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Islamic Finance Will Grow Again In 2016, But At A More Subdued Pace, Says S&P Report

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- We think Islamic finance growth will drop to single digits in 2016 from between 10% and 15% over the past decade.
- Islamic finance is facing the fall in the oil price, rapid regulatory changes, and lack of integration.
- Governments in some core markets for the industry will likely maintain their investment spending while looking for alternative funding sources, including through Islamic finance.
- Current headwinds could result in more stringent application of the profit and loss sharing principle and higher standardization.

DUBAI (Standard & Poor's) Oct. 19, 2015--Growth in Islamic finance will likely slacken in 2016, said Standard & Poor's Ratings Services in a report published today, "Islamic Finance To Still Grow In 2016 But With A Sag."

"The industry has achieved critical mass--Islamic finance assets worldwide exceed \$2 trillion by our estimate. But we now think the industry faces challenges from the decline in oil prices, changes in the global regulatory framework for banks and insurance companies, and its own fragmented nature," said Standard & Poor's Global Head of Islamic Finance Mohamed Damak.

Still, Islamic finance will have the impetus to continue progressing and maintain some growth, in our view. Governments in core markets see in Islamic finance a tool to maintain their investment spending, somewhat countering the negative impact of oil prices on their budgets. The regulatory changes could help the industry in resolving issues related to the lack of liquidity management instruments and applying more stringently its principle of profit

and loss sharing. Standardization of documents and Sharia ruling could enhance industry integration and free stakeholders' capacity to focus on innovation.

We expect the industry will be worth \$3 trillion sometime in the next decade.

"Islamic finance stakeholders' efforts and the industry's contribution to development of the real economy will likely fuel growth," added Mr. Damak.

This development is capturing the interest of major financial institutions, such as the International Monetary Fund and the World Bank, and some advanced countries.

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- Glossary Of Islamic Finance Terms: August 2015 Update, Aug. 10, 2015
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- Global Sukuk Issuance Stalls In 2015 As Major Issuer Exits The Market, July 7, 2015
- Hong Kong Sukuk 2015 Ltd., May 13, 2015
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- Basel III Requirements Could Strengthen Islamic Banks' Liquidity Management, March 31, 2015
- Luxembourg Treasury Securities SA, Sept. 18, 2014
- Republic of South Africa Sukuk Certificates, Sept. 9, 2014

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

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