DEVELOPMENT TRENDS OF ISLAMIC FINANCE WORLDWIDE

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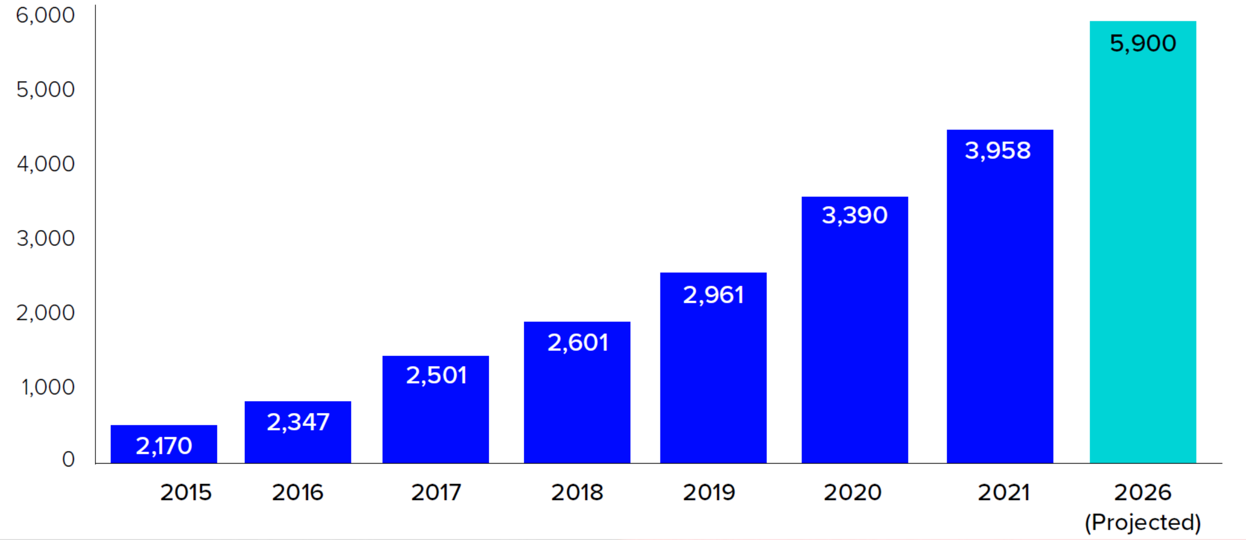
Abstract
In 2021, Islamic finance grew 17% to nearly US$4 trillion in assets, spanning sectors like Islamic banking, Sukuk, and funds. Islamic banking, 70% of assets, expanded due to support, efficiency, and demand. Net income surged 290%, and digital banks and LIBOR transition responses showed innovation. Sustainability, governance, knowledge, and awareness improved through IFDI, driving growth and innovation.

Keywords: Islamic finance, total assets, Islamic banking, Sukuk, Islamic funds.

Islamic finance, rooted in sharia law, offers an ethical framework merging finance with values, justice, and sustainability. From its origins in Muslim-majority nations, it's evolved into a global industry transcending boundaries. This article delves into its development trends reshaping finance, investment, and economics. Beyond finance, Islamic finance embodies ethical principles and social responsibility. Rejecting exploitative practices, it promotes fairness, equity, and accountability. This distinct approach seeks economic equilibrium and community well-being.

Amid the pandemic, Islamic finance showed resilience, growing 14% in 2020. The subsequent year saw a stronger surge of 17%, exceeding pre-pandemic levels and hitting $4 trillion in assets. Vaccination efforts signaled global recovery in 2021, leading to economic reopenings. Islamic banking, with 70% of assets, thrived as credit loss provisions eased, boosting net income. Factors include government support, operational efficiencies, and persistent demand. Non-core regions like Tajikistan (84%), Burkina Faso (27%), and Ethiopia (26%) marked notable growth. Overall, the Islamic banking sector expanded by 17% to $2.8 trillion.

The Sukuk sector, second-largest by assets, grew 14% to $713 billion in 2021 with new issuances reaching $202.1 billion, emphasizing longer-term sukuk and strong sovereign and quasi-sovereign involvement. ESG sukuk issuance surged to $5.3 billion, led by Saudi Arabia, Indonesia, and Malaysia. Islamic funds, the third-largest sector, grew 34% to $238 billion, concentrated in Iran, Saudi Arabia, and Malaysia. Money market and equity were key, along with rising ETFs. ESG funds gained prominence, highlighted by Malaysia's EPF transition to a sustainable investor. Other Islamic financial institutions (OIFIs) rose 5% to $169 billion, with significant growth in Kazakhstan, Egypt, and the Maldives, driven by FinTech expansion.

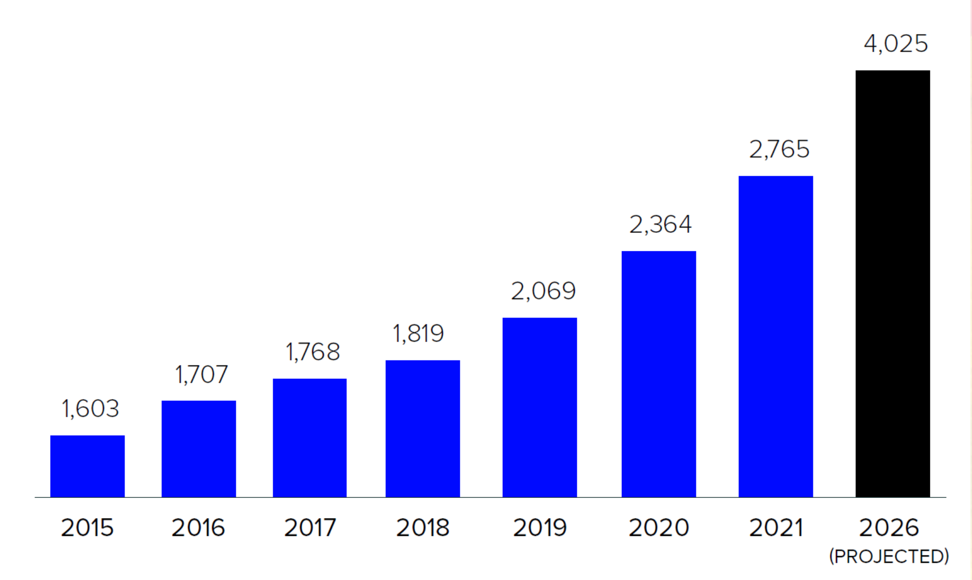


Source: IFDI 2022

Picture 1. Islamic Finance Assets (2021, US$ Billion)

Takaful, the smallest Islamic finance sector, achieved robust 17% growth, reaching $73 billion in 2021. GCC countries are consolidating to enhance efficiency, and regulatory changes in Southeast Asia are expected to strengthen governance and potentially attract new entrants.

Despite pandemic challenges, the Islamic finance industry resiliently grew 17% in 2021 to nearly $4 trillion, tripling net income to $32 billion. Economies gradually recovered in 2021, but pandemic waves disrupted progress. Global petroleum demand outpaced supply, lifting crude oil prices and relieving financial pressure on GCC economies.



Source: IFDI 2022

Picture 2. Islamic Banking Assets Growth (2015 - 2021, US$ Billion)

Islamic banking claimed a dominant share, constituting 70% ($2.8 trillion) of total Islamic finance assets in 2021. GCC led with 43% of global assets, followed by MENA at 40%. The sector achieved robust 17% growth in 2021, with standout markets including Tajikistan (84%), Iran (45%), Burkina Faso (27%), and Ethiopia (26%).

Notably, Islamic banking showed strong performance, reflected in a 290% surge in global net income and higher average return on assets. Factors included reduced provisions for credit losses, prudential financial decisions, and operational efficiencies through branchless banking and FinTech partnerships.

The momentum for Islamic banking is evident through trends and conversions, such as Faysal Bank in Pakistan transitioning to a fully-fledged Islamic bank by 2023. This signals sustained demand, setting the stage for the sector to reach an impressive $4.0 trillion by 2026.

Consolidation strengthens Islamic finance, with Kuwait Finance House acquiring Ahli United Bank, ascending global ranks and becoming Bahrain's largest bank. Kuwait's Gulf Bank considers converting to Islamic banking, reflecting demand in Kuwait's $134 billion Islamic banking sector. Conversion extends to whole systems, as Afghanistan's central bank transitions to Islamic banking and Pakistan aims to ban interest by 2027.

Islamic banking's global presence expands, including Australia's Islamic Bank Australia licensed in July 2022. Digital banks emerge in non-Muslim-majority countries like the UK and the US, where Fardows launched in July 2021.

In 2023, Islamic banking growth will reshape limited markets. The Philippines plans Islamic banking units, and discussions with conventional banks are underway.

Sanctions-affected Russia plans to legalize Islamic banks in four states, North Africa's Algeria sees growing Islamic finance demand, with conventional banks opening Islamic windows and introducing takaful products.

The transition from LIBOR to Risk Free Rates (RFRs) began in January 2022. Malaysia's central bank introduced MYOR-i, a transaction-based Islamic benchmark rate based on commodity Murabaha, fostering Islamic financial product growth. Oman will introduce Islamic money market instruments, aligning Islamic banks with conventional counterparts.

Liquidity for GCC Islamic banks gains attention; Qatar introduced treasury sukuk, and UAE implemented liquidity standards for Islamic banks.

In conclusion, the Islamic finance industry displayed strong resilience, growing 17% to nearly US$4 trillion in 2021. Islamic banking, Sukuk, Islamic funds, and other sectors all contributed to this growth. Notably, Islamic banking thrived, driven by government support, efficiencies, and demand, resulting in a 290% increase in net income. Digital Islamic banks emerged globally, with Australia, UK, Germany, and Malaysia leading the way. New markets like the Philippines and Russia are entering the industry. Transition from LIBOR to RFRs led to innovative solutions, like Malaysia's MYOR-i. The industry's advancement is highlighted by IFDI efforts in sustainability, governance, knowledge, and awareness. As Islamic finance adapts to market changes, its trajectory continues to evolve, fueling growth and innovation worldwide.

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