

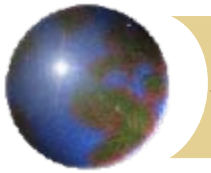
CHANNELING GLOBAL SURPLUS LIQUIDITY MANAGEMENT IN ISLAMIC FINANCIAL MARKETS

by
Ijlal A. Alvi

السوق
المالية
الاسلامية
الدولية

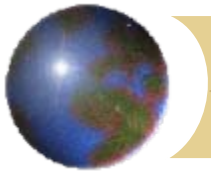


International
Islamic
Financial
Market



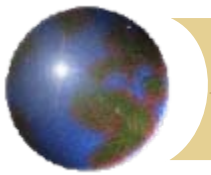
Current Islamic Liquidity Analysis

- IFIs surplus funds are generally invested in short term murabaha
- High Net-worth Individuals (HNWI) have lion share of the funds
- Below Par returns
- Lack of product & geographical diversification
- Huge demand supply Gap
- Over exposure in a single sector i.e. Real Estate



Current Islamic Liquidity Analysis

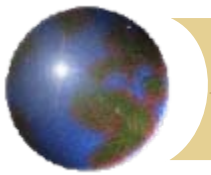
- IFIs carries on average 40% excess liquidity than conventional FIs
- The proportion of market capitalization held in mutual funds is substantially lower in GCC than developed and emerging economies, hence significant potential for growth
- Globally real estate and fixed income investment represents 36% of total holding of HNWIs
- Real Estate Preferred in GCC



Sukuk as a Liquidity Tool

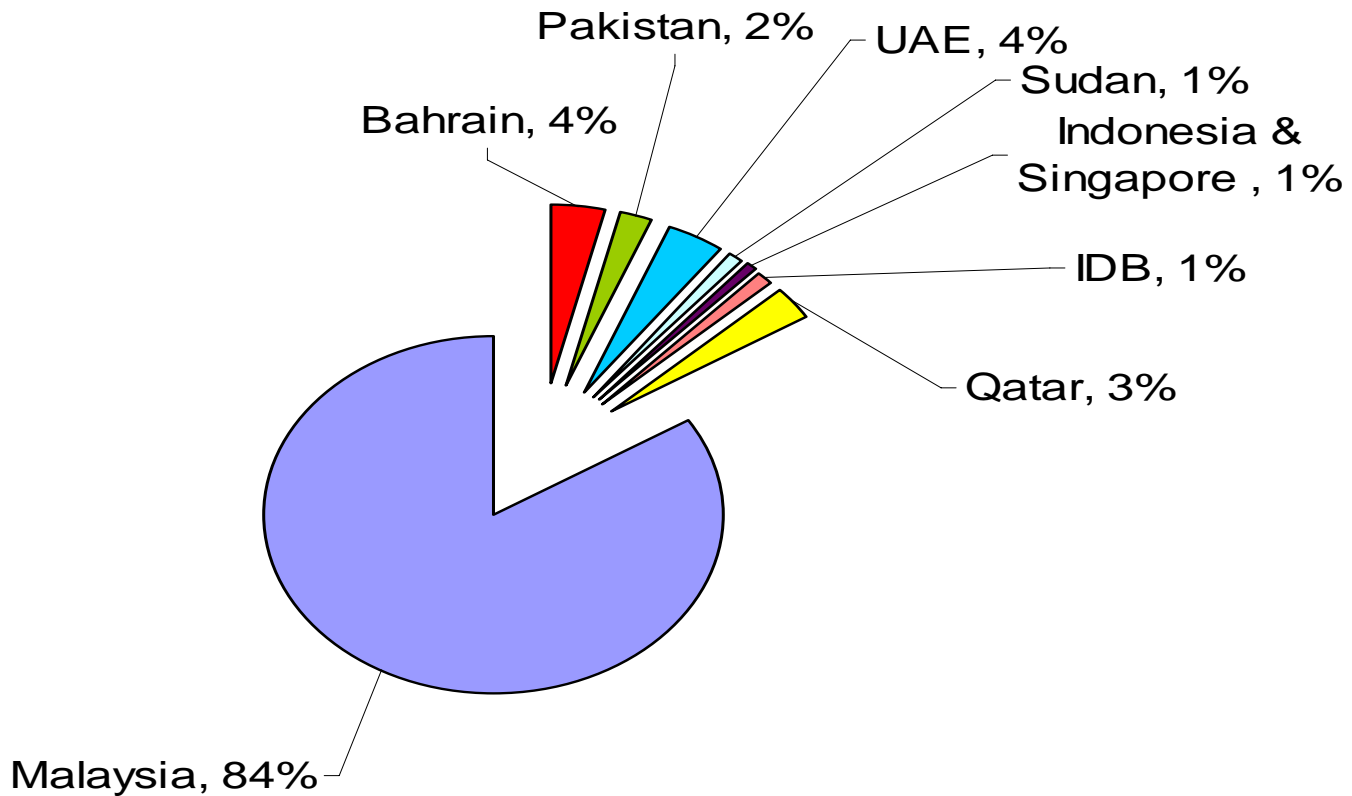
SUKUK ISSUANCE (US \$ Millions)

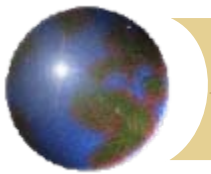
<u>Year</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Corporate Sukuk</u>	336	530	180	4537	5731	11358	24526
<u>Sovereign Sukuk</u>	0	250	800	1180	1479	706	2271
<u>Total Sukuk issuance</u>	336	780	979	5717	7210	12065	26797
<u>Percentage Growth</u>		131	25	483	26	67	122



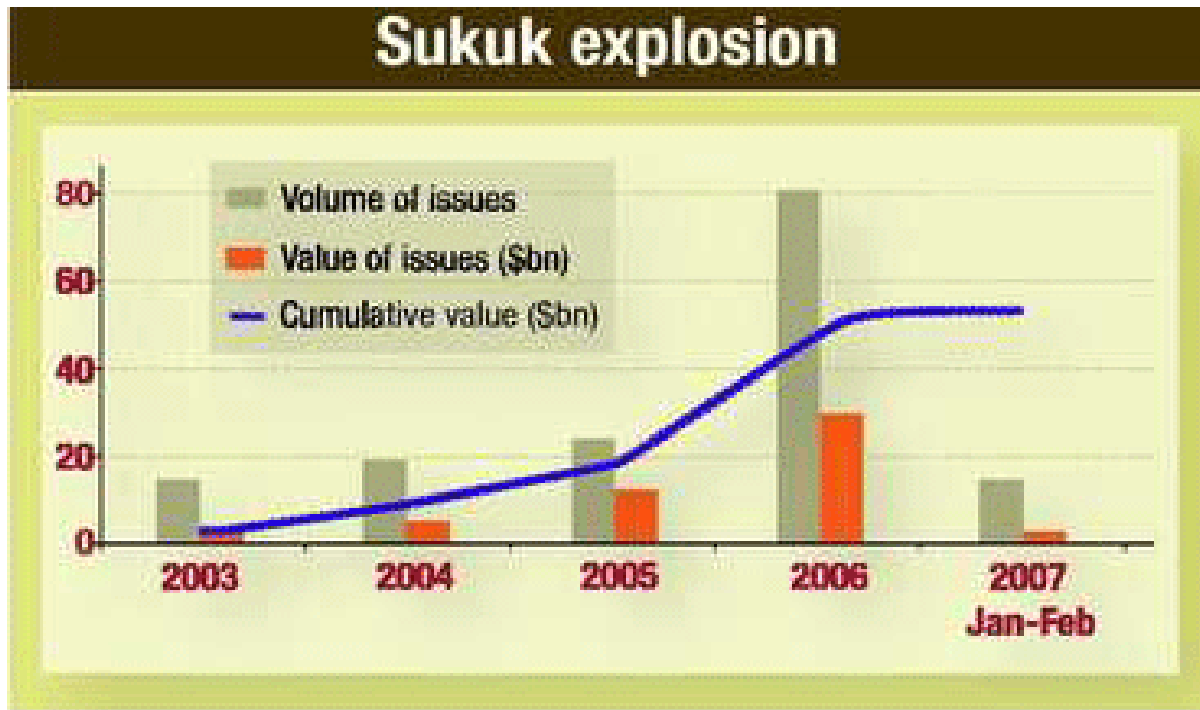
Sukuk as a Liquidity Tool

GLOBAL SUKUK MARKET





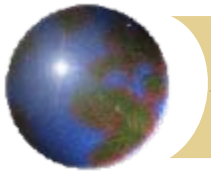
Sukuk as a liquidity Tool



Source: Gulf Research Centre

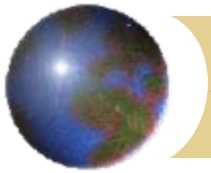
Graphic: F. SAJJWANI

Sukuk outstanding is approximately **US\$53 billion**



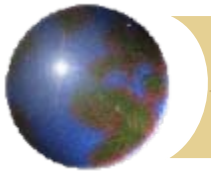
Sukuk as a Liquidity Tool

- The emergence of Sukuk in the **Islamic financial industry** is being regarded by many as a major step forward by the Islamic financial markets which will go a long way in ensuring its growth and development
- Sukuk's provide a legitimate investment avenue to religiously-inclined investors and at the same time act as an anchor to generate real economic activity
- As their acceptability and issuance increase in the market, they will undoubtedly become a key **liquidity management tool** for IFI's



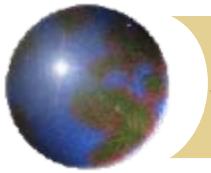
REITS as a Liquidity Tool

- Real estate investment trusts (REITs) are companies that own and most often actively manage income-producing commercial real estate
- Combine the best features of Real Estate and Stocks
- Widely acknowledge for the integral role they play, both in the economy and in diversified investment portfolios
- Add depth and breath to capital market
- Enhance growth of fund management business



REITS as a Liquidity Tool

- Promoting **Islamic REITs** will help enlarge Islamic capital market, grow their local fund management business, and benefit their other areas of the financial sector
- There is a large pool of capital for investment in the Middle East totalling some **\$1 trillion**
- Islamic REIT is an asset class which is gaining acceptance among global Islamic investors



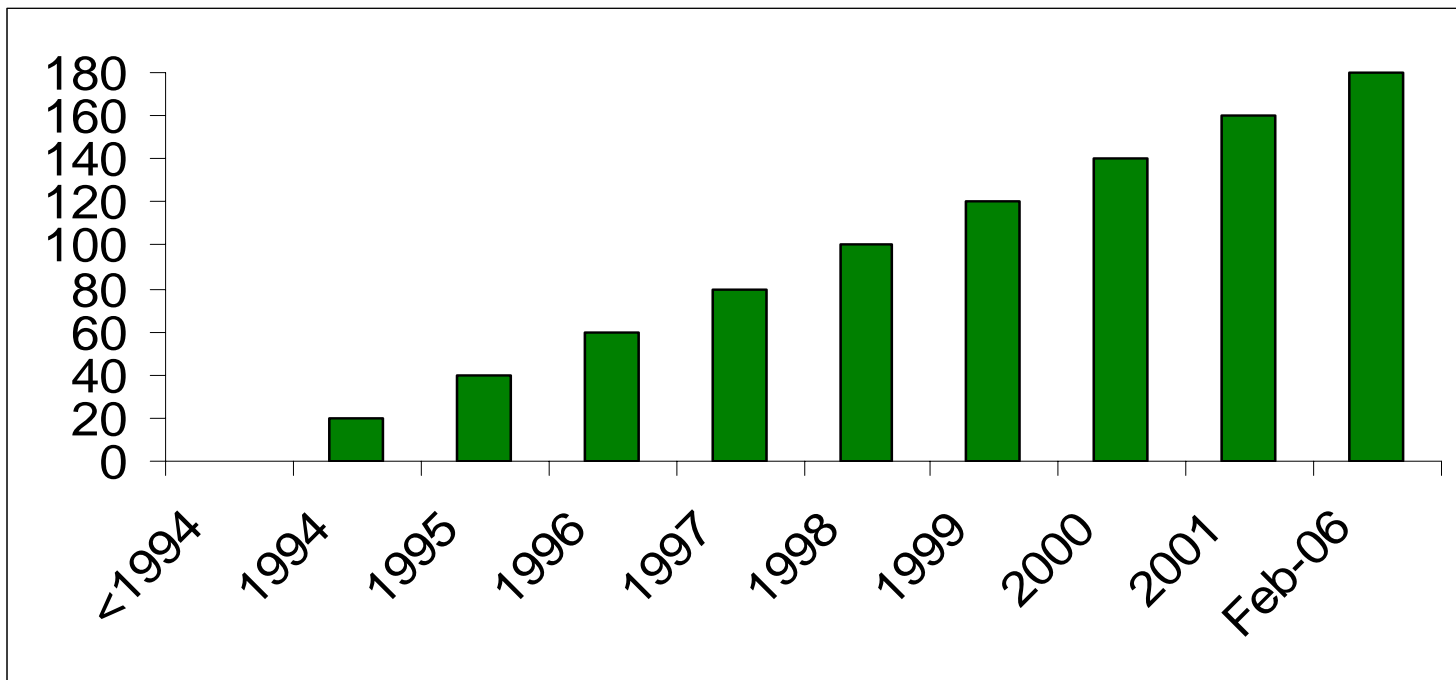
Islamic Private Equity

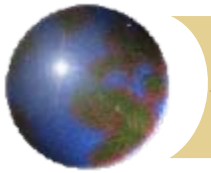
- Islamic investors should apply the model of private equity firms whose strategy evolves around taking majority stakes in privately held companies engaged in the real economy. This will enable them to maintain control, which ensures the company's adherence to Shari'a principles.
- Better Value proposition compared to other assets classes in terms of
 - ❑ Performance
 - ❑ Diversification
 - ❑ Higher long term returns
 - ❑ Price stability
 - ❑ Lucrative investment opportunities
 - ❑ Sharing risk & rewards
- Provides long-term, committed share capital to help private companies grow and succeed
- Can be used to develop new products and technologies, to expand working capital to make acquisitions or to strengthen a company's balance sheet



Islamic Funds

Growth in Number of Islamic Funds





What is needed to Channel the liquidity

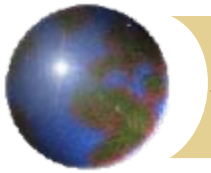
- Asset Management Products

Better Yield through:

- Tax Planning
- Market Opportunities

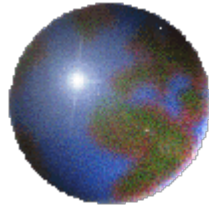
- Sukuk

- Expanding Primary market
- Developing Secondary Market
- Market Making by Mega or Bigger Banks
- Cross Listing



What is needed to Channel the liquidity

- Takaful Sector
 - Increasing penetration levels thereby increasing investments
 - Push by regulators to move to Islamic Finance
 - End result, greater investments from insurance companies, pension funds etc.



السوق
المالية
الاسلامية
الدولية



International
Islamic
Financial
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THANK YOU