

# IFSB WORKING PAPER SERIES

WP-21/12/2021

## ASSESSING THE EFFECTIVENESS OF COVID-19 POLICY RESPONSES IN THE ISLAMIC CAPITAL MARKET

December 2021



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**ASSESSING THE EFFECTIVENESS OF  
COVID-19 POLICY RESPONSES IN  
THE ISLAMIC CAPITAL MARKET**

Nafis Alam

**December 2021**

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## **ABOUT THE ISLAMIC FINANCIAL SERVICES BOARD (IFSB)**

The IFSB is an international standard-setting organisation which was officially inaugurated on 3 November 2002 and started operations on 10 March 2003. The organisation promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The standards prepared by the IFSB follow a lengthy due process as outlined in its Guidelines and Procedures for the Preparation of Standards/Guidelines, which involves, among others, the issuance of exposure drafts, holding of workshops and, where necessary, public hearings. The IFSB also conducts research and coordinates initiatives on industry-related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end, the IFSB works closely with relevant international, regional and national organisations, research/educational institutions and market players.

For more information about the IFSB, please visit **[www.ifsb.org](http://www.ifsb.org)**.

## ABBREVIATIONS

AAB	AAOIFI Accounting Board
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AuM	Assets under management
Bln	Billion
CMB	Capital Markets Board
CRR	Cash reserve ratio
DJIA	Dow Jones Industrial Average
DJIM	Dow Jones Islamic Market
ECL	Expected credit loss
EPF	Employment Provident Fund
FASs	Financial Accounting Standards
Ffintech	Financial technology
FSRA	Financial Services Regulatory Authority
FTSE	Financial Times Stock Exchange
FY	Fiscal year
GAVI	Global Alliance for Vaccines and Immunizations
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GFC	Global Financial Crisis
ICIS	Islamic collective investment schemes
ICM	Islamic capital market
IDR	Rupiah (Indonesian currency)
IFRS	International Financial Reporting Standard(s)
IFSB	Islamic Financial Services Board
IFSI	Islamic financial services industry
IIF	Institute of International Finance
IIFS	Institutions offering Islamic financial services
IMF	International Monetary Fund
IsDB	Islamic Development Bank
ISFD	Islamic Solidarity Fund for Development
ITFC	International Islamic Trade Finance Corp
KD	Dinar (Kuwaiti currency)
LCR	Liquidity coverage ratio
MCO	Movement control order
Mln	Million
MoF	Ministry of Finance
MSMEs	Micro, small and medium-sized enterprises
Nasdaq	National Association of Securities Dealers Automated Quotations
NBFI	Non-banking financial institution
NGP	National Guarantee Program
NSFR	Net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
P2P	Peer-to-peer financing
PEN	National Economic Recovery Program

PSIFIs	Structural Islamic Finance Indicators
REPO	Repurchase agreement
RM	Ringgit (Malaysian currency)
RRI	Rapid Response Initiative
RRP	Recovery Response Program
RSA	Regulatory and supervisory authority
S&P	Standard & Poor's
SC	Securities Commission Malaysia
SDG	Sustainable Development Goals
SHASTA	Social Welfare Fund
SMEs	Small and medium-sized enterprises
SMS	Short message service
SRR	Statutory reserve requirement
TESS	Targeted Economic Support Scheme
Tk.	Taka (Bangladeshi currency)
TL	Lira (Turkish currency)
VAT	Value-added tax
WHO	World Health Organization
YTD	Year to date

## GLOSSARY

<i>Fatwā</i>	A juristic opinion given by the Sharī'ah board, on any matter pertinent to Sharī'ah issues, based on the appropriate methodology.
<i>Murābahah</i>	A sale contract whereby the institution offering Islamic financial services sells to a customer a specified kind of asset that is already in its possession, whereby the selling price is the sum of the original price and an agreed profit margin.
<i>Qard Al Hasan</i>	In Islamic finance, an interest-free loan. In <i>qard al hasan</i> , the borrower only repays the principal amount. Because the Quran forbids paying or receiving interest, <i>qard al hasan</i> is the only permissible loan in Islamic finance. However, this does not preclude a number of other investment vehicles that imitate the payment of interest.
<i>Retakāful</i>	An arrangement whereby a <i>takāful</i> undertaking cedes a portion of its risks on the basis of treaty or facultative <i>retakāful</i> as a representative of participants under a <i>takāful</i> contract, whereby it would contribute a portion of the contribution as <i>tabarru'</i> into a common fund to cover against specified loss or damage.
Sharī'ah	The practical divine law deduced from its legitimate sources: the Qur'ān, Sunnah, consensus ( <i>ijmā'</i> ), analogy ( <i>qiyās</i> ) and other approved sources of the Sharī'ah.
<i>Şukūk</i>	Certificates that represent a proportional undivided ownership right in tangible assets, or a pool of tangible assets and other types of assets. These assets could be in a specific project or specific investment activity that is Sharī'ah-compliant.
<i>Takāful</i>	A mutual guarantee in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks.
<i>Tawarruq</i> or commodity <i>murābahah</i>	A <i>murābahah</i> transaction based on the purchase of a commodity from a seller or a broker and its resale to the customer on the basis of deferred <i>murābahah</i> , followed by the sale of the commodity by the customer for a spot price to a third party for the purpose of obtaining liquidity, provided that there are no links between the two contracts.
<i>Wakālah</i> (agency)	An agency contract where the <i>takāful</i> or <i>retakāful</i> participants (as principal) appoint the <i>takāful</i> or <i>retakāful</i> operator (as agent) to carry out the underwriting and investment activities of the <i>takāful</i> or <i>retakāful</i> funds on their behalf in return for a known fee.

## **ABSTRACT**

This working paper focuses on developments in the Islamic capital market (ICM) during the COVID-19 pandemic. Adopting a conceptual approach, the paper specifically assesses the performance of the key segments in the ICM. The paper also considers the experience and measures adopted by the key multilateral and international organisations, as well as the policy responses adopted across IFSB member jurisdictions, with an emphasis on their relative effectiveness. The paper provides an outlook of the ICM post-COVID-19 pandemic and the opportunities the pandemic offers to the industry during the recovery phase.



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## SECTION 1: INTRODUCTION

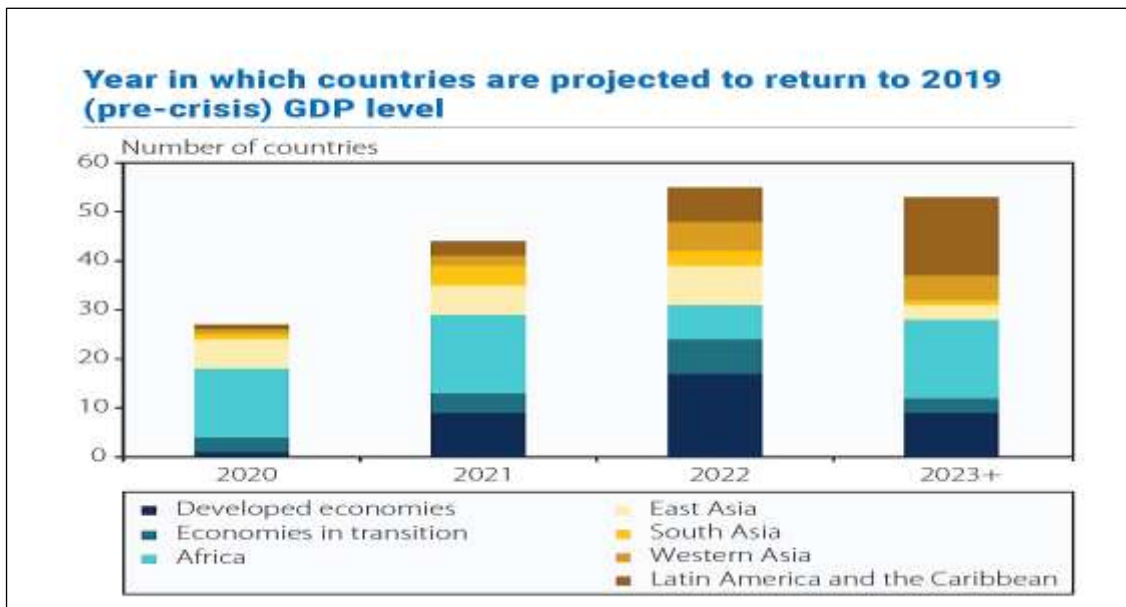
The COVID-19 pandemic has profoundly impacted financial systems across the world, including Islamic finance. To understand the severity of the impact of the pandemic on the Islamic financial services industry (IFSI) in general, and specifically on the Islamic capital market (ICM), it is helpful to also try to understand its impact on the global economy in general and the global capital markets in particular.

By end-October 2021, there are over 255 million people infected globally with COVID-19, with over 4.0 million fatalities.<sup>1</sup> Beyond the health and human tragedy of the virus, it is now widely recognised that the pandemic triggered the most serious economic crisis since World War II. Many economies are not expected to recover their 2019 output levels until 2022 at the earliest (OECD, 2020).

Estimates indicate the virus reduced global economic growth in 2020 to an annualised rate of between  $-3.4\%$  and  $-7.6\%$ , with a recovery of  $4.2\%$  to  $5.6\%$  projected for 2021. Global trade is estimated to have fallen by  $5.3\%$  in 2020, but is projected to grow by  $8.0\%$  in 2021. According to a consensus of forecasts, the economic downturn in 2020 was not as negative as initially estimated, due in part to the fiscal and monetary policies governments adopted in 2020 (CRS, 2021).

It is still early days in the post-COVID-19 recovery, and the path ahead will be a long one. As shown in Figure 1, many countries are struggling to make up for the output losses suffered in 2020. In more than 60% of countries worldwide, 2021 GDP is projected to remain below 2019 levels.

**Figure 1: Timeline for Countries' Return to their Pre-pandemic GDP**



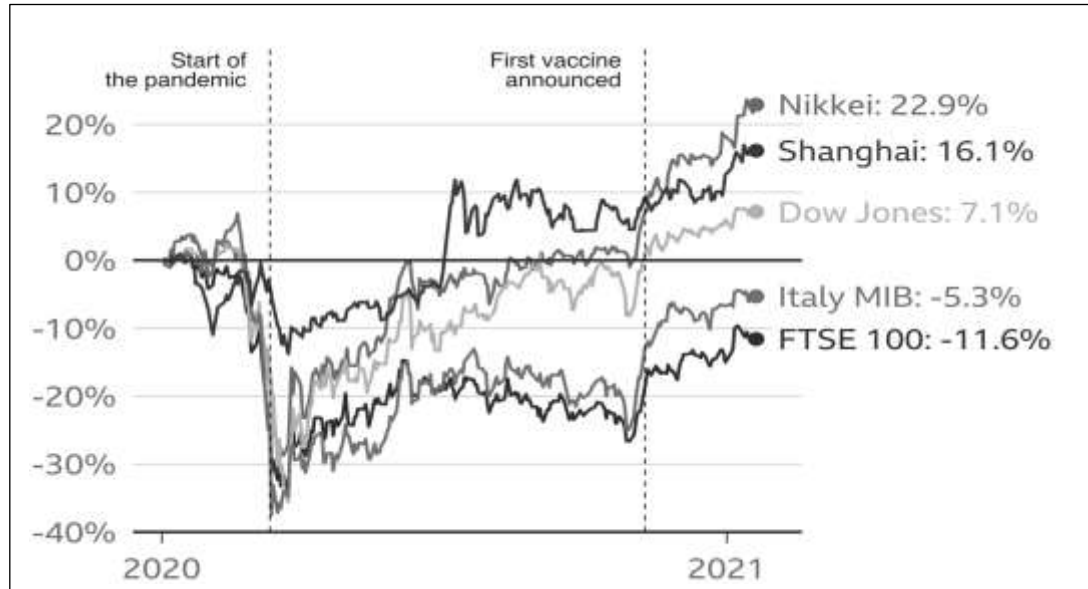
Source: United Nations Department of Economic and Social Affairs (2021).

At the height of the crisis (end-February 2020), major stock markets such as the Financial Times Stock Exchange (FTSE), the Standard & Poor's (S&P) 500 Index, the National Association of Securities Dealers Automated Quotations (Nasdaq) and the

<sup>1</sup> <https://www.worldometers.info/coronavirus/coronavirus-cases/>

Dow Jones Industrial Average (DJIA) reported their largest single-week declines since the 2008 Global Financial Crisis (GFC) (Figure 2).<sup>2</sup> Ali et al. (2020) noted that even the relatively safer commodities suffered as the pandemic took control of the major financial markets.

**Figure 2: Impact of Coronavirus on the Stock Markets**



Source: Bloomberg data, BBC News.

The COVID-19 crisis also triggered a sharp decline in bond prices due to the cash crunch in the financial market at the outbreak of the pandemic. Investment-grade bonds also suffered sharp falls in prices proportionately more than for high-yield bonds, which was surprising given that the latter type is riskier, less liquid, and more sensitive to a deterioration in the economic outlook. In response, various measures were adopted, especially in the developed financial markets of the world, to intervene in the financial market.<sup>3</sup>

Given the increasing prominence of the Islamic capital markets in the global IFSI, the objective of this working paper is to assess the performance of the key segments during the pandemic vis-à-vis the policy responses adopted across Islamic Financial Services Board (IFSB) member jurisdictions. The paper also considers the experience of and measures adopted by the key multilateral and international organisations, with a focus on their relative effectiveness.

In order to have a holistic overview of and discussion on the topic, the paper utilised secondary information from the policy documents of the various ICM regulatory and supervisory authorities (RSAs), central banks and governments of IFSB member jurisdictions, as well as those of international organisations. To further supplement the policy implications for the ICM, the paper also utilised the IFSB's primary information, which was gathered through a structured questionnaire distributed to the regulators of IFSB member countries.

<sup>2</sup> <https://www.cnbc.com/2020/02/28/global-stocks-head-for-worst-week-since-financial-crisis-on-coronavirus-fears.html>

<sup>3</sup> <https://www.washingtonpost.com/us-policy/2020/03/12/markets-stocks-today-coronavirus/>

The remainder of this working paper is divided into seven sections. Section 2 provides a synopsis of the structural developments in the IFSI during the pandemic, while Section 3 provides an insight into the effects of the COVID-19 pandemic on the various segments of the ICM. Key related financial policy responses across IFSB jurisdictions are highlighted in Section 4, while Section 5 focuses on measures adopted by and the experiences of international Islamic finance organisations. In Section 6, the effectiveness of the various intervention measures in the ICM is analysed, while Sections 7 and 8 focus on the ICM opportunities arising from the pandemic and the likely future outlook, respectively.

## SECTION 2: ISLAMIC FINANCIAL SERVICES INDUSTRY IN 2020

As has been noted above, COVID-19 negatively impacted the global economy and brought a flurry of challenges to most financial systems. Being an integral part of the global financial system, the Islamic finance industry has not been spared by the pandemic. It was poised for good performance in 2020, but the pandemic changed that outlook.

The total worth of the IFSI across its three main segments (banking, capital markets and *takāful*) is estimated at USD 2.70 trillion in 2020 (see Table 1), a jump of 10.65% from 2019 (2019: USD 2.44 trillion). This is less than the 11.4% growth experienced in 2019. Although the IFSI experienced double-digit growth, the decline in overall growth was due both to the heightened uncertainty within the global economic landscape and to negative sentiments in the financial market space.

All segments of the IFSI contributed to its increased total global worth; however, the contribution of Islamic banking dropped from 72% to 68%, while the ICM segment experienced a healthy 5% jump from the previous year, primarily due to the growth in the value of outstanding *sukūk*. The ICM has proved resilient during the pandemic, with global *sukūk* issuances growing in 2020. As seen in Table 1, *sukūk* outstanding amounted to USD 690 billion (Bln), with strong momentum in key *sukūk* markets.

**Table 1: Breakdown of the Global IFSI by Segment and Region (USD Bln\*)**

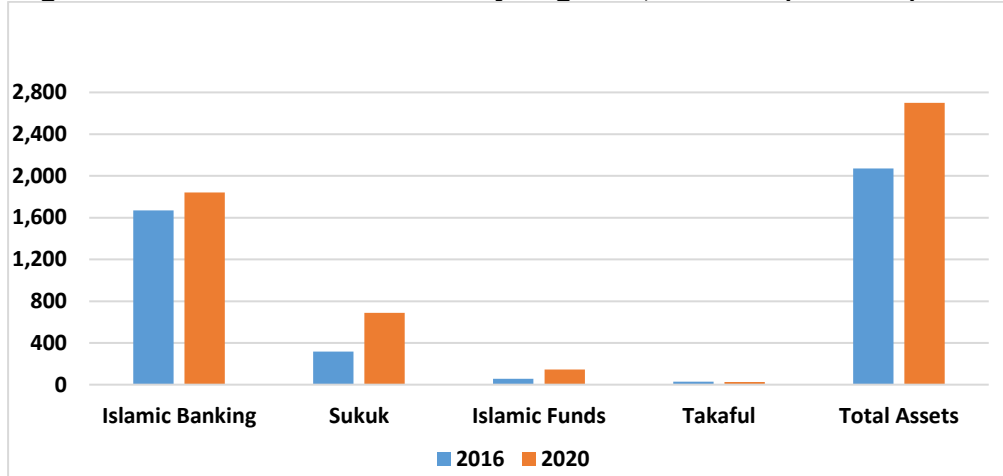
Region	Islamic Banking Assets		<i>Sukūk</i> Outstanding		Islamic Funds Assets		<i>Takāful</i> Contributions		Total		Share (%)	
	'19	'20	'19	'20	'19	'20	'19	'20	'19	'20	'19	'20
GCC	854	980	205	280	36	46	12	12	1,107	1,319	45	49
South-East Asia (SEA)	241	258	303	366	27	42	3	4	574	671	24	25
Middle East and South Asia (MESA)	584	499	19	19	17	23	11	6	631	546	26	20
Africa	34	43	2	2	2	2	0.6	0.6	38	47	2	2
Others	53	62	15	22	21	31	0.4	0.6	89	116	4	4
Total	1,766	1,842	543	690	102	144	27	23	2,438	2,698	100	100
Share (%)	<b>72</b>	<b>68</b>	<b>22</b>	<b>26</b>	<b>4</b>	<b>5</b>	<b>11</b>	<b>0.9</b>	<b>100</b>	<b>100</b>		

\* Data for *takāful* have a one-year lag (2019 data as at end-2018 and 2020 data as at end-2019).

Source: Author's calculation; data from IFSB FSR 2019, FSR 2020.

More specifically, if we examine the overall growth of the IFSI in the last five years (2016–20) as shown in Figure 3, all segments of the IFSI have shown positive growth. *Sukūk* experienced the biggest jump in the last five years.

**Figure 3: Islamic Finance Assets by Segment, 2016–20 (USD Bln)**

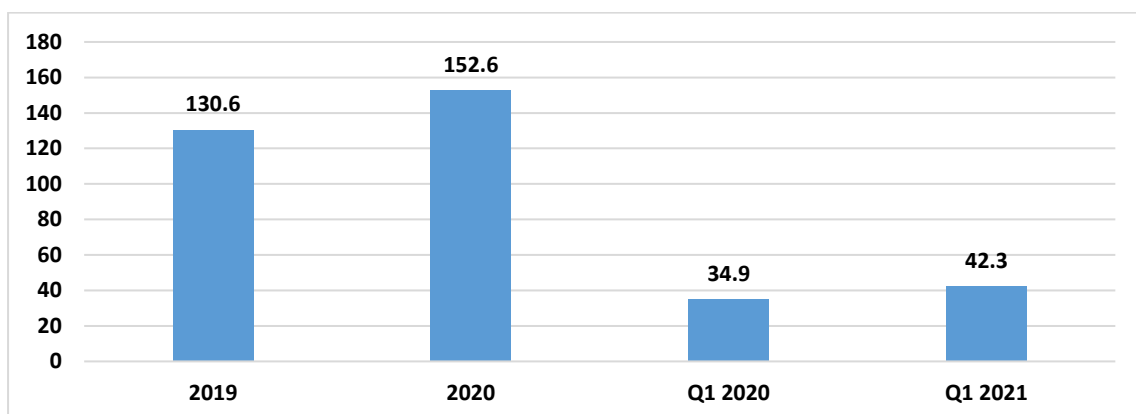


Source: Author's calculation; data from IFSB FSR 2019, FSR 2020.

We do not have specific statistics on the overall IFSI for the year 2021; however, according to S&P Global Ratings, it is expected to grow by 10–12% from 2021 to 2022.<sup>4</sup> If we take this growth rate into perspective, the IFSI will surpass the USD 3 trillion mark by the end of 2021.

We do have some specific estimates for the ICM, mainly for the *sukūk* market, as of Q1 2021. Despite slow economic recovery due to new variants of COVID-19, the global *sukūk* market recorded a 21.2% year-on-year (y-o-y) increase in issuance to USD 42.3 Bln in Q1 2021 (Q1 2020: USD 34.9 Bln) (see Figure 4). This growth was possible due to the rise in both sovereign and corporate and quasi-government *sukūk* issuances. Total sovereign issuances surged by 31.8% to USD 25.7 Bln (Q1 2020: USD 19.5 Bln), while corporate and quasi-government *sukūk* issuances rose by 8.5% to USD 16.6 Bln (Q1 2020: USD 15.3 Bln), as shown in Figure 5.

**Figure 4: Global Sukūk Issuance as of Q1 2021 (USD Bln)**



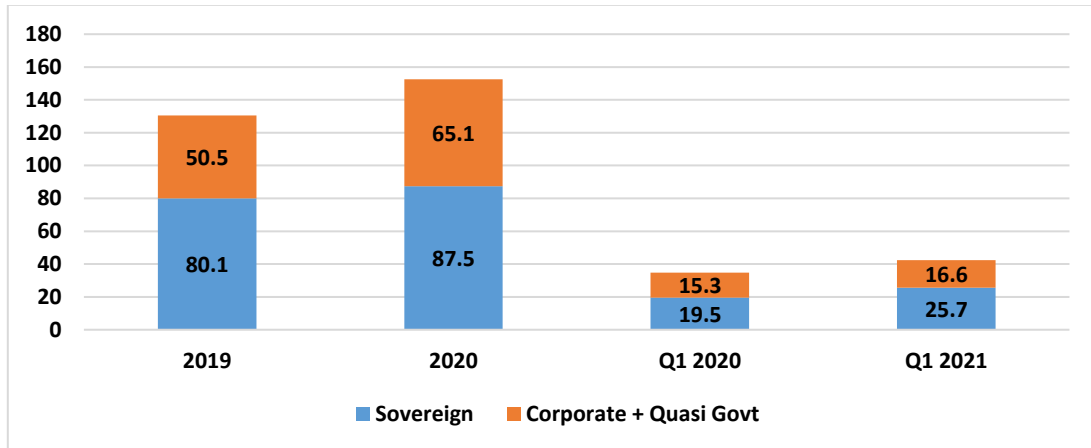
Source: Author's calculation; data from RAM, Eikon-Thomson Reuters.

In Q1 2021, sovereign *sukūk* issues continued to drive market performance, constituting 60.7% (USD 25.7 Bln) of overall global *sukūk* issuances. Corporate and

<sup>4</sup> <https://www.theedgemarkets.com/article/sp-global-islamic-finance-industry-grow-1012-20212022>

quasi-government issuances made up the other 39.3% (USD 16.6 Bln). The growth in Q1 2021 issuances was primarily driven by sovereign issuances, which were aimed at raising funds for economic stimulus as part of national recovery plans in the aftermath of the COVID-19 pandemic.

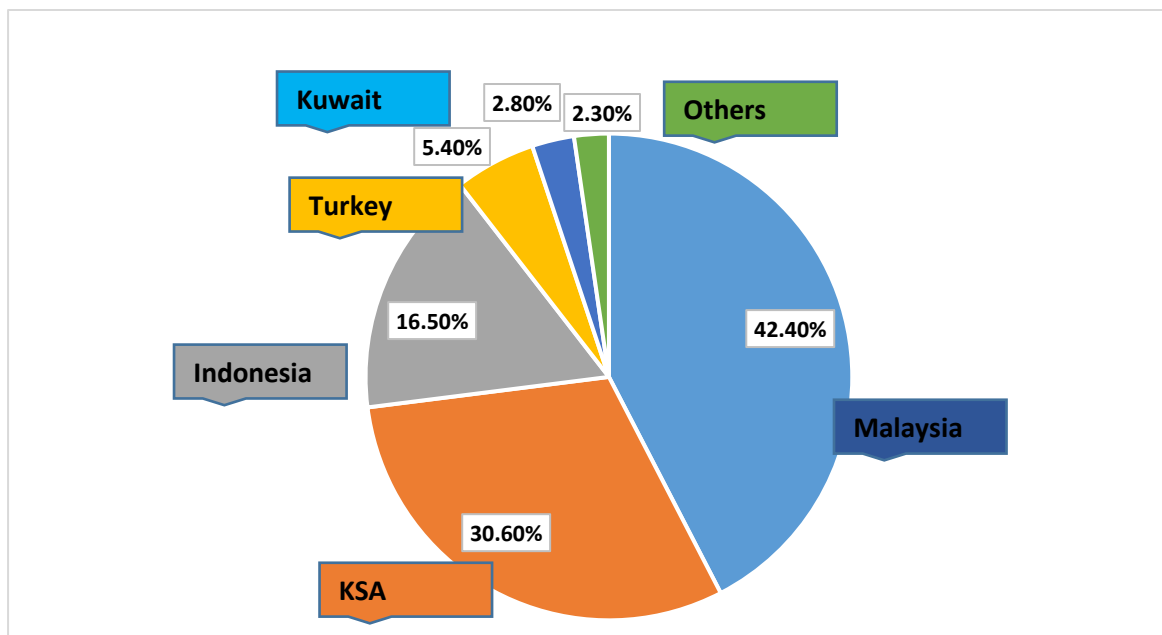
**Figure 5: Global *Sukūk* Issuance by Type of Issuer as of Q1 2021 (USD Bln)**



Source: Author’s calculation; data from RAM, Eikon-Thomson Reuters.

As shown in Figure 6, Malaysia led global *sukūk* issuances with a 42.4% market share (USD 17.9 Bln) in Q1 2021, followed by the Kingdom of Saudi Arabia (KSA) (30.6%, or USD 12.9 Bln), Indonesia (16.5%, or USD 7.0 Bln), Turkey (5.4%, or USD 2.2 Bln) and Kuwait (2.8%, or USD 1.2 Bln). These five countries emerged as the biggest contributors to *sukūk* issuances in Q1 2021, accounting for 97.7% of the global total.

**Figure 6: Global *Sukūk* Issuance by Jurisdiction as of Q1 2021**



Source: Author’s calculation; data from RAM, Eikon-Thomson Reuters.

As shown in Table 2, overall, key markets such as Malaysia (+42.2% y-o-y) and Indonesia (+89.2%) recorded significant increases in *sukūk* issuances. By contrast, the Gulf Cooperation Council (GCC) region posted a 12.7% y-o-y fall to USD 14.4 Bln for the quarter (Q1 2020: USD 16.5 Bln). The decline was led mainly by its corporate and quasi-government sectors, which experienced a 38.1% drop to USD 5.2 Bln (Q1 2020: USD 8.3 Bln). The overall decline in GCC *sukūk* issuances reflects the shift to conventional bond issuances, due to their shorter time to market and lower documentation costs.

**Table 2: Comparative Total Global *Sukūk* by Jurisdiction (Q1 2020 vs. Q1 2021)**

Core <i>Sukūk</i> Markets	Sovereign <i>Sukūk</i>		Corporate and Quasi-Government <i>Sukūk</i>		Total Issuance	
	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021
Malaysia	USD 6.0 Bln (47.0%)	USD 7.8 Bln (43.7%)	USD 6.8 Bln (53.0%)	USD 10.1 Bln (56.3%)	USD 12.8 Bln	USD 17.9 Bln
GCC	USD 8.1 Bln (49.3%)	USD 9.2 Bln (63.9%)	USD 8.4 Bln (50.7%)	USD 5.2 Bln (36.1%)	USD 16.5 Bln	USD 14.4 Bln
Indonesia	USD 3.6 Bln (97.6%)	USD 6.9 Bln (99.0%)	USD 0.09 Bln (2.4%)	USD 0.07 Bln (1.0%)	USD 3.7 Bln	USD 7.0 Bln

Source: Author's calculation; data from RAM, Eikon-Thomson Reuters.

Thus, it is conclusive that even though the Islamic finance industry experienced a decline in its overall growth rate, the impact of the COVID-10 pandemic on the overall IFSI was not as bad as had been anticipated. There was a sign of robust growth in Q1 2021, driven mainly by *sukūk* issuances in Malaysia and Indonesia. The South-East Asian region has shown better prospects for the IFSI compared to the GCC region, which might expect more ICM-driven initiatives by regulators and policymakers.



## SECTION 3: THE IMPACT OF COVID-19 ON THE ISLAMIC CAPITAL MARKET

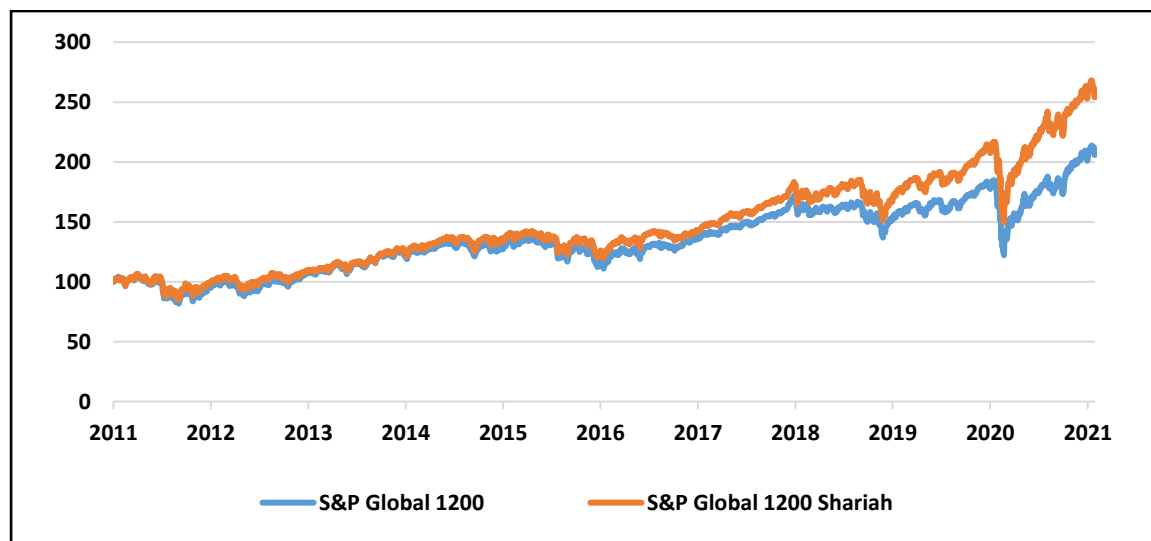
The initial impact of the COVID-19 outbreak on international capital markets has been acute, with sharp price adjustments observed across fixed-income and equity markets. In January–February 2020, the US and European credit and equity markets rallied to near record-high levels but started to experience rapid decline by late February and early March. During the height of COVID-19, bond yields and equity prices across the globe fell sharply, resulting in the loss of trillions of dollars. In the major capital markets such as the United States, 10-year bond yields tumbled below 0.5% and equity prices on major stock indices suffered huge dips.

This section of the paper will examine the impact of the COVID-19 pandemic on the main segments of the ICM.

### 3.1 Islamic Equity Market

The Islamic equity market experienced a similar fate to conventional equities and exhibited significant volatility in 2020 due to the COVID-19 pandemic. Nevertheless, Islamic indices were still able to outperform their conventional counterparts, just as they had done in the past. As can be seen from Figure 7, it is evident that the Islamic benchmark index has constantly outperformed the conventional benchmark index.

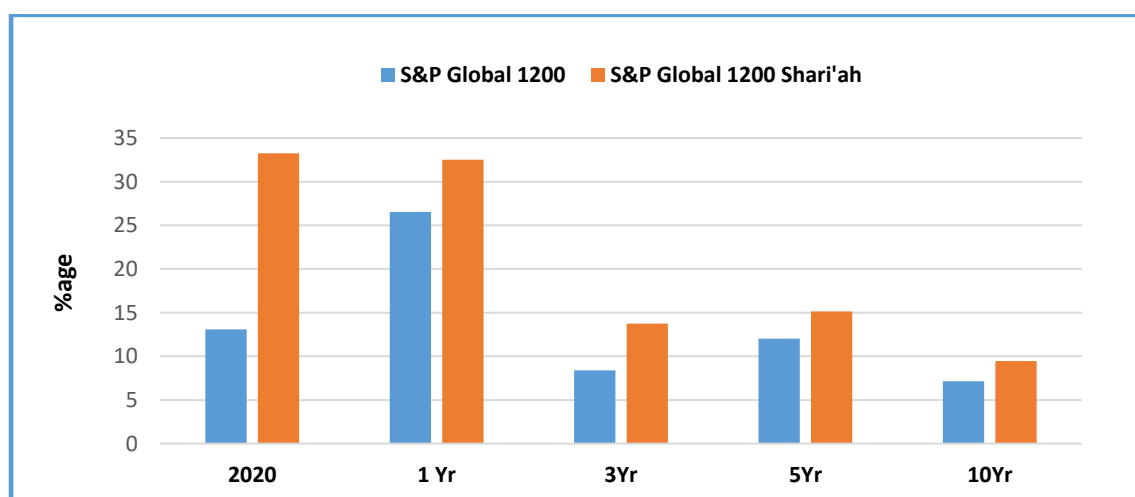
Figure 7: Ten-Year Historical Performance (Q1 2011 – Q1 2021)



Source: Author's calculation; data from Bloomberg, Eikon-Thomson Reuters.

If we focus on the different periods (see Figure 8), we can see that the Islamic benchmark has been constantly outperforming, whether for the 3 years, 5 years or 10 years period. Even for 2020, the Islamic benchmark index returned 20% higher returns than its conventional counterpart.

**Figure 8: Performance of Islamic Indices vs. Global (2020)**



Source: IFSB input; data from Bloomberg, Eikon-Thomson Reuters.

For the past year, global equities continued to rise during the second quarter of 2021, gaining 7.2% as measured by the S&P Global BMI, raising the year-to-date (YTD) tally to 12.8%. Shariah-compliant benchmarks, including the S&P Global BMI Shariah and the Dow Jones Islamic Market (DJIM) World Index, somewhat underperformed their conventional counterparts YTD, in part due to continued strength in the financial sector, which gained 18.7% during the period. All major regional Shari'ah and conventional benchmarks had positive returns YTD (see Table 3).

**Table 3: YTD Comparative Regional Returns**

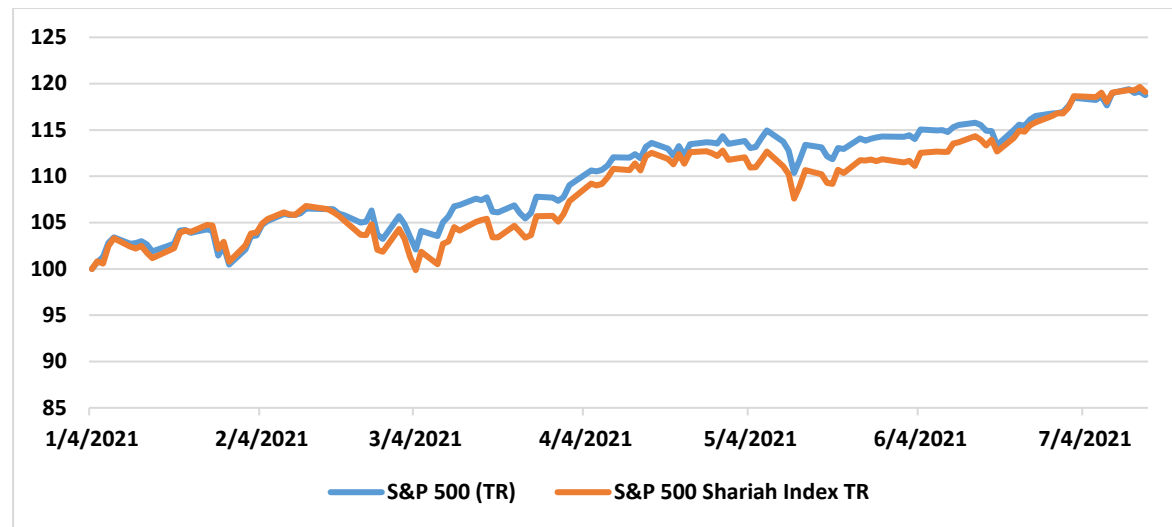
Regional Returns			
Benchmark	Shariah (%)	Conventional (%)	Variance (%)
S&P Global BMI	11.5	12.8	-1.3
DJIM World Index	11.1	12.5	-1.4
S&P 500	15.2	15.3	-0.1
DJIM Asia/Pacific Index	2.2	5.8	-3.6
DJIM Europe Index	10.6	11.6	-1.0
DJIM Developed Markets Index	11.6	13	-1.4
DJIM World Emerging Markets Index	7.2	8.6	-1.4
S&P Pan Arab Composite	25.1	22.5	2.6

Source: Author's calculation; data from S&P Dow Jones Indices LLC as of 30 June 2021. Total returns in USD.

If we consider just the performance of the Islamic benchmark index so far this year (2021), the total return of the S&P 500 Shariah Index is 18.30%, compared to the S&P

500 total return of 17.21%, which again shows that the Islamic index has outperformed the conventional index in the post-COVID-19 era (see Figure 9).

**Figure 9: Performance of Islamic Indices vs. Global (2021)**



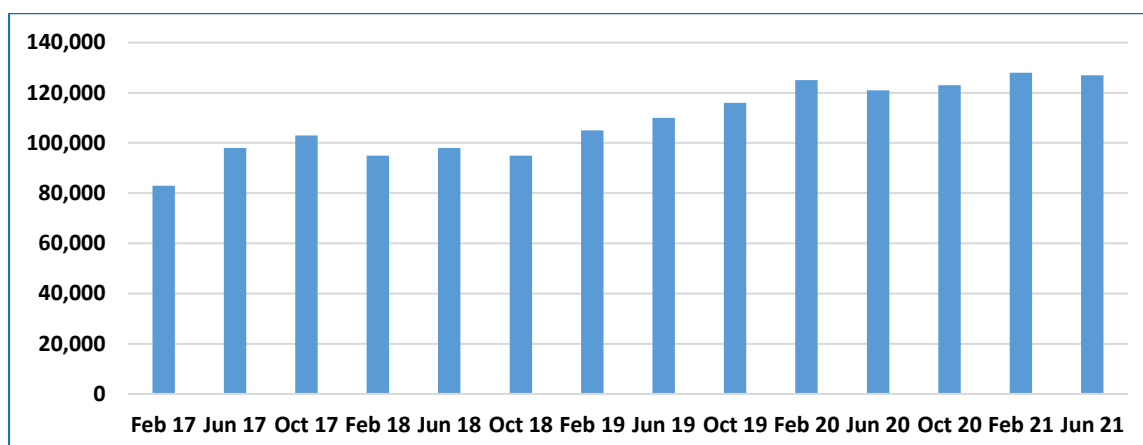
Source: Author's calculation; data from S&P Global as of 4 July 2021.

If we focus on empirical findings, it can be noted that, across various sectors (developed markets, emerging markets, etc.), Islamic indices generally outperformed their conventional counterparts by a notable margin. In a recent paper, Ashraf et al. (2020) compared the performance of Islamic equity indices with benchmark equity indices during the pandemic period from the perspective of regional differences and found that Islamic indices, following a market-based approach for screening (S&P and Dow Jones Islamic Equity Indexes), outperform their corresponding benchmark indices on both a nominal and a risk-adjusted basis (Sharpe ratio) irrespective of regional differences. More recently, Chowdhury et al. (2021) noted that most of the Islamic sectors experience a relatively lower drawdown, as well as a faster recovery, than their non-Islamic counterparts. The significant outperformance of the Islamic financials and industrials sectors resulted in a noticeable disparity in the aggregate markets. Islamic markets also display healthier Calmar ratios (a function of compounded return), while the emerging markets have relatively higher metrics.

### 3.2 Sukūk Market

Despite the COVID-19 pandemic, the *sukūk* market remained resilient. According to the Refinitiv Islamic Finance research team, for the year 2020, *sukūk* issuances totalled USD 152.6 Bln, compared with USD 130.6 Bln for 2019. The momentum continued in Q1 2021 when total *sukūk* issuances reached USD 42.3 Bln, a healthy 21.6% increase over Q1 2020. Global *sukūk* market issuances had a record year in both 2019 and 2020. Using the FTSE IdealRatings Broad US Dollar Sukūk Index as a metric, *sukūk* market value has grown from USD 15.0 Bln in February 2011 to USD 127 Bln in June 2021 – representing a compound annual growth rate of 23%. A snapshot of the last four years' performance is given in Figure 10.

**Figure 10: FTSE IdealRatings Broad US Dollar Sukūk Index Market Value (USD Mln)**



Source: Author's calculation; data from FTSE Russell Group.

The overall volume of *sukūk* issuances in 2020 and H1 2021 was boosted by an increase in overall issuances from the GCC region (including Saudi Arabia, Kuwait, the United Arab Emirates [UAE], Bahrain, Qatar and Oman), as well as from Iran, compared to the previous year. On the other hand, there was a slight drop in overall issuances from the major issuers in Asia. For instance, the Malaysian corporate bonds and *sukūk* market saw total issuances drop by 21.26% to RM 104.58 Bln (USD 24.9 Bln) in 2020 compared with RM 132.82 Bln (USD 31.6 Bln) in 2019. In terms of the type of issuance, sovereign issuances, the biggest component of the *sukūk* market, saw a slight drop in 2020. Sovereign issuances made up about 53% of all issuances (2019: 56%), followed by 37% from corporates (2019: 36%), while multilateral organisations' issuances saw a jump to 10% compared to 8% in 2019.

If we consider the risk-adjusted performance of the *sukūk* market before the COVID-19 pandemic, as shown in Table 4, the FTSE IdealRatings Broad US Dollar Sukūk Index posted slightly lower returns than both the FTSE Middle East and North Africa Broad Bond Index and the FTSE Emerging Markets Broad Bond Index but (encouragingly) with substantially lower volatility. This resulted in higher risk-adjusted performance for the 2012–19 time period. In the ensuing period of crisis (2020 and Q1 2021), the *sukūk* market provided further outperformance on a risk-adjusted basis. This once again proves the resilience of the *sukūk* market and demonstrates its ability to weather turbulent markets at the onset of the pandemic.

**Table 4: Comparative Return/Risk Profile *Sukūk* vs. Bond Market**

**Return/Risk Profiles, December 2012 – December 2019**

Index	FTSE Broad Index	Ideal USD	Ratings <i>Sukūk</i>	FTSE MENA Broad USD Bond Index	FTSE Emerging Markets Bond Index
<b>Annualised Return</b>	4.35%			4.51%	4.54%
<b>Annualised Std Dev</b>	2.66%			3.62%	5.00%

### Return/Risk Profiles, December 2019 – March 2021

Index	FTSE Broad Index	Ideal USD	Ratings <i>Sukūk</i>	FTSE MENA Broad Bond Index	FTSE Emerging Markets Bond Index
Annualised Return	6.07%			3.21%	2.45%
Annualised Std Dev	7.37%			11.63%	12.91%
Return/Risk Ratio	0.82			0.28	0.19

Source: Author's calculation; data from FTSE Russell Group.

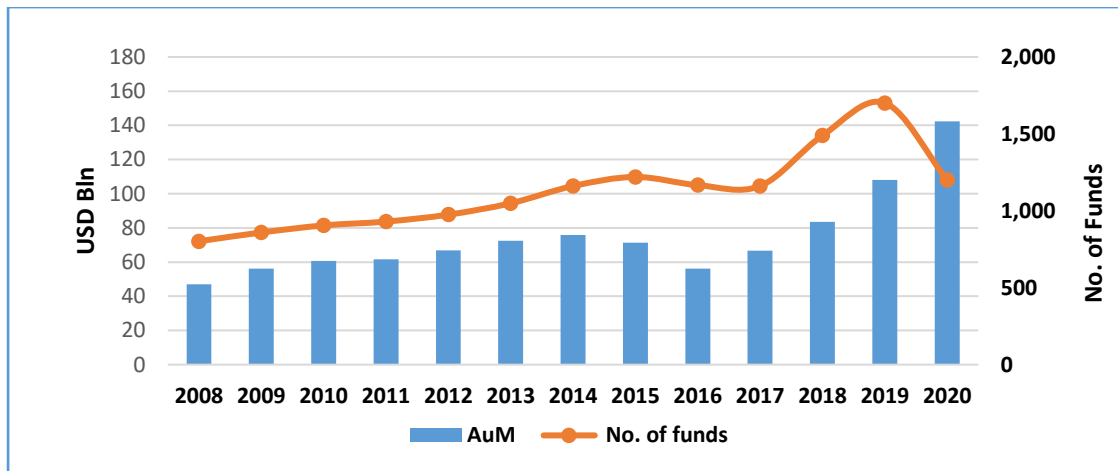
Although the *sukūk* market has shown resilience in the face of the COVID-19 pandemic and outperformed its conventional counterpart, it is expected that it will experience the ripple effect of weakening global economic conditions and financial health of some jurisdictions, as well as defaults in the *sukūk* sector brought about by the slowdown in the airline industry having caused lower oil demand. Even IFN (2020) reported that new *sukūk* issues in the post-pandemic era are expected to be more cumbersome in terms of legal documentation, with clauses specific to pandemics, as lenders are keen to hedge their portfolios. It is expected that most *sukūk*-issuing countries, such as Malaysia and the GCC countries, will experience an increase in demand for the hospitality sector towards the last quarter of 2021, including hotels and airlines, which may further boost oil prices and see markets return to a new high.

### 3.3 Islamic Funds Market

The performance of most asset classes across the globe took a big hit in the first half of 2020 due to limited economic activity owing to the lockdowns imposed by governments around the world in an attempt to stem the spread of the COVID-19 pandemic. The performance of Islamic funds was also impacted; however, the Islamic fund space fared relatively better due to the exclusion of the conventional finance, gaming, tobacco and alcohol sectors, which took a big hit during the height of the pandemic.

As per IFSB estimates, the total assets under management (AuM) of Islamic funds grew by 31.9% in 2020 despite the pandemic (see Figure 11). While total AuM grew significantly in 2020 (even with COVID-19), registering 32% y-o-y growth, the total number of funds experienced a decline. The increase in the scale of funds may be an indication of the flow of funds into emerging markets' fixed-income funds as a result of the search for yield and increased global liquidity. Contrasting with 2019, about 47% of funds now hold AuM of USD 1 Bln or more each, while only 1% of funds hold AuM of less than USD 10 million (Mln) (2019: only 2% held AuM of more than USD 1 Bln each).

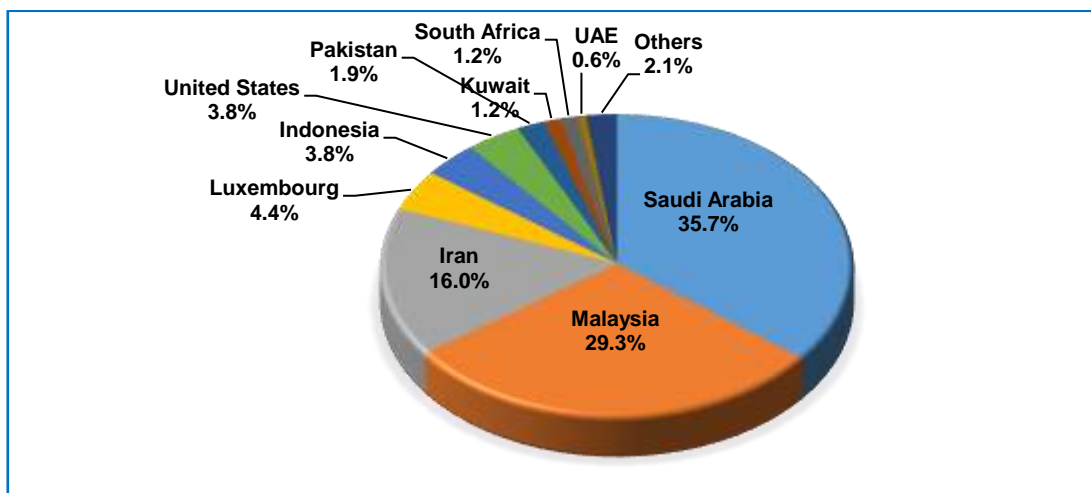
**Figure 11: Growth in Assets under Management and Number of Islamic Funds (2008–20)\***



Source: IFSB estimates based on data from Refinitiv and regulatory authorities for 2019 and 2020.<sup>5</sup> Data for the years 2008–18 are from the Bloomberg database.

Islamic funds continue to remain concentrated by domicile in three core markets – Saudi Arabia, Malaysia and Iran – accounting for 81% of total AuM (see Figure 12). Industry impact from COVID-19 varied widely across countries, with the funds sector as a whole sustaining less damage than some other sectors. A positive aspect was that the revenues for investment management firms remained largely intact. At the same time, market volatility and price movement accelerated significantly at the industry sector and asset class levels. On the whole, notwithstanding the initial shock experienced in early 2020, inflows into Islamic funds in many countries picked up in the latter part of 2020, enabling the overall growth trend to continue for that year.

**Figure 12: Islamic Fund Assets by Domicile (2020)**



Source: Author's calculation; IFSB estimates based on data from Refinitiv and regulatory authorities.

<sup>5</sup> Islamic funds data exclude pension funds and insurance funds.

## SECTION 4: POLICY RESPONSE BY MAJOR ISLAMIC FINANCE JURISDICTIONS

It has been apparent that the COVID-19 pandemic has produced severe economic and financial shocks in almost every nation globally, but it has also been heartening to see how policymakers and regulators have risen to the occasion to safeguard their countries' financial health. Governments and central banks announced financial assistance and devised conducive policies for the most affected sectors to reduce the impact of the pandemic. Even major Islamic finance jurisdictions developed measures and policies aimed at reducing its adverse financial impact. For the purposes of clarity, this report will make use of the IFSB *Islamic Financial Services Industry Stability Report, 2020* (IFSB, 2020) classification of top jurisdictions for Islamic banking assets. As per IFSB (2020), Iran at 28.6%, Saudi Arabia at 24.9%, Malaysia at 11.1%, UAE at 8.7% and Kuwait at 6.3% are the top five Islamic finance nations. The other Islamic banking jurisdictions making up the top 10, in order of size, are Qatar, Turkey, Bangladesh, Indonesia and Bahrain.

Table 5 provides a list of policy measures from major Islamic finance jurisdictions. It is also worth mentioning that most nations did not categorically devise policy responses aimed specifically at the Islamic finance industry; rather, they were targeted more towards the overall financial system. Where there is evidence of policy response for Islamic finance or the ICM, it will be highlighted in the discussion.

**Table 5: Policy Measures by Major Islamic Finance Jurisdictions**

Country Name	Authority	Level 1 Policy Measures*	Level 2 Policy Measures**	Other Measures	Islamic Finance
<b>Bahrain</b>	CB	Banking sector	Prudential	Other prudential relaxation	<b>Yes</b>
	CB	Banking sector	Operational continuity	Reduce non-essential regulatory reporting requirements for banks	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	CB	Payment systems	Promoting and ensuring availability of digital payment mechanisms		
<b>Bangladesh</b>	CB	Liquidity/funding	Policy rate		
	CB	Liquidity/funding	Asset purchases		
	MoF	Banking sector	Support borrowers	Other credit repayment moratorium	
	MoF	Banking sector	Support borrowers	State guarantees on loans	
	MoF	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments	
	Other	Payment systems	Promoting and ensuring the availability of		

		digital payment mechanisms	
CB	Liquidity/funding	Asset purchases	
CB	Liquidity/funding	Policy rate	
GOV	Liquidity/funding	Liquidity (incl. FX)/ELA	
GOV	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments
CB	Banking sector	Support borrowers	Mandatory credit repayment moratorium
CB	Banking sector	Support borrowers	Encourage restructuring of loans
SUP	Banking sector	Operational continuity	
Other	Banking sector	Support borrowers	Other credit repayment moratorium
CB	Liquidity/funding	Liquidity (incl. FX)/ELA	
CB	Financial markets/NBFI	Market functioning	Regulatory measures
CB	Banking sector	Operational continuity	
CB	Banking sector	Prudential	Release/defer capital buffers (conservation, counter-cyclical, systemic)
CB	Banking sector	Prudential	Relaxation in NPE treatment (definition, classification, provisioning)
CB	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments
GOV	Financial markets/NBFI	Public debt management	Other public debt management
Other	Banking sector	Support borrowers	Encourage restructuring of loans
Other	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments
Other	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments
SUP	Banking sector	Support borrowers	Encourage restructuring of loans
SUP	Banking sector	Prudential	Relaxation in capital requirement



				(definition of capital, capital at risk, risk weights)	
	SUP	Banking sector	Support borrowers	Other credit repayment moratorium	
	CB	Liquidity/funding	Policy rate		
	CB	Liquidity/funding	Asset purchases		
	CB	Liquidity/funding	Liquidity (incl FX)/ELA		
<b>Indonesia</b>	SUP	Financial markets/NBFI	NBFI	Other NBFI	<b>Yes</b>
	MoF	Banking sector	Support borrowers	State guarantees on loans	
	MoF	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments	
	MoF	Banking sector	Support borrowers	State guarantees on loans	
	MoF	Financial markets/NBFI	NBFI	Other NBFI	
	CB	Liquidity/funding	Policy rate		
	MoF	Banking sector	Support borrowers	State guarantees on loans	
	CB	Payment systems	Promoting and ensuring the availability of digital payment mechanisms		
	Other	Banking sector	Prudential	Reduce non-essential regulatory reporting requirements for banks	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	CB	Banking sector	Prudential	Prioritise or review critical supervisory actions	
	CB	Banking sector	Prudential	Supervisory guidance and expectations	
	CB	Banking sector	Prudential	Restrictions on the use of profits and resources (e.g. dividends)	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	CB	Banking sector	Prudential	Temporary ease on liquidity requirements	
	CB	Banking sector	Prudential	Temporary ease on liquidity requirements	
CB	Liquidity/funding	Liquidity (incl. FX)/ELA			

	CB	Banking sector	Support borrowers	Flexibility in credit information requirements	
	CB	Banking sector	Prudential	Other prudential relaxation	
	Other	Banking sector	Support borrowers	Other credit repayment moratorium	
	CB	Liquidity/funding	Policy rate		
	Other	Financial markets/NBFI	Market functioning	Regulatory measures	
	CB	Liquidity/funding	Policy rate		
	GOV	Banking sector	Support borrowers	State guarantees on loans	
	SUP	Financial markets/NBFI	Market functioning	Market restrictions	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	CB	Financial markets/NBFI	Public debt management	Adjusting funding strategy	
	CB	Banking sector	Prudential	Other prudential flexibility	
	Other	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments	
	GOV	Liquidity/funding	Asset purchases		
	Other	Banking sector	Prudential	Other prudential relaxation	
	GOV	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	SUP	Banking sector	Operational continuity		
<b>Iran, Islamic Rep.</b>	Other	Financial markets/NBFI	Market functioning	Regulatory measures	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
<b>Kuwait</b>	Other	Financial markets/NBFI	Market functioning	Regulatory measures	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	MoF	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments	
	CB	Banking sector	Support borrowers	Mandatory credit repayment moratorium	
	GOV	Banking sector	Support borrowers	State guarantees on loans	
	GOV	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments	

<b>Malaysia</b>	CB	Financial markets/NBFI	Market functioning	Market restrictions	
	CB	Financial markets/NBFI	Market functioning	Other market functioning	
	CB	Banking sector	Prudential	Relaxation in NPE treatment (definition, classification, provisioning)	
	CB	Banking sector	Prudential	Restrictions on the use of profits and resources (e.g. dividends)	
	CB	Banking sector	Prudential	Other prudential relaxation	
	CB	Banking sector	Prudential	Relaxation in NPE treatment (definition, classification, provisioning)	
	CB	Insolvency	Enhancing tools for out-of-court debt restructuring and workouts		
	CB	Banking sector	Prudential	Relaxation in capital requirement (definition of capital, capital at risk, risk weights)	
	CB	Banking sector	Prudential	Other prudential flexibility	
	CB	Banking sector	Prudential	Reduce non-essential regulatory reporting requirements for banks	
	CB	Banking sector	Support borrowers	Flexibility in credit information requirements	
	CB	Banking sector	Support borrowers	Other credit repayment moratorium	
	CB	Financial markets/NBFI	NBFI	Other NBFI	
	CB	Banking sector	Prudential	Prioritise or review critical supervisory actions	
	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	CB	Banking sector	Prudential	Ease other macroprudential measures (e.g. DTI, LTV)	
	MoF	Banking sector	Support borrowers	Mandatory credit repayment moratorium	
	CB	Banking sector	Support borrowers	Encourage restructuring of loans	
	CB	Banking sector	Prudential	Relaxation in NPE treatment	

				(definition, classification, provisioning)	
	CB	Banking sector	Prudential	Ensure public risk disclosures by banks	
	SUP	Banking sector	Prudential	Temporary ease on liquidity requirements	
<b>Qatar</b>	CB	Banking sector	Integrity	Relief measures on customer identification (e.g. simplified customer due diligence even in case of non-face-to-face relationships)	
	SUP	Banking sector	Prudential	Relaxation in NPE treatment (definition, classification, provisioning)	
	GOV	Banking sector	Support borrowers	Mandatory credit repayment moratorium	
	MoF	Banking sector	Support borrowers	State guarantees on loans	
	GOV	Banking sector	Support borrowers	Mandatory credit repayment moratorium	
<b>Saudi Arabia</b>	CB	Liquidity/funding	Liquidity (incl. FX)/ELA		
	CB	Banking sector	Prudential	Supervisory guidance and expectations	
	GOV	Liquidity/funding	Liquidity (incl. FX)/ELA		
	CB	Banking sector	Support borrowers	Mandatory credit repayment moratorium	
	CB	Banking sector	Prudential	Relaxation in NPE treatment (definition, classification, provisioning)	
	GOV	Banking sector	Prudential	Relaxation in NPE treatment (definition, classification, provisioning)	
	GOV	Banking sector	Support borrowers	Credit restructuring with a public guarantee	
	GOV	Liquidity/funding	Policy rate		
	CB	Banking sector	Prudential	Restrictions on the use of profits and resources (e.g. dividends)	
	CB	Payment systems	Promoting and ensuring the availability of digital payment mechanisms		

	CB	Banking sector	Support borrowers	Other credit repayment moratorium	
	SUP	Financial markets/NBFI	NBFI	Insurance	
	SUP	Banking sector	Prudential	Supervisory guidance and expectations	
<b>Turkey</b>	SUP	Banking sector	Prudential	Supervisory guidance and expectations	
	SUP	Banking sector	Prudential	Relaxation in NPE treatment (definition, classification, provisioning)	
	SUP	Financial markets/NBFI	Market functioning	Ensure minimal functionality in the primary and secondary markets	
	SUP	Financial markets/NBFI	Market functioning	Regulatory measures	
	SUP	Banking sector	Prudential	Ensure public risk disclosures by banks	
	SUP	Financial markets/NBFI	Market functioning	Other market functioning	
<b>United Arab Emirates</b>	SUP	Financial markets/NBFI	Market functioning	Other market functioning	
	SUP	Financial markets/NBFI	Market functioning	Regulatory measures	

\* Level 1 includes: Banking sector, Financial markets/NBFI, Insolvency, Liquidity/funding, Payments systems. \*\*Level 2 measures include: Crisis management, Prudential, Support borrowers, Market functioning, NBFI, Asset purchases, Liquidity (incl. FX)/ELA, Policy rate, Other liquidity, Consumer protection, Easing regulatory requirements, digital payment mechanism, Other payments. CB = Central Bank; GOV = Government; NPE = Non-Performing Exposures; NBFI = Non-Banking Financial Institution; ELA = Emergency Liquidity Assistance; MoF = Ministry of Finance; SUP = Supervisory Authority.

Source: Author compilation; data from WorldBank Database. The database is compiled using public information collected by the World Bank and COVID-19 financial response trackers maintained by several entities (e.g. Yale Program on Financial Stability, IDB, IIF, IMF, OECD).

Apart from the policy measures highlighted in Table 5, this section will also summarise the key actions taken by the respective jurisdictions. The information has been gathered from the IMF,<sup>6</sup> the World Bank Group,<sup>7</sup> central banks and the Ministry of Finance websites of the respective countries.

#### 4.1 Bahrain

**Fiscal:** A fiscal package was first introduced on 17 March 2020, with measures totalling about 6% of GDP, including a budget appropriation to cover urgent health-related needs. The initial package was for three months, but throughout 2020 it was subsequently extended and increasingly targeted to support sectors and individuals hit hardest by the crisis. Measures in the 2020 fiscal package included: (i) payment of salaries for Bahrainis working in the private sector (financed by the unemployment fund); (ii) subsidising of electricity and water bills for individuals and companies; (iii) redirecting Tamkeen (a semi-autonomous government agency that finances small and

<sup>6</sup> <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#B>

<sup>7</sup> <https://www.worldbank.org/en/about/what-we-do/brief/world-bank-group-operational-response-covid-19-coronavirus-projects-list>

medium-sized enterprises' (SMEs) programmes to support adversely affected micro and small enterprises; (iv) doubling of the size of the liquidity fund to support SMEs; (v) excepting industrial and commercial entities from paying government fees; (vi) exempting tourist facilities from tourism fees; and (vii) extending support to workers in the transportation and education sectors.

During 2021, parts of the financial support package were extended through August 2021, including: (i) payment of salaries of Bahrainis in the private sector (financed by Tamkeen and the Unemployment Fund); (ii) financial support to SMEs through Tamkeen; (iii) fees exemptions for tourist facilities; (iv) municipality fees exemptions for affected commercial entities; (v) waivers on commercial registration fees; (vi) rent exemptions for tenants of government-owned companies and properties; and (vii) fees exemption to set up and operate e-stores. In addition, the authorities launched a national employment programme aimed at creating private-sector jobs and training the workforce.

**Monetary and macro-financial:** On 17 March 2020, the Central Bank of Bahrain (CBB) temporarily expanded its zero-interest lending facility to banks by up to BD 3.7 Bln (USD 10 Bln, or 29% of GDP) to facilitate deferred loan repayments and extension of additional credit. The CBB also cut its one-week deposit facility rate (in line with the US Federal Reserve) from 2.25% to 1.0%, the overnight deposit rate from 2.0% to 0.75%, and the overnight lending rate from 4.0% to 2.45%.

Other key financial sector measures included: (i) reducing the cash reserve ratio for retail banks from 5% to 3%; (ii) relaxing loan-to-value ratios for new residential mortgages; (iii) capping fees on debit card payments; (iv) extending the number of past-due days for stage 1 expected credit loss (ECL) classification to 74 days, excluding the six-months loan moratorium; (v) reducing the cooling-off period for reclassifying restructured facilities from stage 3 to stage 2 from 12 months to 3 months; (vi) reducing the risk weight of loans to SMEs from 75% to 25%; and (vii) reducing the minimum liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements for all locally incorporated banks from 100% to 80%. Finally, the CBB implemented blanket deferrals on private-sector loan repayments (both principal and interest) from March to August 2020, which were subsequently extended several times, with the latest deferral phase in place until December 2021.

**Islamic finance (including ICM):** For Islamic finance, the CBB offered an Islamic repurchase agreement (REPO) transaction at a 0% rate to licensed Islamic banks based on sovereign *sukūk* as security for the transaction. During the pandemic, the demand for sovereign *sukūk* has increased, which has driven down *sukūk* yields. To take advantage of the high appetite for Shari'ah-compliant investment opportunities, more *sukūk* can be issued relative to conventional bonds. Although the *sukūk* yield decreased slightly and the COVID-19 pandemic increased the default risk, corporate *sukūk* issuance is expected not to be impacted and to remain the same.

The CBB adopted a more lenient approach towards certain reporting deadlines and has been more flexible to accommodate reporting deadline extension requests from the ICM players. The CBB has also been responsive to the requests by managers of Islamic collective investment schemes (ICIS), on a case-by-case basis and as deemed required for the benefit of the investors and the continuity of the funds' operations. At the level of the ICIS managers, the CBB has monitored the performance of its licensed

financial institutions and the impact of the pandemic on their profitability, reporting and continuity in business. ICIS managers are being provided with support at the level of their supervisory points of contact at the CBB, which has an indirect but profound effect on the funds.

## 4.2 Bangladesh

**Fiscal:** At end-March 2020, the Ministry of Finance (MoF) issued a revised budget for FY20, including Taka (Tk.) 2.5 Bln in additional resources, to fund the Ministry of Health's COVID-19 Preparedness and Response Plan and to expand the existing transfer programmes that benefit the poor. Increased allocation was made to the Open Market Sale programme to facilitate the purchase of rice at one-third the market price. On 31 March, the MoF announced a Tk. 50 Bln (about USD 588 Mln) stimulus package for exporting industries to be channelled through Bangladesh Bank (BB) and distributed by the commercial banks at a 2% service charge. This special fund, for workers' salary support, was disbursed through mobile financial services and bank accounts and benefited close to 4 million workers over four months.

The MoF also subsidised interest payments on working capital loans of up to Tk. 600 Bln (about USD 7.1 Bln) provided by scheduled banks to businesses. The Prime Minister has also announced that Tk. 20 Bln (about USD 235.6 Mln) in interest payments on behalf of 13.8 million loan recipients negatively impacted by the national shutdown will be covered by the government. In January 2021, the government increased the COVID-19 Emergency Response and Pandemic Preparedness Project costs by Tk 56.6 Bln (about USD 666.7 Mln), mostly reflecting the procurement, preservation and distribution of vaccines. Thus far, Tk. 390.7 Bln (about USD 4.6 Bln) of fiscal stimulus has been announced, of which Tk. 186 Bln (about USD 2.2 Bln) has been disbursed as of end-April 2021.

In addition, the National Board of Revenue has suspended duties and taxes on imports of medical supplies, including protective equipment and test kits. The FY22 Budget includes higher allocations (in Taka) for health, agriculture and social safety net programmes, although effective targeting remains a challenge. As a precautionary measure, the government has decided that 25% of budgetary allocations for development projects will be placed on hold, affecting low-priority projects. It has approached donors seeking budget support.

**Monetary and macro-financial:** To ensure adequate liquidity in the financial system, in March 2020, BB announced the purchase of Treasury bonds and bills from banks. The REPO rate was successively reduced from 6% to 4.75% over three cuts from March to July. The cash reserve ratio (CRR) for banks was reduced on both a daily (from 5% to 3.5%) and a bi-weekly basis (from 5.5% to 4%). The CRR was also cut for offshore banking operations, effective 1 July, and for non-bank financial institutions (NBFIs), effective 1 June. The advance deposit ratio and investment deposit ratio were raised by 2% to facilitate credit to the private sector and to improve liquidity. The Export Development Fund was raised from USD 3.5 Bln to USD 5 Bln, with the interest rate slashed to 1.7% and the refinancing limit increased.

BB has created several refinancing schemes totalling Tk. 415 Bln (about USD 4.9 Bln), a 360-day tenor special REPO facility, and a credit guarantee scheme for exporters, farmers and SMEs to facilitate the implementation of the government's stimulus packages. In addition, BB has taken measures to delay non-performing loan

classification, relax loan rescheduling policies, waive credit card and interest fees, suspend loan interest payments, relax credit risk rating rules for banks, extend tenor of trade instruments, lower farm loan interest rates and allow short-term farm loan rescheduling, and ensure access to financial services. BB imposed an additional 1.0% general provision against loans that have enjoyed deferral/time extension facilities.

**Islamic finance (including ICM):** Bangladesh did not have any specific policy for the Islamic finance sector. Measures that were taken for the financial sector were also applicable to Islamic finance.

### 4.3 Indonesia

**Fiscal:** In 2020, the government disbursed a total of Indonesian Rupiah (IDR) 579.8 trillion (about 3.8% of GDP) as part of a national economic recovery programme (PEN). The PEN comprises: (i) support to the health-care sector to boost testing and treatment capacity for COVID-19 cases; (ii) increased benefits and broader coverage of existing social assistance schemes to low-income households such as food aid, conditional cash transfers and electricity subsidies; (iii) expanded unemployment benefits, including for workers in the informal sector; (iv) tax relief, including for the tourism sector and individuals (with an income ceiling); and (v) permanent reductions of the corporate income tax rate from 25% to 22% in 2020–1 and 20% starting in 2022.

The PEN also includes capital injections into state-owned enterprises and interest subsidies, credit guarantees, and loan restructuring funds for micro, small and medium-sized enterprises (MSMEs). To support credit creation, the government has placed state funds in selected commercial banks to enable the banks to increase leverage and guaranteed working capital loans for labour-intensive corporations. In 2021, the government has budgeted a total of IDR 699.4 trillion for the PEN.

**Monetary and macro-financial:** Bank Indonesia (BI) reduced the policy rate by 125 bps cumulatively in February, March, June, July and November 2020, and by 25 bps in February 2021, to 3.5%. BI also announced other measures to ease liquidity conditions, including: (i) lowering reserve requirement ratios for banks; (ii) increasing the maximum duration for REPO and reverse REPO operations (up to 12 months); (iii) introducing daily REPO auctions; (iv) increasing the frequency of foreign exchange (FX) swap auctions for 1-, 3-, 6- and 12-month tenors from three times per week to daily auctions; and (v) increasing the size of the main weekly refinancing operations as needed.

BI also adjusted macroprudential regulation to ease liquidity conditions and support bond market stability. The minimum down-payment requirements on automotive loans, as well as the loan-to-value ratio for residential real estate, have also been eased, effective from 1 March until 31 December 2021. A Presidential decree has expanded BI's authority to maintain the stability of the financial system in the presence of the COVID-19 shock, including by facilitating BI liquidity assistance to banks, allowing BI to purchase government bonds in the primary market, and financing the deposit insurance agency (LPS) for bank solvency problems.

The government and BI announced, on 6 July 2020, a burden-sharing scheme to help finance the economic response to the pandemic. The scheme, implemented in 2020, covered the following: (i) BI's purchases of government bonds with coupons at the BI's policy rate will finance priority spending on public goods such as health and social protection; (ii) the budgetary interest cost of spending support to firms will be



subsidised by BI transfers to the budget; and (iii) BI will act as a buyer of last resort for long-term local-currency bonds to finance another spending.

The government issued the first bond under the burden-sharing scheme on 6 August 2020. In 2021, only the buyer-of-last-resort arrangement remains in place. BI has also been providing funding to LPS through repo transactions and purchases of government bonds owned by LPS. It has also taken measures to further strengthen financial deepening, access to financial services, and monetary operations, including by facilitating collaboration between the banking industry and financial technology (fintech) companies, supporting digital payment in various sectors, and introducing Shari'ah-compliant instruments.

To ease stock market volatility, the Financial Services Authority – OJK – has introduced a new share buyback policy (allowing listed companies to repurchase their shares without a prior shareholders' meeting) and introduced limits on stock price declines. OJK has also relaxed loan classification and loan restructuring procedures for banks to encourage loan restructuring, and extended the deadline – by two months – for publicly listed companies to release their annual financial reports and hold annual shareholders' meetings. They have also postponed banks' implementation of mark-to-market valuation of government and other securities for six months, and have relaxed the obligation to fulfil the LCR and NSFR requirements and allowed the use of the capital conservation buffer.

**Islamic finance (including ICM):** For the ICM development to continue in Indonesia, the government is working together with BI and OJK to develop the Islamic financial market, pursue policies and regulations, and create instruments. The concentration of ICM products continues to rise and, as of June 2021, data from the OJK showed that Shari'ah stock assets reached IDR 3,372.2 trillion (USD 232.7 Bln), equivalent to 47.32% of the total Indonesian stock price index. More recently, the finance minister commented: "The government is committed to developing the Islamic capital market by increasing the depth and liquidity of the Islamic financial sector."<sup>8</sup>

#### 4.4 Iran

**Fiscal:** Key measures of the 2020 package included: (i) extra funding for the health sector (2% of GDP); (ii) cash transfers to vulnerable households (0.5% of GDP); (iii) support to the unemployment insurance fund (0.3% of GDP); and (iv) subsidised loans for affected businesses and vulnerable households (4.7% of GDP). In addition, the government announced a moratorium on tax payments for a period of three months through June 2020 (6% of GDP). *Sukūk* bonds, Iran's National Development Fund, and privatisation proceeds provided part of the financing. On 15 April 2020, the government embarked on its biggest-ever initial public offering, selling its residual shares in 18 companies (including a 12% share of Social Welfare Fund [SHASTA], the largest public company) to generate income as it attempts to deal with the economic consequences of COVID-19 and sanctions imposed by the United States. As of the end of August 2020, 13% of business applicants affected by the pandemic received part of the aid package, and 56.5 trillion rials (USD 245 Mln) were paid from the National Development Fund.

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<sup>8</sup> <https://go.kompas.com/read/2021/07/16/142443474/indonesias-islamic-finance-assets-reach-1283-Bln-in-march-2021>

**Monetary and macro-financial:** The Central Bank of Iran has: (i) announced the allocation of funds to import medicine; (ii) agreed with commercial banks that they postpone by three months the repayment of loans due in February 2020; (iii) offered temporary penalty waivers for customers with non-performing loans; and (iv) expanded contactless payments and increased the limits for bank transactions to reduce the circulation of banknotes and the exchange of debit cards. It also reduced reserve requirements between April and September 2020 for commercial banks to boost lending to affected people and businesses.

**Islamic finance (including ICM):** Some of the measures taken to assist the banking sector had an impact on Islamic banks. No specific measures were taken for the ICM.

#### 4.5 Kuwait

**Fiscal:** The government allocated Kuwait Dinar (KD) 500 Mln (USD 1.6 Bln, or 1.5% of GDP) of additional funds to support efforts to fight the spread of COVID-19. It has formed a committee to implement stimulus measures to ease the negative impact of COVID-19 on economic activity. In particular, the authorities implemented the following measures: (i) postponement of social security contributions for six months for private-sector companies; (ii) removal of government fees on selected sectors provided that savings are passed on to customers; (iii) continued provision of full unemployment benefits to nationals; and (iv) provision of concessional, long-term loans to SMEs through joint financing from the SME fund and banks.

**Monetary and macro-financial:** The Central Bank of Kuwait (CBK) has been working with commercial banks to ensure uninterrupted access to financial services, including online banking, payment, settlement and electronic clearing systems, and access to disinfected banknotes. On 30 March 2021, the parliament approved a draft law to secure guarantees for local banks to provide financial assistance to clients whose businesses are affected by the coronavirus pandemic.

Other measures implanted by the CBK include: (i) commitment to provide liquidity if needed; (ii) 1 percentage point reduction in interest rates on all monetary policy instruments, following the US Fed's decision to cut interest rates to zero; (iii) banks instructed to delay loan payments from companies and households affected by the shock; (iv) exchange companies providing services through applications and online instructed to open accounts using Electronic Know Your Client (EKYC) and to link payments through SMS for existing clients, with the maximum amount of transfer not exceeding KD 1,500 per month; (v) banks instructed to provide SMEs affected by the shock with financing at a maximum interest rate of 2.5%; (vi) decrease in the risk weights for SMEs (from 75% to 25%) in the calculation of risk-weighted assets for determining capital adequacy; (vii) 2.5 percentage point reduction of banks' capital adequacy requirements, to 10.5; (viii) reduction of the regulatory NSFR and LCR from 100% to 85%, and of the liquidity ratio from 18% to 15%; and (ix) increase in the loan-to-value limits for land purchase for residential projects from 50% to 60%, for existing homes from 60% to 70%, and for home construction from 70% to 80%. Further, on 20 October, the CBK cut rates of other monetary policy instruments by 0.125% for the entire interest rate yield curve, up to the 10-year term. This includes REPO, CBK bonds, the term-deposits system, direct intervention instruments and public debt instruments.

**Islamic finance (including ICM):** Some of the measures taken to assist the banking sector had an impact on Islamic banks as well. No specific measures were taken for the ICM.

#### 4.6 Malaysia

**Fiscal:** A fiscal stimulus package of Malaysian Ringgit (RM) 6 Bln (0.4% of GDP) was approved on 27 February 2020, including increased health spending, temporary tax and social security relief, cash transfers to affected sectors, and rural infrastructure spending. Additional measures – electricity discounts and temporary pay leave – for RM 0.62 Bln (less than 0.1% of GDP) were announced on 16 March. Some investment spending planned for 2020 is being frontloaded. A second stimulus package of RM 25 bln (1.7% of GDP) was released on 27 March, including additional health spending, cash transfers to low-income households, wage subsidies to help employers retain workers, and infrastructure spending in East Malaysia.

The government also set up an RM 50 bln fund for working capital loan guarantees for all COVID-19 affected businesses. Furthermore, employees will be allowed special withdrawals from their Employment Provident Fund (EPF) account for 12 months and businesses will be allowed to reschedule their EPF payments. On 6 April 2020, the authorities announced a third stimulus package of RM 10 Bln (0.7% of GDP), including grants for micro-SMEs, scaled-up wage subsidies, and a 25% discount on foreign workers' fees. On 5 June, the authorities announced a fourth stimulus package of RM 21 Bln (1.4% of GDP), which includes an extension of the wage subsidies scheme, hiring and training subsidies, support for business digitalisation, and additional tax relief.

On 23 September 2020, the authorities announced a fifth stimulus package of RM 10 Bln (0.7% of GDP), which includes a further extension of the wage subsidies scheme and microgrants for entrepreneurs, and a new round of cash transfers to lower-income households. On 26 October, the *Temporary Measures for Government Financing (COVID-19) Act 2020* was enacted and temporarily increased the government debt ceiling by 5 percentage points, to 60% of GDP. On 6 November, the authorities released the 2021 budget, which included RM 17 Bln for spending on COVID-related measures that were carried over from the packages announced earlier in 2020. These measures will be financed from the funds borrowed under the Temporary Measures for Government Financing (COVID-19) Bill 2020. The total amount of fiscal injection envisaged in five stimulus plans over 2020–21 (RM 55 Bln) remains unchanged. Of that, around RM 38 Bln has been spent in 2020 and the remainder, RM 17 Bln, has been allocated to 2021.

On 18 January 2021, the authorities announced a new package, totalling RM 15 Bln. Key initiatives include accelerated social security payments under the existing programmes, accelerated withdrawals from the EPF, extended tax relief on communication equipment and locally produced cars, expansion of the wage subsidy programme, and additional grants for microenterprises. It also includes relaxation of the unemployment benefits eligibility criteria and extension of terms. On 17 March, the authorities announced a new stimulus package of RM 20 Bln (1.3% of GDP). The main initiatives include additional funds for procurement of vaccines, additional cash payments to the vulnerable, extension of targeted wage subsidies, grants for state-owned enterprises, increase in small-scale infrastructure projects, and fuel subsidies.

The package also includes measures to extend financing for firms and to improve digitisation of the economy. The announcement of a nationwide movement control order – MCO 3.0 – on 31 May was accompanied by the announcement of an RM 40 Bln package focused on additional health spending to fight the pandemic surge, as well as transfers to those most impacted by the recent surge (including an extension of the wage subsidies programme).

**Monetary and macro-financial:** (i) In response to the crisis, Bank Negara Malaysia (BNM) lowered the overnight policy rate (OPR) in three consecutive monetary policy committee meetings on 3 March, 5 May and 7 July 2020. Including the January rate change, the OPR has been cut in 2020 by a cumulative 125 bps to date to 1.75%. The policy response was initially geared to address market disruptions and financial market volatility in March, and most recently was responding more to weak global economic conditions and subdued inflationary pressures.

(ii) The BNM lowered the statutory reserve requirement (SRR) ratio by 100 basis points to 2% effective 20 March. On 5 May, the BNM announced that banking institutions can use MGS and MGII to fully meet the SRR compliance until May 2021. On 27 March, the BNM increased its financing facilities by RM 4 bln to RM 13.1 bln (0.9% of GDP). On 25 March, it announced a temporary easing of regulatory and supervisory compliance on banks to help support loan deferment and restructuring, as well as relief measures for insurance policyholders and *takaful* participants. On 5 June, the authorities announced measures to help business financing by both the private sector and public banks, worth about RM 6 bln (0.4% of GDP).

(iii) On 23 March 2020, the Securities Commission Malaysia (SC) and Bursa Malaysia suspended short selling. This suspension was extended through end-2020. SC also waived annual licensing fees for capital market licensed entities. On 16 April, SC announced regulatory relief measures for public listed companies. On 10 April, the Companies Commission of Malaysia announced measures to enhance the protection of distressed companies against liquidation.

(iv) To support the real estate sector, the Home Ownership Campaign was re-launched in June 2020, with stamp duty exemptions for properties valued at between RM 300,000 and RM 2.5 Mln until 31 May 2021. The loan-to-value requirement of 70% for third mortgages (properties valued above RM 600,000) has been lifted until 31 May 2021 and real property gains tax exemption for disposal of residential homes until 31 December 2021.

(v) On 29 July 2020, the BNM announced that the banking industry will provide a targeted loan payment moratorium extension following the six-month blanket moratorium expiring on 30 September 2020) and provision of repayment flexibility to borrowers affected by COVID-19. In addition, banks have committed to providing a repayment flexibility (e.g. allowing temporary interest-only payments and lengthening the repayment period) to other individuals and all SME borrowers affected by COVID-19. The flexibility offered by each bank will take into account the specific circumstances of borrowers.

(vi) On 6 November 2020, the BNM announced several additional facilities and enhancements for SME support, including the establishment of (a) an RM 2 Bln Targeted Relief and Recovery Facility (TRRF); (b) an RM 500 Mln High Tech Facility (HTF); and (c) an RM 110 Mln enhancement to the existing Micro Enterprise Facility.

The BNM announced an additional allocation of RM 2 Bln for the TRRF and established the RM 200 Mln Disaster Relief Facility in February 2021.

**Islamic finance (including ICM):** Securities Commission (SC) Malaysia accorded various relief measures to aid and support listed issuers amid the evolving COVID-19 situation. They included: (i) deferment of the holding of annual general meetings during the COVID-19 outbreak; (ii) extension of time to issue annual reports and financial statements; (iii) flexibility and relief measures made available to listed issuers with an unsatisfactory financial condition and inadequate level of operations; (iv) relief measures to facilitate secondary fundraising; and (v) a rebate of 50% of the annual listing fees for the year 2020 for listed issuers that have a market capitalisation below RM 500 Mln as at 31 December 2019 and reported financial losses as measured by group loss after tax in their quarterly report for a quarter ended on any date between 1 April and 30 June 2020 (inclusive) notwithstanding the date of the submission of the same.

The capital market regulators also issued various measures that apply to all listed companies regardless of their Shari'ah-compliant status, including: (i) Enhanced General Mandate for Pro Rata Rights Issue to Expedite Secondary Fund Raising for Eligible Listed Issuers; (ii) Temporary Revisions to Market Management and Control Mechanisms; and (iii) Capital Market Measures to Support Businesses. The SC also lifted fundraising limits on equity crowdfunding (ECF) platforms (including Islamic ECF) and allowed ECF and peer-to-peer financing (P2P) platforms to operationalise secondary trading, both with immediate effect. The government co-investment fund MyCIF, administered by the SC, increased its funding matching ratio from 1:4 to 1:2 for eligible ECF and P2P campaigns until 30 September 2020, to provide additional liquidity into the alternative fundraising space.

#### 4.7 Qatar

**Fiscal:** Qatar's Qatari Riyal (QR) 75 Bln (about 14% of GDP) package to reduce the effects of COVID-19 was announced on 16 March 2020. Food and medical goods were exempted from customs duties until mid-December 2020. A waiver of rental and utility fees was granted to households and businesses until February 2021. The fiscal support package is estimated at QR 2.1 Bln (0.4% of GDP) in 2020.

**Monetary and macro-financial:** The Qatar Central Bank (QCB) lowered its policy rates twice in line with the US Federal Reserve (consistent with the currency peg). The deposit rate was then reduced by 100 bps to 1%; the lending rate by 175 bps to 2.5%; and the REPO rate by 100 bps to 1%. The QCB is also providing liquidity to banks operating in the country through a special REPO window at a 0% rate (with total available financing at QR 50 Bln). QCB introduced a zero-interest REPO window of QR 50 Bln (9.3% of GDP) to provide liquidity to banks for postponing loan instalments or granting new bank loans.

The Qatar Development Bank (QDB) postponed instalments of all borrowers for six months and is administering the National Guarantee Program (NGP) by allocating QR 5 Bln (0.9% of GDP) in government guarantees for 12 months to local banks for loans to private-sector companies to help them pay wages and rental fees. QDB has announced that the NGP is extended until September 2021. On 14 April 2021, the interest exemption period was extended for an additional year for the NGP, making it two years without interest in addition to two years of payment with interest that does not exceed the QCB lending rate + 2%. The Qatar Financial Center cut the rate on late

tax payments to zero from 5% until 1 September 2020. In addition, the deadline for filing taxes and audited financial statements was extended until 30 August 2020. The government directed financing to increase investments in the stock market by QR 10 Bln (1.8% of GDP).

**Islamic finance (including ICM):** Qatar Islamic Bank provided interest-free loans to private companies under the NGP. No specific measures were taken for the ICM.

#### 4.8 Saudi Arabia

**Fiscal:** A Saudi Riyal (SAR) 70 Bln (USD 18.7 Bln, or 2.7% of GDP) private-sector support package was announced on 20 March 2020. The package included the suspension of government tax payments, fees, and other dues to provide liquidity to the private sector and an increase in available financing through the National Development Fund. On 15 April 2020, additional measures to mitigate the impact on the private sector were announced, including temporary electricity subsidies to commercial, industrial and agricultural sectors (SAR 0.9 Bln). On 10 May, the Ministry of Finance announced new fiscal measures to raise more non-oil revenues and rationalise spending. On 14 July, the MoF launched a SAR 670 Mln programme to help businesses defer loan payments due in 2020. The deferred tax payments from 18 March to end-June 2020 were almost entirely repaid by the end of 2020.

**Monetary and macro-financial:** The Saudi Central Bank (SAMA) reduced its policy rates twice in March, lowering its reverse REPO and REPO rates by a combined 1.25 pp to 0.5% and 1%, respectively. On 14 March, SAMA announced a SAR 50 Bln (USD 13.3 Bln, 2% of GDP) package to support the private sector, particularly SMEs, by providing funding and guarantees to banks to allow them to defer payments on existing loans and increase lending to businesses. The central bank also covered fees for private-sector stores and entities for point-of-sale and e-commerce transactions for three months from 14 March to the end of September.

SAMA also instructed banks to delay payments of loans extended to all Saudi employees by three months from March to June without extra fees, to provide the financing needed by customers who lose their jobs and to exempt customers from various banking fees. On 1 June, the central bank announced the injection of SAR 50 Bln into the banking sector through deposit placements to support banking liquidity and private-sector credit. SAMA's Loan Guarantee Program ended at the end of December 2020. The Deferred Payments Program has been extended until 30 September 2021, while the Guaranteed Facility Program has been extended until 14 March 2022.

**Islamic finance (including ICM):** In the *sukūk* and debt instruments market, the number and values of trades increased due to investors' appetite for lower-risk investments that would provide a safe haven during a time of market instability. The Capital Market Authority (CMA) Saudi Arabia provided listed companies (including Shari'ah-compliant companies), investment funds and market institutions with business continuity guidelines such as suspension of the freezing of investment accounts. To address liquidity, money market funds were required: (i) to carry out stress testing at least twice a year to detect risks related to the fund; (ii) to ensure, at all times, that they have liquidity equal to at least 10% of the fund's net assets value or have investments that have a maturity, or a remaining maturity, period of not more than seven days; and (iii) to maintain a foreseen average of the date of maturity not exceeding 180 calendar days.

## 4.9 Turkey

**Fiscal:** As of 21 March 2020, the authorities estimate that the entire discretionary fiscal support package will amount to Turkish Lira (TL) 638 Bln (12.7% of GDP). Of this, around TL 165 Bln (3.3% of GDP) is in the form of on-budget measures. Key fiscal measures include: (i) loan guarantees to firms and households (6.4% of GDP); (ii) loan service deferrals by state-owned banks (2.6% of GDP); (iii) tax deferrals for businesses (1.4% of GDP); (iv) equity injections into public banks (0.4% of GDP); and (v) a short-term work scheme (0.6% of GDP), which expired in March 2021. In addition, value-added tax (VAT) has been reduced on certain goods (e.g. food and accommodation services) until May 2021. Additional measures were announced in May and June 2021, including a grant package for tradesmen and small businesses and loan deferrals for farmers, a Credit Guarantee Fund-backed lending scheme for SMEs, and an increase for bonus pensions. Reductions in the withholding tax on TL bank deposits, and some sector-specific VAT rate cuts, were extended until end-July.

**Monetary and macro-financial:** In response to the coronavirus shock, the policy rate was cut by 375 bps; from 12% to 8.25% during the first half of 2020. These cuts were subsequently reversed, and the policy rate stands at 19% (as at March 2021). Furthermore, on 31 March, the central bank introduced a programme of outright purchases of sovereign bonds and has substantially increased its liquidity facilities to banks. The bank regulator announced several forbearance measures, primarily to limit the accounting impact of the Turkish Lira depreciation and the fall in the prices of securities. The regulator implemented a new regulatory ratio to incentivise banks to support the real economy, which was removed at end-2020. In December, the bank regulator tightened the maximum tenure of retail auto loans and credit card instalment plans for purchases of certain types of goods. Other macro-financial measures include: (i) temporary suspension of debt enforcement and bankruptcy proceedings (except in alimony cases); (ii) restrictions on dividend payments by banks and firms in 2020; and (iii) the establishment of a new Turkish Lira lending facility for SMEs in the export sector to support trade finance.

**Islamic finance (including ICM):** There have been no discernible challenges specific to ICM products. For market conditions in general, it was reported that retail investor interest in capital markets, as well as corporate interest in issuing capital market instruments, has increased. In general terms, the Capital Markets Board (CMB) of Turkey has been responding to developments to secure business continuity, protect investor interests and prevent excessive price volatility in secondary markets. There are no issues or vulnerabilities that are exacerbated due to COVID-19 within the financial system specific to ICM products or intermediaries. The CMB does not have a projection on the impact of COVID-19 on sovereign and corporate *sukūk* issuances. However, in general terms financing needs of corporations persist, and regulatory action prioritises diversification of means of corporate financing, especially facilitating viable alternatives to bank lending. In this respect, general regulatory policy is aimed towards encouraging financing through capital markets with an emphasis on the use of diverse instruments in addition to conventional bonds and equities. Therefore, increasing diversification and use of *sukūk* for financing by corporates are among the CMB's policy priorities.

## 4.10 United Arab Emirates

**Fiscal:** The authorities have so far announced United Arab Emirates Dirham (AED) 33 Bln (USD 9 Bln, or 2.5% of GDP) in various fiscal measures. These include: (i) AED

16 Bln (USD 4.4 Bln) approved by the federal government to support the private sector by reducing various government fees, taxes, labour and other charges, refunding 50% of bank and financial guarantees to some establishments, and accelerating existing infrastructure projects; (ii) AED 1.5 Bln (USD 0.4 Bln) in measures by the government of Dubai to reduce government fees and taxes, provide additional water and electricity subsidies, and simplify business procedures; and (iii) AED 9 Bln (USD 2.5 Bln) announced by the government of Abu Dhabi as part of the ongoing "Ghadan-21" fiscal stimulus programme. The new initiatives provide for water and electricity subsidies, as well as credit guarantees and liquidity support to SMEs. They also include deferral of payment of outstanding instalments and interest on loans and credit cards for three months. The Ras Al Khaimah Economic Zone Authority (RAKEZ) introduced an economic relief package of AED 50 Mln for SMEs and industrial companies. At end-October 2020, Dubai announced an additional AED 500 Mln (USD 136.14 Mln) stimulus package to support the local economy, taking Dubai's total stimulus measures in 2020 to AED 6.8 Bln. On 6 January 2021, Dubai announced an additional stimulus for January–June 2021 of AED 315 Mln.

**Monetary and macro-financial:** The Central Bank of the UAE (CBUAE) has reduced its policy interest rate twice by a combined 125 basis points in 2020. Furthermore, in March 2020, it announced an AED 256 Bln (USD 70 Bln, or 20% of GDP) package of measures, called the Targeted Economic Support Scheme (TESS). It includes: (i) halving of banks' required reserve requirements from 14% to 7%; (ii) providing zero-interest-rate collateralised loans to banks (AED 50 Bln); (iii) allowing the use of banks' excess capital buffers (AED 50 Bln); (iv) 15–25% reduction in provisioning for SME loans; (v) increase of loan-to-value ratio for first-time home-buyers by 5% points; (vi) limiting bank fees for SMEs; (vii) waiver of all payment service fees charged by the CBUAE for six months; (viii) raising the limit on banks' exposure to the real estate sector from 20% to 30% of risk-weighted assets, subject to adequate provisioning; (ix) allowing banks to defer loan repayments until end-2020. On 8 August 2020, the CBUAE announced further measures to facilitate banks' lending to the economy: relaxation of the net stable funding ratio and the advances to stable resources ratio effective through end-2021. The TESS was extended twice in November 2020 (until the end of June 2021) and in April 2021 (until the end of June 2022). The CBUAE's financing for loan deferrals under the TESS is extended until the end of 2021.

**Islamic finance (including ICM):** CBUAE, the Financial Services Regulatory Authority (FSRA) of the Abu Dhabi Global Market (ADGM) and the Dubai Financial Services Authority (DFSA) of the Dubai International Financial Centre (DIFC), collectively, have issued joint guidance for banks and finance companies (including Islamic banks and Shari'ah-compliant companies) about the application of International Financial Reporting Standard 9 (IFRS 9) during the COVID-19 pandemic, specifically concerning the calculation of expected credit loss (ECL) provisioning under IFRS 9. Banks and finance companies are not encouraged to recalibrate IFRS 9 models during the crisis, due to the high degree of uncertainty surrounding its economic consequences. Rather, input adjustments and judgmental overlays should be considered. Exposure at default should incorporate realised exceptional drawdowns occurring because of the crisis. Generally, banks and finance companies should also consider overlays to account for weaknesses in the predictive power of models during the crisis.



## **SECTION 5: MAJOR INTERNATIONAL ISLAMIC FINANCE ORGANISATIONS' MEASURES AND EXPERIENCES (IsDB, IIFM, IFSB, IILM, DIFC, ETC.)**

This section of the paper highlights the key initiatives taken by key international Islamic organisations/Islamic finance bodies to support jurisdictions (including Islamic finance countries) and/or Islamic financial institutions.

### **5.1 Islamic Development Bank (IsDB)**

The IsDB Group approved a USD 2.3 Bln envelope for its Strategic Preparedness and Response Program as a direct response to the COVID-19 pandemic under the 3Rs (Respond, Restore, Restart) approach.<sup>9</sup> The programme aimed to support the IsDB member countries in preventing, containing, mitigating and recovering from the impact of the COVID-19 pandemic. The programme adopted a holistic approach of providing emergency assistance to support health systems (Respond), as well as medium (Restore) and long-term (Restart) economic support to rehabilitate livelihoods, build resilience and kickstart economic growth in 57 member countries, which included all the Islamic finance key jurisdictions discussed earlier.

The IsDB has made a contribution of USD 1.5 Bln to the programme, the Islamic Solidarity Fund for Development (ISFD) USD 50 Mln, the International Islamic Trade Finance Corporation (ITFC) USD 300 Mln, the Islamic Corporation for the Development of the Private Sector (ICD) USD 250 Mln, the King Abdullah bin Abdulaziz Fund for Charitable Action (KAAP) USD 8.5 Mln, the Science, Technology, and Innovation Transform Fund USD 1 Mln, in addition to USD 150 Mln from the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).

Digital solutions have been deployed and are playing a key role in linking all stakeholders (governments, service providers, financial institutions, etc.) through online country platforms using blockchain technology. More than 30 projects targeting all vital sectors affected by the pandemic have been approved. To curb the effects of the COVID-19 pandemic on the MSMEs, to heal the financially excluded, and to reintegrate women and youth into the workforce, the IsDBG, under its 3Rs plan, rolled out a special programme for MSMEs, supported by an envelope of more than USD 500 Mln targeted to the most affected multinational corporations. For example, the Strengthening the Economic Resilience of Vulnerable Enterprises (SERVE) Program was designed to provide immediate and targeted cash-flow support to businesses that are adversely impacted by COVID-19, as well as to sustain their business operations beyond the crisis. Some 506,000 jobs will be created and maintained from financing more than 200,000 MSMEs. The details of all activities under the 3Rs programme by country/amount/description are available on the IsDB<sup>10</sup> website.

Despite the volatility in the capital markets, the IsDB also issued the first sustainability *sukūk*, for USD 1.5 Bln, listed on Nasdaq Dubai, to support COVID-19 relief initiatives in the member countries.<sup>11</sup> The issuance, the first-ever AAA-rated sustainability *sukūk*

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9 <https://www.isdb.org/news/the-islamic-development-bank-group-strategic-preparedness-and-response-programme-for-the-covid-19-pandemic-allocates-us-23-billion-to-member-countries>

10 <https://www.isdb.org/covid-19-overview>

11 <https://www.isdb.org/news/islamic-development-bank-issues-us-15-billion-debut-sustainability-Sukūk-in-response-to-covid-19>

in the global capital markets, is one of the many initiatives the IsDB has undertaken as part of its wide-ranging response to COVID-19 pillared on the 3Rs framework in its member countries. Proceeds from the debut sustainability issuance will be exclusively deployed by the IsDB towards social projects under its Sustainable Finance Framework, with a focus on providing access to essential services and SME financing, and employment generation categories under the umbrellas of SDG-3: “Good Health and Well-Being” and SDG-8: “Decent Work and Economic Growth” for its 57 member countries, to assist them in tackling the aftermath of the COVID-19 pandemic. The project categories are identified as per the guidelines standards set out by the International Capital Market Association (ICMA) under its Sustainability Bond Guidelines (2018) and Social Bond Principles (2018). This *sukūk* issuance was the biggest Islamic capital market response to the COVID-19 pandemic.

More recently, the 15<sup>th</sup> IsDB Global Forum on Islamic Finance acknowledged that the Islamic finance industry can serve as an essential source of finance for infrastructure development in developing countries and emerging markets, where Islamic finance can help in filling the financing gap required to kickstart the economic recovery post-COVID-19. The IsDB, in collaboration with the World Bank, is developing an Islamic Finance for Infrastructure Public–Private Partnership Projects reference guide, which aims to shed light on the essential aspects of Islamic finance related to infrastructure public–private partnerships.<sup>12</sup> In order to support such initiatives, the IsDB on 12 October 2021 raised USD 1.7 bln in *sukūk* issuances<sup>13</sup> to support its member countries with much-needed cost-effective financing during the pandemic.

## 5.2 Islamic Corporation for the Development of the Private Sector (ICD)

The ICD provided USD 250 Mln of emergency funding, mainly in the form of medium- to long-term financing instruments, to help existing and new clients in the financial, agri-food, energy and other affected sectors in the IsDB member countries.<sup>14</sup> The ICD also aided the private health-care industry of affected member countries to meet the surging need for services, equipment and medicines. Further, the ICD worked closely with 100+ local and regional financial institutions in its network to provide the necessary support in order to continue to finance SMEs in affected sectors in the markets in which they operate.

The ICD extended the line of finance to financial institutions (FIs) (both conventional and Islamic) operating in a member country on a *wakālah* (agency) basis to be channelled to finance eligible beneficiaries and/or projects. The ICD gave the FIs the authority to act as its agent in respect of *murābahah* contracts to be entered into with beneficiaries, and purchase/supply agreements with suppliers with respect to the line of finance.

## 5.3 International Islamic Trade Finance Corp (ITFC)

The ITFC, whose mandate is to promote trade within the Organisation of Islamic Cooperation (OIC) 57 member countries, provided USD 850 Mln in emergency financing to governments to help cushion the economic impact of COVID-19.<sup>15</sup> USD

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<sup>12</sup> <https://www.isdb.org/news/islamic-finance-has-an-essential-role-in-post-covid-19-economic-recovery>

<sup>13</sup> <https://www.isdb.org/news/isdb-mobilizes-us-17-billion-with-latest-sukuk>

<sup>14</sup> <https://icd-ps.org/en/news/us-250-million-of-emergency-funding-to-respond-to-the-impact-of-covid-19>

<sup>15</sup> <https://www.reuters.com/article/health-coronavirus-itfc-idINL8N2BQ547>

300 Mln was made available through the ITFC’s COVID-19 “Rapid Response Initiative” (RRI) to enable countries to procure needed medical supplies as well as essential food commodities. The assistance also included financing for financial institutions in the member countries designed to enhance access for funding SMEs. The remaining funding of USD 550 Mln is earmarked under the “Recovery Response Program” (RRP) for deployment over the next two years. The RRP is aimed at repairing the socio-economic damage resulting from the virus, which is expected to last longer than its immediate impact.

Apart from financial support from the global Islamic bodies, Islamic finance standard-setting bodies also provided COVID-19 related measures or provided guidelines and compendiums to IFIs (including ICM players) to manoeuvre through the pandemic period.

#### **5.4 The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)**

The AAOIFI Accounting Board (AAB) issued a statement, “Accounting Implications of the Impact of the COVID-19 Pandemic”, to provide clarification and interpretation of accounting treatments in line with the relevant financial accounting standards (FASs) arising due to the COVID-19 pandemic.<sup>16</sup> The statement was published to guide IFIs in financial reporting practices and related financial statement disclosure and to address specific issues that are unique to the IFIs.

The statement covers standards relating to the following issues:

- payment moratoriums/deferment;
- settlement of a transaction with the execution of a new transaction;
- government grants and subsidies;
- *qard hasan* (interest-free loan) and zero-return REPOs by the governments/regulators;
- expected credit losses;
- impairment of assets;
- significant and prolonged decline in value of investments held at fair value through equity;
- going concern assumption; and
- technical reserves.

In addition to the AAB’s statement, the AAOIFI Governance and Ethics Board (AGEB) issued a statement on the application of AAOIFI governance, ethics and auditing standards given the impact of the COVID-19 pandemic.<sup>17</sup> Ethics is a key basis of Islamic finance, distinguishing it from its conventional peers. Therefore, IFIs shall stand out in this testing time by taking all possible measures to address various matters of importance such as payment moratoriums, dealing with employees, deployment of charity funds, and payment to suppliers and customers, in line with Sharī’ah’s ethical spirit. The scope of this statement was to provide clarification and interpretation of the relevant standards in respect of certain significant issues arising from the COVID-19

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<sup>16</sup> <http://aaoifi.com/accounting-implications-of-the-impact-of-covid-19-pandemic/?lang=en>

<sup>17</sup> <https://aaoifi.com/announcement/aaoifi-governance-and-ethics-board-issues-a-statement-on-application-of-aaoifi-governance-ethics-and-auditing-standards-in-view-of-the-impact-of-covid-19-pandemic/?lang=en>

pandemic and the associated economic factors and consequent regulatory interventions.

### **5.5 The Islamic Financial Services Board (IFSB)**

The IFSB issued two statements addressing the implications of COVID-19 for certain elements of Islamic banking and Islamic capital markets. The statement on Islamic banking<sup>18</sup> aims to clarify the treatment of payment moratoriums, the expected credit loss approach and profit-sharing investment account in line with Sharī'ah rules and principles, and guidance issued by the IFSB as well as other international standard setters. The Islamic capital markets statement<sup>19</sup> is focused on investor protection and appropriate regulatory responses across IFSB member countries to mitigate the negative economic effects of the COVID-19 pandemic and to ensure continued strong investor protection in the Islamic capital markets. These statements are part of the IFSB's ongoing programme to provide appropriate policy guidance and to serve as a reference toolkit for its members and the Islamic financial services industry to navigate the current economic and regulatory challenges.

The IFSB's statement for the ICM included guidelines for regulators in dealing with ICM intermediaries. Regulators may stress that both internal and external Sharī'ah governance and control mechanisms of the firm are complied with and that firms should take any necessary measures to ensure that these are not affected by the COVID-19 pandemic. If the firm accepts government support measures due to the impact of COVID-19, these should be in line with Sharī'ah rules and principles, which may be, for example, based on a donation or a *tawarruq* that meets Sharī'ah requirements.

If the Sharī'ah compliance status of the investments made through the firm is affected as a result of COVID-19, such as financial screening ratios exceeding the required threshold due to market volatility or government support measures or financial restructuring, firms may be given a grace period due to the extraordinary circumstances. However, if the business activity screening threshold is exceeded, then regulators may advise firms to inform clients that there is a change in Sharī'ah-compliance status, disclose any relevant *fatwa* issued by the Sharī'ah board, exit that investment and undertake purification processes for any non-Sharī'ah-compliant income, or invite the client to do so. In general, regulators should also be aware that strained operational circumstances may lead to compliance weaknesses in firms. For instance, these may arise from remote working or from lack of access to information, including informal information on which compliance officers rely, such as observation of traders' behaviour. There may also be pressure from operational departments to allow changes to normal working and control arrangements, which may pose compliance risks.

Concerning Sharī'ah-compliant listed companies in the jurisdiction, to ensure adequate transparency and disclosure during extraordinary circumstances, regulators may emphasise the need to assess and disclose the operational impact of COVID-19 on the company's performance, emphasising the disclosure of all information material to voting and investment decisions in line with the obligations under the jurisdiction's listing requirements, so that investors can make informed decisions.

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<sup>18</sup> [https://www.ifsb.org/press\\_full.php?id=530&submit=more](https://www.ifsb.org/press_full.php?id=530&submit=more)

<sup>19</sup> [https://www.ifsb.org/press\\_full.php?id=531&submit=more](https://www.ifsb.org/press_full.php?id=531&submit=more)

The assessment and disclosure by a listed company may include: (i) how COVID-19 has impacted the financial condition and results of operations; (ii) capital and financial resources; (iii) any material impairments that are anticipated; (iv) how it affects the ability to maintain the company's operations, as well as any disruptions or challenges in maintaining financial reporting systems and internal controls; (v) all information (or update to prior disclosures) that may be required by a Sharī'ah screening authority to review its compliance status based on Sharī'ah-screening methodologies and the related financial ratios used in the jurisdiction; and (vi) any other material operational impacts on the company.

The list is illustrative but not exhaustive, and each listed company may be expected to carefully assess the impact of COVID-19 and related material disclosure obligations as per a jurisdiction's regulations and listing requirements, and its circumstances, providing disclosures tailored to provide material information about the impact to investors and market participants. Where it is deemed necessary, a regulator may provide flexibility such as an extension to listed companies for reporting of financial impact to take proper account of the impact of the crisis on the company's financial position as well as the positive impact of government support measures.

Regarding *sukūk*, regulators should be alert to the possibility of *sukūk* failures/restructurings (during the pandemic), which may give rise to arguments purported to be in relation to areas that are relevant to Sharī'ah compliance. Regulators may also remind firms of existing suitability and appropriateness requirements, paying particular attention to the possible ramifications of the COVID-19 crisis for the client's situation and the risk profile of his financial instruments to ensure that these financial instruments are suitable for the client.

In relation to the best execution of client orders in more volatile market conditions, clients might likely give higher priority to the speed of execution because of the increased risk of a price change during any delay. Therefore, regulators may recommend that client preferences need to be considered dynamically by firms executing client orders, especially in volatile markets during the COVID-19 pandemic. Market volatility also increases the potential adverse consequences of any failures in areas such as the order in which client instructions are executed. Regulators may advise firms to take this into account and to duly observe best execution rules during such periods by ensuring that orders are executed in the best interest of clients.

The IFSB also published a compendium of financial sector regulatory responses to COVID-19<sup>20</sup> which included the discretionary measures taken by the jurisdictions of selected IFSB member regulators and supervisory agencies to combat the pandemic. The purpose of the compendium is to serve as a reference toolkit for IFSB members. It summarises interventions for jurisdictions with 10% and above systemic significance of Islamic finance, which includes central banks, capital market authorities, securities and exchange commissions, and insurance regulators in Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Iran, Jordan, Kuwait, Malaysia, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, United Arab Emirates and the Dubai Financial Services Authority (DFSA) and Abu Dhabi Global Market.

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20 [https://www.ifsb.org/download.php?id=5665&lang=English&pg=/page\\_covid19.php](https://www.ifsb.org/download.php?id=5665&lang=English&pg=/page_covid19.php)

## SECTION 6: COVID-19 POLICY MEASURE EFFECTIVENESS IN THE ICM

The COVID-19 pandemic and associated policy responses triggered a large wave of capital reallocations between markets and asset classes in the conventional capital market. The ICM was no different, with Shari'ah-compliant stocks and Islamic funds experiencing reallocation of funds within the sector. For instance, during the pandemic, the information technology sector was the strongest performer overall on the S&P Global 1200 Shariah Index, followed by the consumer discretionary sector. *Şukūk* issuances, especially to finance developmental projects, were one of the most effective ICM policy measures taken by Islamic developmental organisations or Islamic finance jurisdictions in curbing the adverse impacts of the pandemic. Proceeds of the IsDB's USD 1.5 Bln sustainability *sukūk*, for example, are being used to help the IsDB's member countries cope with the impact of the pandemic, while proceeds of the Malaysian government's *Şukūk Prihatin* are being used to help restart the Malaysian economy. This latter *sukūk* was targeted not just at institutional investors, but also at retail investors, and was the first digital *sukūk* in Malaysia. Some capital market regulators proactively granted relief for regulatory financial reporting to companies affected by COVID-19. This included Shari'ah-compliant companies as well, which helped them to focus on key activities.

Fiscal policy measures also led to an increase in portfolio flows in the affected countries, as fiscal policy measures supported higher cumulative portfolio flows to the domestic economy. Almost every key Islamic financial jurisdiction implemented fiscal policies in the form of additional cash injections, ranging from as low as 0.4% of GDP up to 14%. The bulk of this stimulus was directed towards providing subsidies to industries and health-related activities to fight the pandemic, infrastructure spending, and cash support to the population. These fiscal measures help countries to carry out economic activities that support smoothening of the financial sector and keep the capital market as well as the ICM moving.

Related to monetary and macro-financial policy measures, almost all key economies primarily resorted to lowering their policy rates. The cut in the REPO rate helped the banking system with increased liquidity through the financial system. Many central banks also lowered their reverse REPO rates by at least 20 basis points to ease the liquidity pressure created by adverse economic conditions and the decline in economic activity. Lowering the statutory liquidity ratio (SLR) and the cash reserve ratio (CRR) requirements helped economies to cope with the transactional demand for cash and also helped banks (including Islamic banks) to deal with liquidity in the market. Some governments initiated foreign exchange operations to supply more local currencies to the market. Interest rate swaps, purchases of sovereign bonds, long-term lending facilities for the SME and export sectors, relaxation of regulatory criteria for restructured/rescheduled loans, special refinance facilities, bridge financing, and other quantitative easing policies have also been put into practice to counteract the economic shock. Although there were no specific measures for the ICM, the fiscal and monetary policy measures taken by the government and policymakers have helped the financial markets, and even the ICM, to revive in general. Government stimulus has helped to increase liquidity in the market, thus reducing the adverse impact of the pandemic.

The COVID-19 pandemic has also provided an opportunity for the ICM to reset itself to ensure future progress. From both a Shari'ah and a regulatory perspective, the ICM

should be envisaged as an inclusive and diverse marketplace that can mobilise capital efficiently for more segments of the economy, and with better regulatory outcomes. Technology should be embraced as a key enabler, ensuring the ICM's increasing relevance and creating value for all participants. This is a time when Shari'ah governing bodies and capital market regulators in the IF countries should come together to emphasise harmonising the guiding principles that can help them to build a resilient ICM. Shari'ah principles should be emphasised from the mutuality and capacity-building perspective, which will help to prepare participants in the ICM to withstand the economic and financial impacts arising from an event such as COVID-19.

The pandemic has also heightened the risks posed to SMEs. One major reason for the failure of SMEs is a lack of financing and of access to the capital market. This is where the ICM can provide an avenue for an SME to tap into the ICM. Once again, the ICM authorities should devise a comprehensive plan to create more targeted products and policies conducive to SMEs. In this regard, the Cooperation of the Organization of Islamic Cooperation (COMCEC) study<sup>21</sup> noted a huge difference in Islamic finance support for SMEs. Indonesia, having an established Islamic finance ecosystem, could mobilise various Islamic banking, finance and social finance responses to the COVID-19 challenged MSMEs. On the other hand, oil-rich Kuwait has a more considerable asset holding of the Islamic finance industry, with a larger share in its financial system but a limited Islamic ecosystem and a substantial fund directly for SMEs. In Jordan, an emerging economy, Islamic banking has demonstrated some positive initiatives to support MSMEs, of which it has a large number providing a foundational base for the economy.

Supervisory authorities in Islamic finance jurisdictions should ensure supervisory transparency and clarity of their various regulatory and supervisory interventions in the capital market while safeguarding a level playing field for ICM participants. Supervisors should coordinate with standard-setting bodies for Islamic finance such as the IFSB, AAOIFI, etc., to produce clearer and more harmonious guidelines for ICM participants. It is evident from the above discussion that most prudential measures, regulations and incentives have been targeted more to the banking sector and the generic capital market and have been less focused on the ICM. Supervisors should also provide specific guidance to ICM participants on the impact of the current pandemic to better prepare them to fend off economic and financial challenges.

The COVID-19 outbreak has presented a window of opportunity for the ICM sector, particularly regarding the issuance of sovereign *sukūk* as part of a government strategy to diversify its funding, as it would help Islamic banks to improve their return on investment, to benefit from lower risk-weighted assets in the calculation of the CAR, and to expand their list of Shariah-compliant eligible collaterals for liquidity purposes (Toronto Centre, May 2020). This will prove beneficial for both Islamic banks and the ICM.

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<sup>21</sup> <http://www.comcec.org/en/wp-content/uploads/2021/09/1-2-The-Role-of-Islamic-Finance-in-Supporting-MSMEs-against-COVID-19.pdf>



## SECTION 7: COVID-19 – AN OPPORTUNITY FOR THE ISLAMIC FINANCE INDUSTRY

The COVID-19 crisis has created a growth opportunity for Islamic finance. Volatility is a major concern during challenging economic and financial events, but Islamic finance has always provided a cushion to fend off excess volatility in the market. Even in 2020, the Islamic benchmark index returned 20% higher returns than its conventional counterpart. If we look at *sukūk*, the most important component of the ICM and an important source of funding for governments/corporates to support their spending, it can be seen that the market showcased encouraging figures. Despite the COVID-19 pandemic, the *sukūk* market remained resilient. For the year 2020, *sukūk* issuances totalled USD 152.6 Bln, compared with USD 130.6 Bln for 2019. In the ensuing period of crisis (2020 and Q1 2021), the *sukūk* market outperformed the conventional bond market on a risk-adjusted basis, proving its resiliency in the capital market.

The pandemic also triggered the growth of sustainable *sukūk*, with the issuance of such *sukūk* by multilateral organisations such as the IsDB, and the governments of Malaysia and Indonesia specifically, to combat the fallout of COVID-19. This will further boost interest in sustainable *sukūk* globally, even among conventional players. It has also restored confidence in Islamic finance as a preferred choice for improving financing for long-term investments. Long-term financing instruments such as sovereign and multilateral organisation *sukūk* will play a major role in sustainable economic development, especially during the economic crisis brought about by the COVID-19 pandemic, by stimulating infrastructure development (creating jobs and increasing per-capita income), advancing the structural transformation of the economy and providing funding for fixed investments to enhance production capacity.

It is also important to emphasise the role played by the International Islamic finance bodies such as the IFSB in guiding the member countries and providing them with documentation guidelines and standard settings, and in bringing Islamic finance to the world's attention. By publishing working papers such as the current paper, the IFSB is also assessing the soundness of Islamic banking and Islamic finance. For instance, Working Paper 18 (WP-18)<sup>22</sup> empirically assessed the preliminary effects and implications of the COVID-19 pandemic for the stability of the global Islamic banking industry. Data were extracted from the IFSB Prudential and Structural Islamic Finance Indicators (PSIFIs) during COVID-19 for eight jurisdictions, with a specific focus on the quarter-on-quarter changes in five core prudential indicators: capital adequacy, asset quality, earnings, leverage, and liquidity. The study found that while the Islamic banking sector across jurisdictions in the sample still records prudential indicators well above the minimum regulatory and their historical average thresholds, the preliminary impact of the COVID-19 pandemic is also observed across indicators and countries. These findings boost the confidence of investors, policymakers, players, etc., which further assists the growth of Islamic finance.

The IFSB has also conducted an executive programme on COVID-19 and its implications for IIFS.<sup>23</sup> The programme aimed to address some country challenges, experiences and policy approaches related to COVID-19 across the three main sectors (Islamic banking, Islamic capital markets and *takaful*). It discussed the impact of COVID-19 on the global financial system and the global economy, and its implications

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22 <https://www.ifs.org/download.php?id=5924&lang=English&pg=/sec03.php>

23 [https://www.ifs.org/press\\_full.php?id=527&submit=more](https://www.ifs.org/press_full.php?id=527&submit=more)



for the overall risk environment of IIFS, and identified those areas where regulatory responses may be needed to address the impact of COVID-19 to ensure the resilience and stability of IIFS and the various approaches that are being taken by different regulators and market players. These informative sessions were crucial for the member countries to prepare their stakeholders to counter the adverse effects of COVID-19.

## SECTION 8: THE FUTURE OUTLOOK FOR THE ISLAMIC CAPITAL MARKET

It is no surprise that 2020 was a challenging year. In 2021, we are still recovering from its impact, and it will be a long journey to recovery for the global financial system, including Islamic finance. But backed by historical data and H1 2021 performance, it can be said confidently that Islamic finance in general, and the ICM in particular, has emerged from the crisis resilient and stronger. Nevertheless, the pandemic has provided opportunities for the ICM to diversify and accelerate its expansion in untapped segments such as sustainable *sukūk*. Following the success of the IsDB USD 1.5 Bln first-ever sustainability *sukūk*, Bandar Al Hajjar, president of the IsDB, called on the Islamic finance industry “to promote sustainable and social *sukūk* as alternative asset classes that have the potential to counter the multi-fold impact of the COVID-19 coronavirus”. Several countries, notably Indonesia and Malaysia, have begun exploring the potential of the vehicle in this context. ICM products in Islamic social finance, in particular, can help Islamic finance countries and Islamic banks to navigate through adverse situations such as the COVID-19 pandemic. However, it is still unfortunate to see that, despite Islamic finance having been around for four decades, regulators and standard setters have not been able to harmonise the global regulations and guidelines. This can be detrimental in a situation like the current pandemic when it comes to offering a universal product such as *sukūk*. The different standard setters of the industry – the AAOIFI, the IFSB, and the IIFM – have been pushing this agenda during this time.

The future outlook of the ICM will also depend on how the sector adopts digitalisation and fintech. In the current scenario, where economies are facing regular lockdowns that force many players to work remotely, *sukūk* structuring and issuance were delayed because of a lack of fintech adoption in the industry. Also lacking is a blockchain-based platform for *sukūk* issuance and management. The blockchain platform, if adopted by the market, could boost key *sukūk* issuance volumes over time by significantly simplifying *sukūk* issuance processes. This will rely on standardised legal documentation being used for the *sukūk* structure. The issuer can then just plug in its underlying assets and start building its investor book with a few clicks. The overall transaction will be managed on the blockchain system, which will help to improve transparency and traceability. This platform can also open the market to a new class of issuers that were until now excluded because of costs or complexity.

With the exception of the Indonesian Islamic microfinance cooperative BMT Bina Ummah, which issued the world's first primary *sukūk* (USD 50,000) on a public blockchain using Blossom Finance’s SmartSukūk platform, the ICM has not seen much progress on this front. Overall, fintech can further boost the growth of the ICM by increasing standardisation, streamlining processes, reducing costs and boosting transparency, making ICM instruments more competitive relative to conventional forms.

There is also the potential for Islamic finance tools to play a greater role in international trade, which could help to boost economic recovery in emerging markets. The COVID-19 outbreak opens up new opportunities for Islamic finance, such as the provision of Shari’ah-compliant trade finance products. With all the challenges of COVID-19, the global Islamic finance industry is still set to grow by 12% during 2021 and 2022,

according to S&P Global Ratings.<sup>24</sup> It is estimated that increased economic activity in the GCC (such as the World Cup in 2022) and renewed interest in developmental projects in the region will promote the issuance of *sukūk* in the region and boost the overall growth of Islamic finance.

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<sup>24</sup> <https://www.spglobal.com/ratings/en/research/articles/210503-islamic-finance-2021-2022-toward-sustainable-growth-11933944>

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