is looking like a tempestuous year that is likely to squeeze Shariah banks' profits and weaken their asset quality.

Wounded from the plunging global oil prices which dealt a heavy blow to many world economies especially oil-exporting Muslim nations, the Islamic banking community is not looking likely to recover to its pre-2015 self when yearly asset growth was in the double-digit zone. In 2014, asset expansion rate clocked in at 12% but that figure was slashed to 7% in 2015 and is expected to hang precariously in the 5% range over the next two years, projected S&P, which estimated that total global Islamic banking assets will be worth US$2.1 trillion before 2016 wraps up.

One may argue that the world is coming to terms with the 'new normal' of oil prices, but it cannot be denied that the low energy price will continue to loom over key Islamic financial markets whose economic health is deeply tied to oil prices. Oil prices are likely to remain soft, averaging US$45 per barrel in 2017 and US$50 in 2018, S&P estimates, and as a result, oil-dependent Islamic finance jurisdictions will see economic growth remain tepid over the next two years.

And the whirlwind of uncertainty is only going to get more erratic this month as the international financial markets wait with bated breath on decisions by central banks with regards to their diverging monetary policies, and of course, the decision by the OPEC on its strategy to stabilize the oil market.

Source: IFN

GCC Islamic Banking System Outpaces Conventional Banks

Photo: internationalfinancemagazine.com

Islamic banks in GCC countries have become systemically important and continue to increase their market penetration, outpacing conventional banks, Moody's Investors Service said in its report on Islamic banks.

The retail focus of Islamic banks in GCC countries provides greater stability for their funding profiles and hence typically offers a significant advantage over their conventional peers in terms of LCRs.

A long history, coupled with a higher preference for Shariah-compliant products among their majority Muslim populations and the Islamic banks' extensive distribution networks, are key reasons behind the success of the retail businesses of Islamic banks across the region.

Sustained lower oil prices continue to reduce the flow of deposits from the government and government-related entities in the region, creating funding and liquidity pressures for the banks, pushing up market funding levels.

In addition, a tougher economic environment has also resulted in an overall slowdown in corporate deposits inflows in most GCC countries. In contrast, the granularity and relative stability of retail deposits continue to provide support to Islamic banks' deposit base.

Source: Al Arabiya English

Morocco's Credit Agricole Gets Government Approval for Islamic Bank

Photo: challenge.ma

Moroccan state-owned bank Credit Agricole (CAM) has won the backing of the finance ministry to create an Islamic subsidiary with The Islamic Development Bank (IDB), according to a government decree.

Morocco's central bank is in the final stages of launching an Islamic finance industry. It has said it will start issuing approvals for Islamic banks this year, with the aim of allowing them to begin business in early 2017.

The North African kingdom adopted legislation allowing Islamic banks and insurers in the domestic market, and the central bank has set up a central sharia board with the country's body of Islamic scholars to oversee the new industry.

The government decree allows CAM to create a subsidiary with the Islamic Corporation for the Development of the Private Sector (ICD), a subsidiary of the Saudi-based IDB, in which the Moroccan bank will hold 51 percent stake.

The two partners will inject 200 million dirhams ($20.55 million) of capital into the offshoot before doubling it to 400 million later.

Foreign banks look likely to play an important role in developing the market, though Moroccan authorities have guided them towards partnering local banks rather than establishing fully owned Islamic subsidiaries, bankers say.

Source: Reuters

Reserve Bank of India to Explore Interest-Free Banking

Photo Credit: business-standard.com

In order to improve financial inclusion in the country, the Reserve Bank of India (RBI) is now looking at exploring the possibility of introducing interest-free banking in the country.

"Some sections of the Indian society have remained financially excluded for religious reasons that preclude them from using banking products with an element of interest. Towards mainstreaming these excluded sections, it is proposed to explore the modalities of introducing interest-free banking products in India in consultation with the government," said the central bank's annual report.

Earlier this year, Jeddah-based Islamic Development Bank (IDB) had announced it will open its first Indian branch in Ahmedabad.

India's Exim bank had signed an MoU with IDB for a $100 million line-of-credit to facilitate exports to IDBs 56 member countries.

Last December, a committee on 'Medium-term Path on Financial Inclusion', headed by RBI's executive director Deepak Mohanty had also recommended that commercial banks in the country may be enabled to open specialised interest-free windows with simple products like demand deposits, agency and participation securities on their liability side and to offer products based on cost-plus financing and deferred payment, deferred delivery contracts on the asset side.

Source: Business Standard

Pakistan Central Bank Widens Islamic Banks' Benchmark Requirements

Photo Credit: csscurrentaffairs.pk

The Pakistan's central bank has amended its regulations to exempt Islamic banks from using interest-based benchmarks for some of their financing products, the latest government step aimed at boosting Islamic finance.

Despite a direct ban on charging interest, interest-based benchmarks are used as a pricing reference by a majority of Islamic banks, due in part to the absence of stable and widely-published alternatives.

In a circular, the State Bank of Pakistan said Islamic finance institutions would have to outline their alternative pricing mechanism for participatory financing schemes, replacing the use of the Karachi Inter Bank Offered Rate or KIBOR.

Since 2004, the central bank has required all banks to use KIBOR as a benchmark rate. The use of such benchmarks is viewed as a shortcoming of Islamic banking that discourages wider adoption, in particular among retail clients.

The government, however, wants to help develop Islamic finance, a sector which now holds 11.4 percent of all banking assets and 13.2 percent of all bank deposits in the Muslim-majority country.

The exemption applies with immediate effect to participatory modes of financing known as *musharaka, mudaraba* and *wakala.*

Such sharia-compliant contracts are well-known but have traditionally been eclipsed by *murabaha*, a cost-plus-profit arrangement in Islamic finance.

The mark-up has been commonly set against a financial benchmark such as KIBOR or LIBOR for dollar-denominated deals.

Source: Reuters

Islamic Finance Gets Strong Growth Momentum in Russia

Photo Credit: gulf-times.com

Russia, the latest entrant into the Islamic finance sector, continues to open new avenues to finance its banks and to provide new instruments for international investors from emerging markets through Islamic finance.

The reason why Moscow is increasingly opening up to Islamic finance – although just 20mn of its roughly 145mn-population are Muslims – lies mainly within its quest to make up for a shortfall in international finance caused by Western sanctions imposed on Russia which hit its financial industry. In this context, the Islamic finance industry seems to be a good playing field for Russia to recoup its previous economic strength.

That said, it has attracted a lot of attention when it became recently known that three state-linked Russian banks are preparing to launch a number of Islamic financial products later this year in an effort to entice investors from the Gulf and Southeast Asia.

However, progress of Islamic finance in Russia is highly dependent on the readiness of regulators to pass legislation that would provide a legal framework for Islamic finance, make it cost-effective through tax relief and would facilitate the entire industry.

Lawmakers see the main problem in the fact that Russian law prohibits banks from engaging in commercial activities other than banking, such as actively buying and selling certain assets as underlying elements for Shariah-compliant transactions.

Source: Gulf Times

Islamic Insurance Grows by 20 per cent in the GCC


Photo Credit: tradearabia.com

Islamic insurers in the Gulf Corporate Council (GCC) region saw gross contributions (gross premiums) increase by an impressive 20 per cent or so year-on-year in 2014 and 2015.

In a report published this month, S&P said that it considers that earnings in the GCC Islamic insurance industry (*takaful* and Islamic cooperative *tawuni*) remain relatively weak and are unevenly distributed.

For a number of companies operating in these overcrowded markets, S&P finds that precipitous growth, combined with net losses, is eroding their capital strength and damaging their credit profiles. Most takaful players are still relatively small compared with their conventional peers. Their shorter track records and less-diverse books of business put them at a disadvantage now that the falling oil price and stricter regulation are hitting GCC insurance markets.

In 2015, the combined gross premium income of Islamic insurers in the region exceeded $10 billion (based on available data from listed companies), which compares to roughly $9 billion of premium income generated by conventional insurers for the year in the GCC.

More than 85 per cent of the region's Islamic insurance premiums were written in Saudi Arabia, which has the largest Sharia-compliant market in the region. There are half a dozen explicitly *takaful* insurers and 28 Islamic cooperative companies operating in Saudi Arabia.

Source: Zawya

Sukuk Volumes to Moderate in 2016, 2017


Photo themiddleeastmagazine.com

Global *sukuk* issuance has been moderating since 2015 and is expected to decline further this year as well as in 2017, according to Standard & Poor's. The *Sukuk* market experienced a correction in 2015 when Bank Negara Malaysia (the Malaysian central bank) decided to stop issuing short-term *Sukuk* and switch to other instruments for liquidity management for Islamic financial institutions.

The volume of issuance in the first half of 2016 was not that encouraging, particularly if compared with conventional issuance. The market is slowly accepting the evidence that the process of issuing *Sukuk* can be painful and it has become more reticent in issuing such instruments. The relative ease of conventional bond issuance has prompted many regional sovereigns to tap the bond markets instead of *Sukuk* markets. "A government that needs money to pay civil servants or contractors will not ask them to wait for few months until its *Sukuk* is issued. Rather, it will go to the conventional markets," said Mohammad Damak, Director, Global Head of Islamic Finance. Contraction in local liquidity and global liquidity are also contributing to the woes of the *Sukuk* market. Local liquidity, in Islamic finance core markets, depends largely on the oil sector. In 2016, year-to-date *Sukuk* issuance has reached $39.5 billion (Dh145 billion) compared to $47.3 billion last year.

Source: Observer

Pakistan Grants Tax Neutrality for *Sukuk* Deals

Pakistan's Federal Board of Revenue has granted sukuk transactions similar tax treatment to conventional bonds, the latest government incentive aimed at developing the country's Islamic finance sector.

In a statement this month, Pakistan's capital market regulator - which recommended the change - described the move as a landmark decision, because previous tax treatments had made *sukuk* an "unviable" funding option.

"This measure is a great boost for the Islamic financial industry and its overall growth and development," the Securities and Exchange Commission of Pakistan (SECP) said.

Around the world, taxation is often problematic for *sukuk* because of their asset-backed nature, which means multiple asset transfers may be required for a transaction to take place, creating a heavy tax burden for issuers unless special legislation is in place.

Before the reform, tax exemptions were provided to Pakistani companies and special purpose vehicles (SPVs) for interest-based term finance certificates structured against receivables. But Pakistan's *sukuk* regulations classified underlying assets in *sukuk* transactions as fixed assets, attracting additional taxes.

The reform provides exemptions to taxable gains on the transfer of assets to a SPV, for tax on rental income earned by a SPV, and for various withholding taxes linked to the transfer of underlying assets in *sukuk* transactions.

The SECP published rules for issuance of *sukuk* in February 2015 after a three-year consultation, but most *sukuk* issuance remains confined to the federal government. Pakistan's central bank has expanded its own issuance of local currency *sukuk* to provide a much-needed tool for the fast-growing Islamic banking sector.

Source: Reuters

Indonesia Takes Aim at *Sukuk* Shortage with 10-year Plan

Although *sukuk* are a common funding tool across the Middle East and Southeast Asia, with sovereign and quasi-sovereign issues representing around two-thirds of total sales, supply is irregular, in particular for U.S. dollar-denominated deals.

Year-to-date, global *sukuk* issuance in all currencies totals $39.5 billion, Thomson Reuters data shows, down from $47.5 billion in 2015.

Shrinking issuance can put Islamic banks at a disadvantage, limiting instruments needed to manage their money profitably and meet liquidity requirements. The International Monetary Fund has urged governments to ensure regular issuance by incorporating *sukuk* into national debt management strategies.

Indonesia is doing just that with an industry masterplan, unveiled last month, that envisages sovereign *sukuk* issuance rising to around 50 percent of total debt issuance over the next 10 years from around 13 percent last year.

Sovereign *sukuk* issuance would increase by around 5 percent year-on-year, with government agencies encouraged to use *sukuk* to fund infrastructure, agriculture and educational projects.

Khalid Howladar, global head of Islamic finance at rating agency Moody's, said many Gulf governments were reluctant to fund deficits with *sukuk* because of less standardised and more complex structures, leading to higher issuance costs.

This conflicts with the mandate of government Treasuries to raise funding in a cheap and efficient way, he said.

Indonesia hopes regular issuance can mitigate such concerns and provide benchmarks to encourage local firms to follow suit.

Unlike the Gulf, Indonesia is an established issuer of dollar-denominated *sukuk*; it raised $2.5 billion in February in a dual-tranche deal that was three times oversubscribed.

Source: Reuters

Indonesia Raises 2.6 trln Rupiah from New Retail *Sukuk*

Indonesia sold 2.6 trillion rupiah ($197.2 million) of retail Islamic bonds (*sukuk*), raising more than had been targeted from a new non-tradable savings instrument aimed at individual domestic investors, the finance ministry said on Monday.

The *sukuk*, which were marketed between Aug. 18-28 with government projects as underlying assets, were sold to 11,388 investors. They pay a 6.9 percent coupon per annum with 2-year maturity and are not tradable.

"We're very happy with the result," said Robert Pakpahan, the ministry's director general of financing and risk management, citing that the initial target was to sell 2 trillion rupiah.

Indonesia has sold two other retail sovereign bond products, including 31.5 trillion rupiah worth of tradable retail *sukuk* in March.

Pakpahan said the government will sell around 20 trillion rupiah of tradable retail conventional bonds later this month.

As of end-August, Southeast Asia's largest economy has issued 533.8 trillion rupiah worth of sovereign bonds, nearly 30 percent of which were Islamic.

The country aims to increase the percentage of sharia-compliant products in its bond market to around 50 percent in a 10-year timeframe, under a masterplan it launched earlier this year. ($1 = 13,185.0000 rupiah)

Source: Zawya

Upcoming Events (Sept-Dec 2016)

IFN Forum Turkey—Red Money Events	Turkey, Istanbul	28 Sept	**Event Details**
9th IFSB-INCEIF Executive Forum: Promoting Sound and Effective Shari'ah Governance Practices	Malaysia, Kuala Lumpur	5 Oct	**Event Details**
11th International Conference on Islamic Economics and Finance (11th ICIEF)	Malaysia, Kuala Lumpur	11 - 13 Oct	**Event Details**

New Publications

Pakistan Islamic Finance 2016: Innovation at Asia's Crossroads	**Download Report**

Description of Data:

Dow Jones Sukuk Index: The Dow Jones Sukuk Index is designed to measure the performance of global Islamic fixed-income securities—also known as sukuk. The index includes U.S. dollar-denominated investment-grade sukuk issued in the global market that have been screened for Shari´ah compliance according to the index methodology. The index was created as a benchmark for investors seeking exposure to Shari´ah-compliant fixed-income investments.

The Dow Jones Sukuk Index follows the same consistent, quantitative methodology as the Dow Jones Islamic Market™ (DJIM) Indices, which are monitored to ensure their continued adherence to Shari´ah principles.

Bloomberg USD Emerging Market Composite Bond Index: The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities issued in emerging markets as identified by Bloomberg. Emerging market issuers can be found at function EMWH . The major components of the index are the Bloomberg USD Emerging Sovereign Bond Index, Bloomberg USD Emerging Market Corporate Bond Index, Bloomberg USD Investment Grade Emerging Market Bond Index and Bloomberg USD High Yield Emerging Market Bond Index. To be included in the index a security must have a minimum par amount of 100MM.

LIBOR USD 6 Month: London - Interbank Offered Rate - ICE Benchmark Administration Fixing for US Dollar. The fixing is conducted each day at 11am & released at 11.45am (London time). The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration. The top and bottom quartile is eliminated and an average of the remaining quotations calculated to arrive at fixing. The fixing is rounded up to 5 decimal places where the sixth digit is five or more.

Dow Jones Islamic Market World Index: The Dow Jones Islamic Market World Index is a global index of companies that meet Islamic investment guidelines. The index is quoted in USD.

Dow Jones Global Index: The index measures the performance of stocks that trade globally, targeting 95% coverage of markets open to foreign investment. It is float market cap weighted. It is quoted in USD.

MSCI World Islamic Index: The MSCI World Islamic Index is a free-float weighted equity index. It was developed with a base value of 1000 as of May 31 2007.

MSCI World Index: The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets.

MSCI Emerging Markets Index: The MSCI Em (Emerging Markets) Index is a free-float weighted equity index.

Bloomberg Takaful Index: Bloomberg Takaful Index is a capitalization-weighted index of all globally listed Takaful-recognised companies. Takaful is an Islamic term meaning mutual support, which is the basis of the concept of insurance or solidarity among Muslims. This is a form of insurance based on mutual assistance. The index was developed with a base level of 100 as of April 15, 2009

Murabaha Deposit Rates: Murabaha Deposit An agreement that refers to the sale and purchase transaction for the financing of an asset or project whereby the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or in installments, will be specified in the agreement. Use all prices available in the terminal and updated within the last three working days. Banks that do not price for more than 3 days are excluded from the daily calculation. Islamic Market Reference Rate is calculated by Bloomberg using contributed rates from several local and international banks. Reference rates are calculated by taking the average bid & ask of the contributing banks, after eliminating the 4 highest and 4 lowest values.

Glossary Of Key Terms

Ijara	This is a lease contract wherein the Bank (lessor) leases the property to the customer (lessee) in return for a rental payment for a specified financing period. The Bank promises to transfer the title of the property to the customer at the end of the
Mudaraba	Trustee finance contract: One party contributes capital while the other contributes effort or expertise; profits shared according to a predetermined ratio; investor not guaranteed a return and bears any financial loss; no fixed annual payment; financier has no control on how venture is managed.
Murabaha	Sale with agreed mark-up: Financing purchase of assets for a profit margin; asset purchased on behalf of client and resold at a pre-determined price; payment could be lump sum or in installments; ownership of asset remains with bank till full payments made
Musharaka	Partnership; equity participation contract: Both parties contribute capital; profits shared by a pre-determined ratio, not necessarily in relation to contributions; losses shared in proportion to capital contributions; both parties share and control how investment is managed; each partner liable for the actions of the other
Shari'ah Board	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of *Shari´ah* compliance.
Sukuk	An Islamic financial certificate, similar to a bond in Western finance, that complies with *Shari'ah*, Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a *sukuk* sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the bonds at a future date at par value.
Salam	*Salam* is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The contract of Salam creates a moral obligation on the Salam seller to deliver the goods,. The Salam contract cannot be cancelled once signed.
Takaful	The term '*takaful*' is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a *takaful* arrangement, the participants contribute a sum of money as wholly or partially *taburru'* (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the *takaful*.
Istisna'	*Istisna'* s the kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of *istisna'* comes into existence. But it is necessary for the validity of *istisna'* that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.
Wakala	*Wakala* is the agency contract which is used widely in Islamic Finance. The applications ranging from brokerages services in permissible activities, like certain stocks, as well as to be the agent in a *Murabaha* transaction. The client, who wants to be financed, acts as agent of the bank to acquire the asset, then sold to him on credit installments. Agents can be compensated for their assignment with a fixed, variable or performance model, which is frequently used to influence pay outs and cash flows in financial engineering.

Contact Info:
Ayse Nur Aydin
+90 212-385-3445
aaydin@worldbank.org