Islamic Finance
Uncovering the Potential

Principles of Islamic Finance

- Prohibit payment and receipt of interest and debt-based financing
- Promote asset-backed and risk-sharing financing
- Advocate for economic and social justice

Islamic Finance Market

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Total Islamic finance banking assets reached USD 1.6 trillion by end of 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth Rate</td>
<td>Annual growth rate of &gt; 10-15% since 2000</td>
</tr>
<tr>
<td>Market share</td>
<td>Estimated: the GCC 17%, Malaysia 22.6%, Indonesia 3.1%</td>
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<tr>
<td>Infrastructure</td>
<td>Over 1,000 Islamic Financial Institutions, Operating in about 75 countries worldwide</td>
</tr>
</tbody>
</table>

Growth of Islamic Banking

The growth of the Islamic financial sector in 2006–10 period surpassed the growth of conventional financial sector in all segments of the market, ranging from commercial banking, investment banking, and fund management to insurance in several Muslim-majority countries.

Figure 1. Growth of Islamic Banking and Conventional Banking Assets in Selected Countries, 2006–10 (percent)

Source: Deutsche Bank (2011).
One of the recent developments in Islamic finance is the introduction of Islamic bonds, or sukuk, which are structured as securitized products. The key feature of sukuk is that they are structured according to the principle of linking the financial return to a real sector activity. As a result, the bonds are backed by real assets or projects, and the investors’ return is based on the performance of underlying assets.

Although the size of the sukuk market relative to the conventional bond market is very small, there is great potential for further expansion, development, and innovation of this market, which could unleash the true potential of Islamic finance.

**Figure 2. Total Sukuk Issuance, 2002–12**

Source: Islamic Finance Information Services (IFIS).

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**Islamic Finance Market Potential**

- Market depth
  - Business motivation
  - Market motivation
  - Competitor matching
  - Explore market potential
  - Minimum presence
  - Monitor development
  - Wait and see

- Market reach
  - Explore market potential
  - Sporadic development
  - Market development activities
  - Market expansion activities

- Potential Islamic finance markets
  - South Korea, US, Canada, Australia, Germany

- Emerging Islamic finance markets
  - Luxembourg, Hong Kong, Egypt, Singapore, Oman

- Advanced Islamic finance markets
  - Malaysia, UAE, Bahrain, Saudi Arabia, Kuwait, Qatar
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