



*cutting through complexity*

# Sri Lanka

## Assessing Market Readiness for Islamic Finance

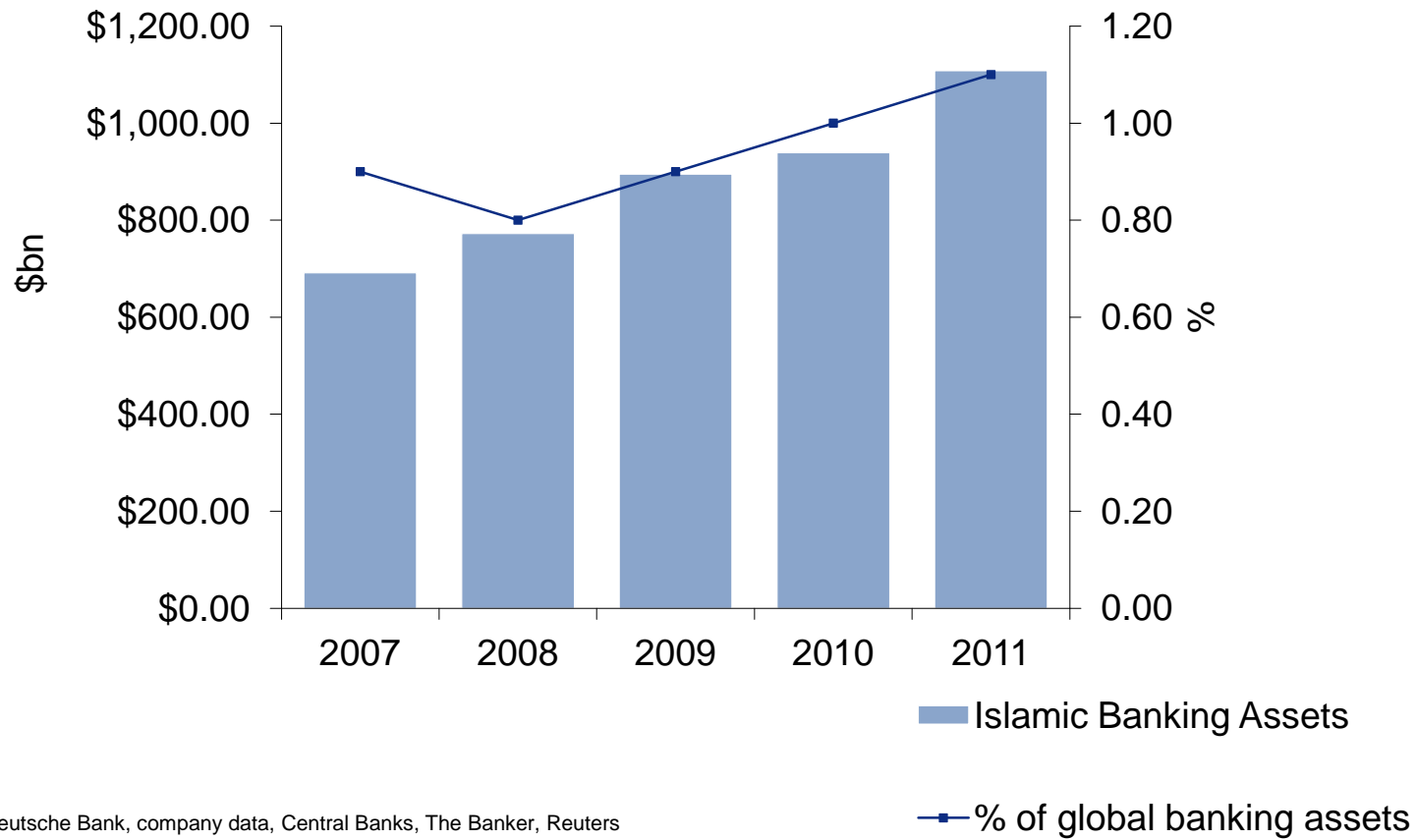
Neil D Miller

Global Head of Islamic finance

September 2012

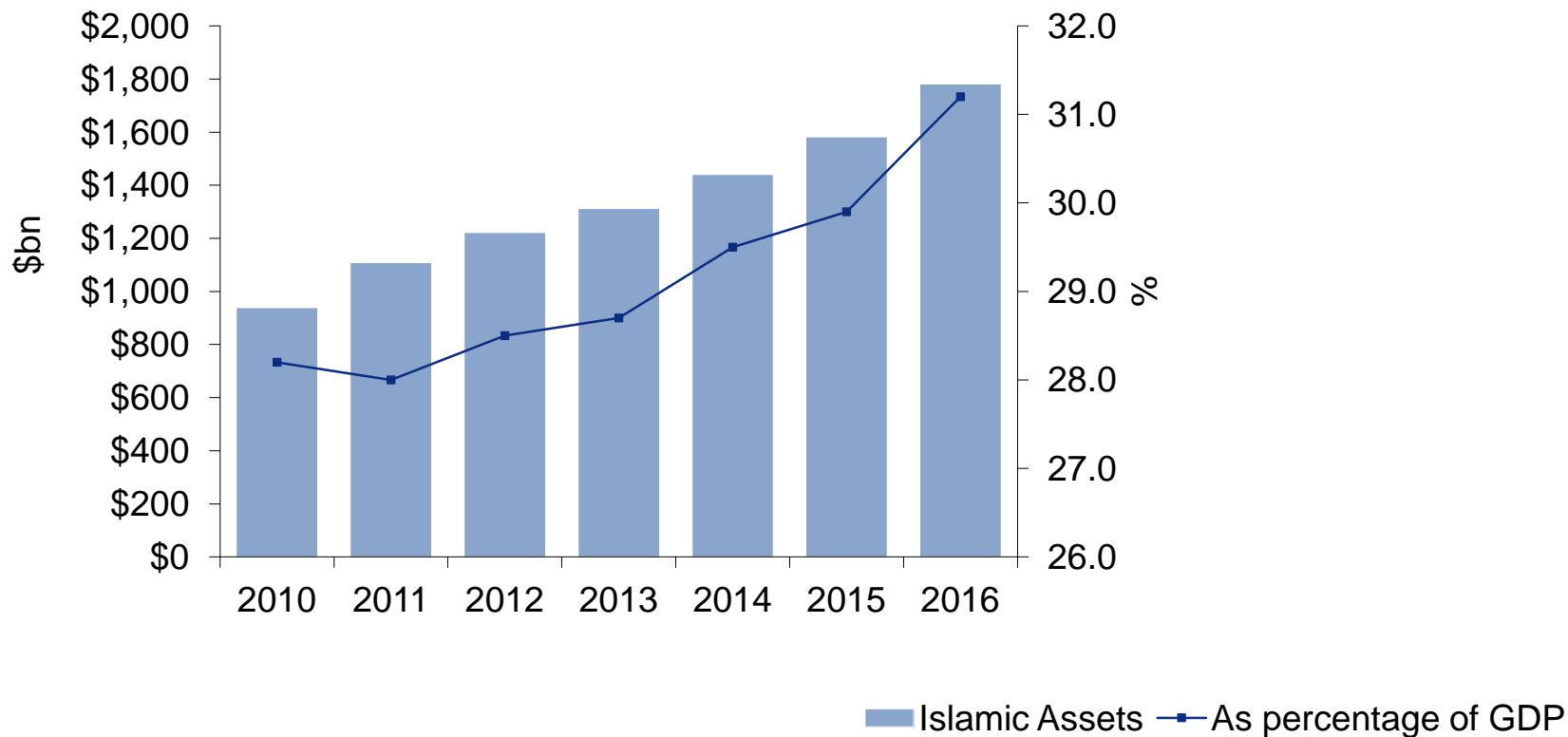


# Global Islamic banking assets are growing...



Source:: Deutsche Bank, company data, Central Banks, The Banker, Reuters

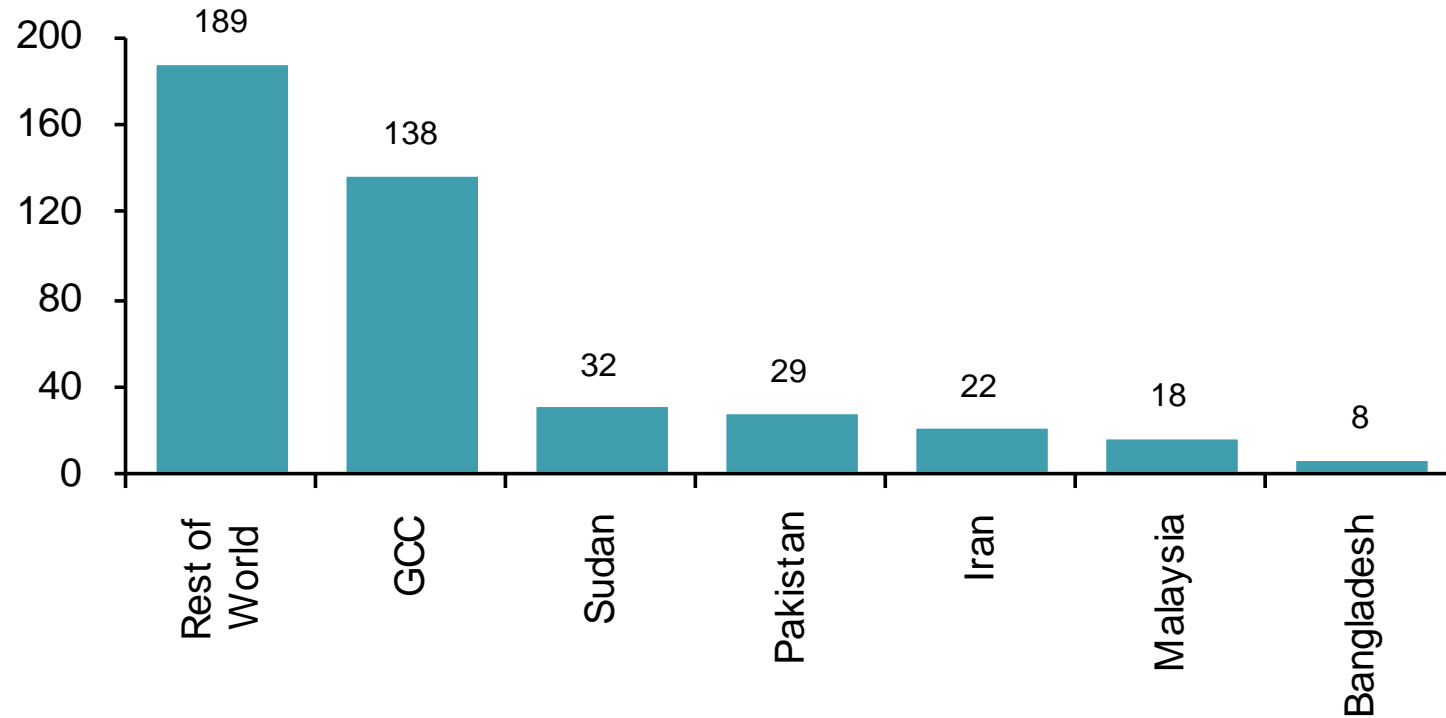
... and forecast to continue growing.



Source: Deutsche Bank, company data, IMF, Central Banks (The sample group of countries includes Iran, Saudi Arabia, Malaysia, UAE, Kuwait, UAE, Qatar, Bahrain, Turkey, Indonesia, Jordan, Bangladesh and Pakistan), Reuters

# Islamic finance is spreading across the Islamic world...

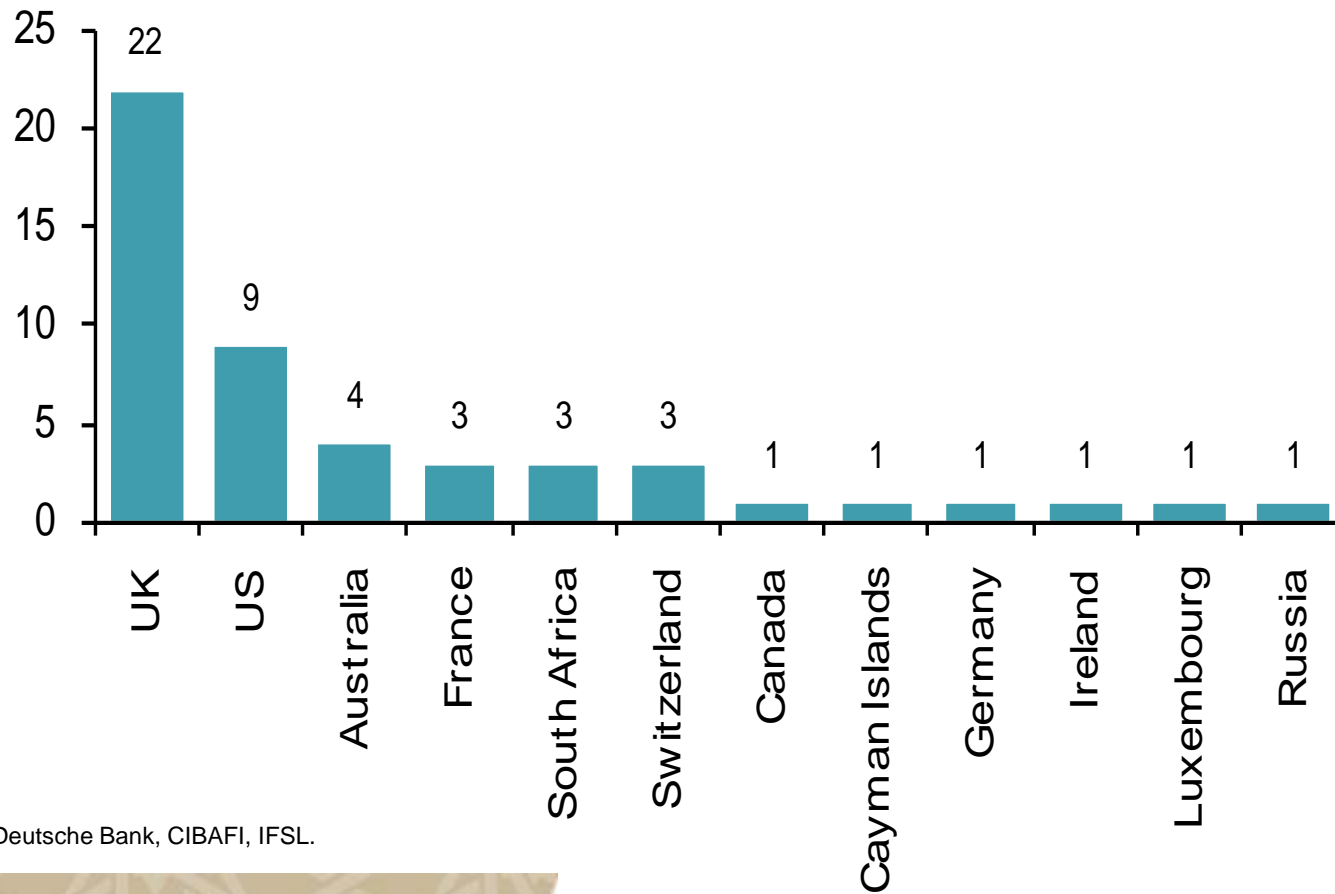
Number of institutions offering Islamic finance products



Source: Deutsche Bank, CIBAFI, IFSL.

...and across the secular world.

Number of institutions offering Islamic finance products



Source: Deutsche Bank, CIBAFI, IFSL.

# Should the Sri Lanka Government or Private sector do anything?

## Is it worth it?

Could it attract capital and funding?

Would it makes us internationally competitive?

Does it force innovation and up skilling?

Is it inclusive for our citizens?

Will it create employment?

Will it enhance our global reputation?

Does it support the vision for our country?

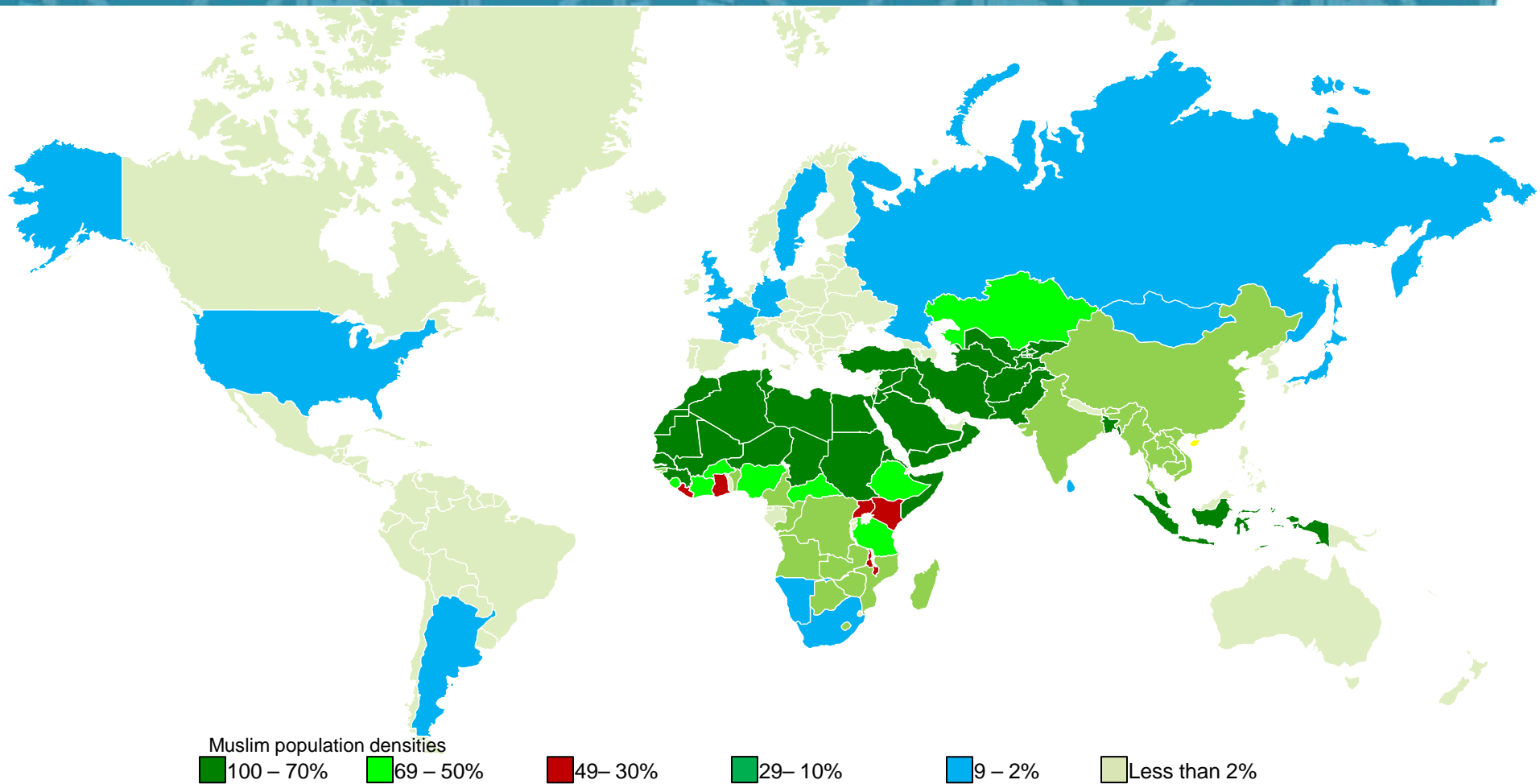
Is it ethical and morally right?

Does the cost benefit balance work?

Is it profitable?

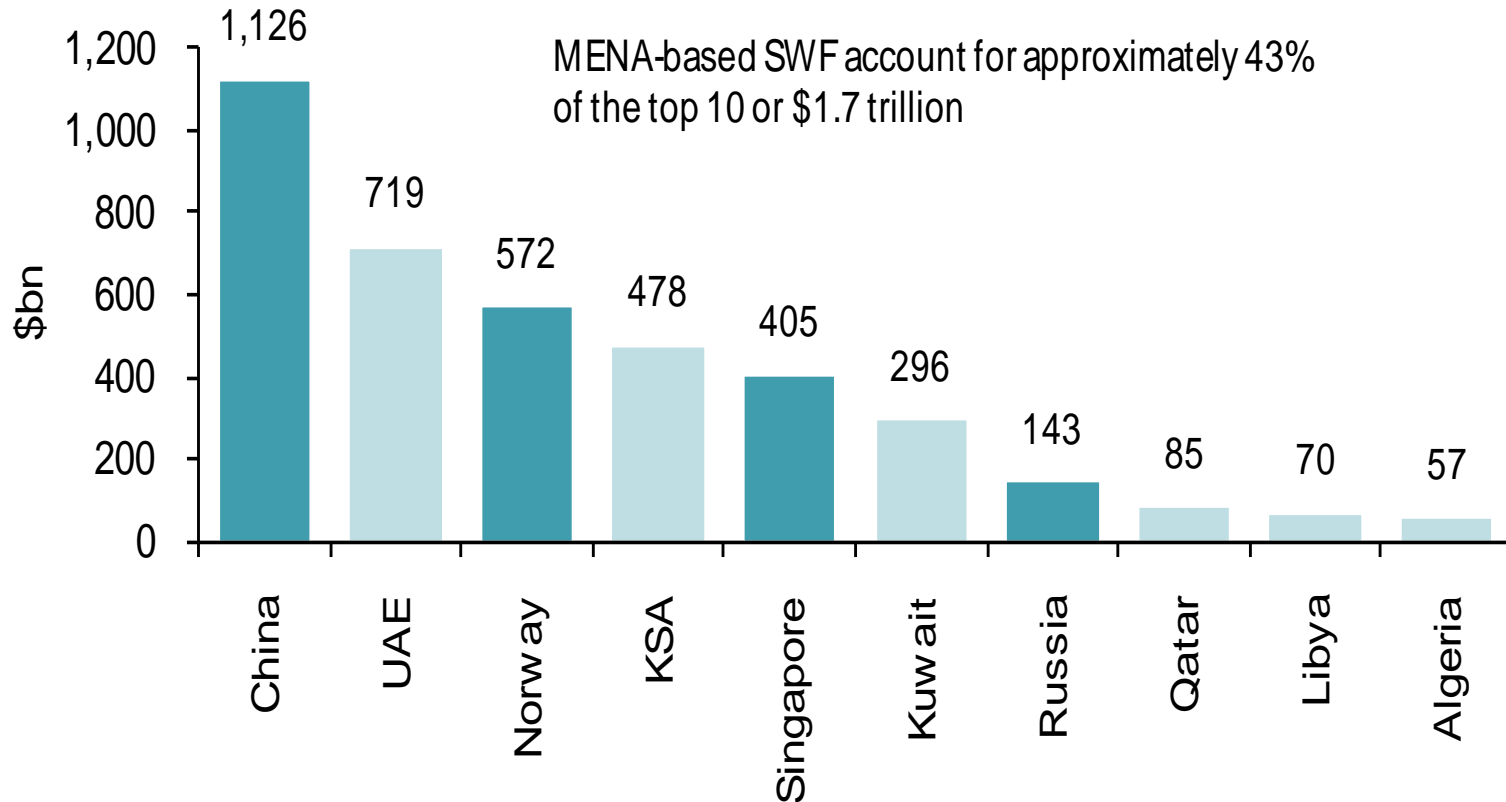
It is inevitable in the long term?

# Muslims are 25% of the worlds population...



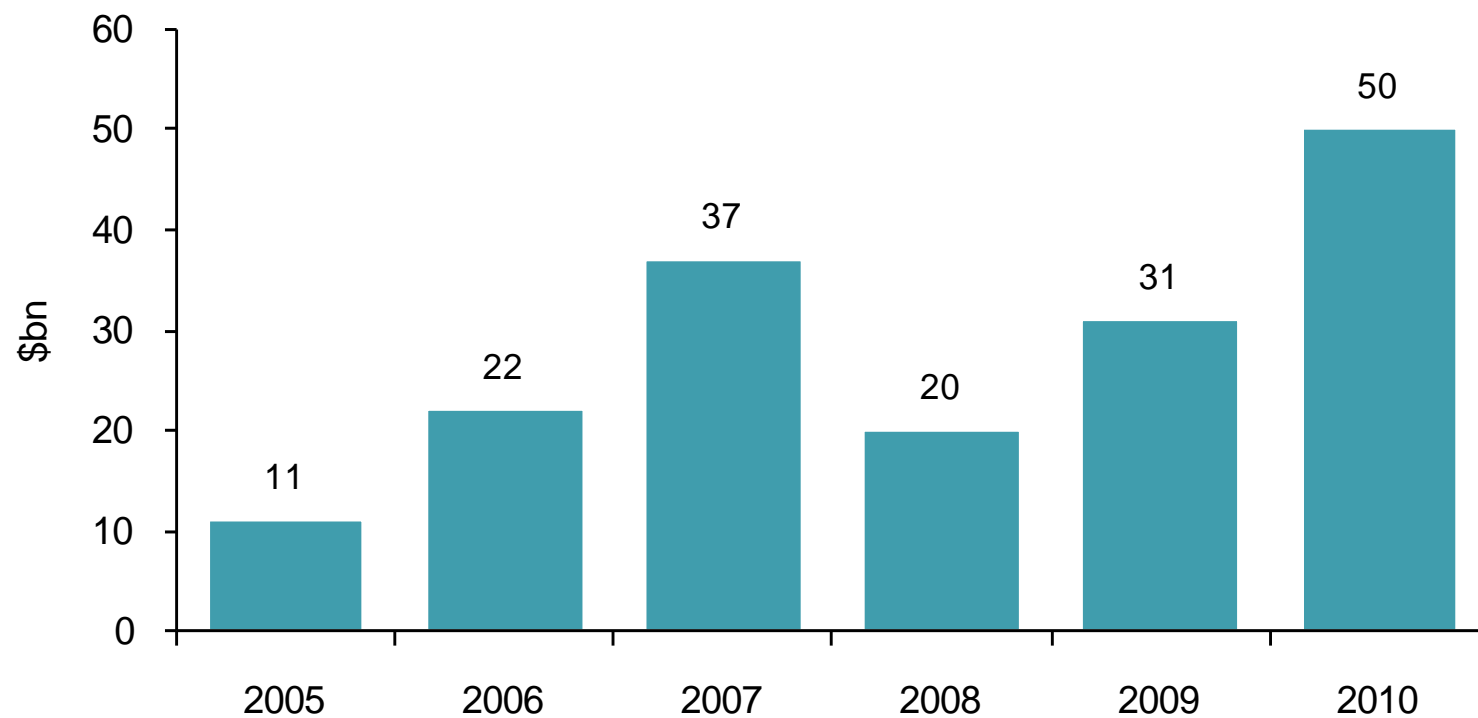
Source::Pew Forum

...and are investing immense wealth across borders...



Source: Deutsche Bank, Sovereign Wealth Fund Institute.

## ...and financing through the use of Sukuk

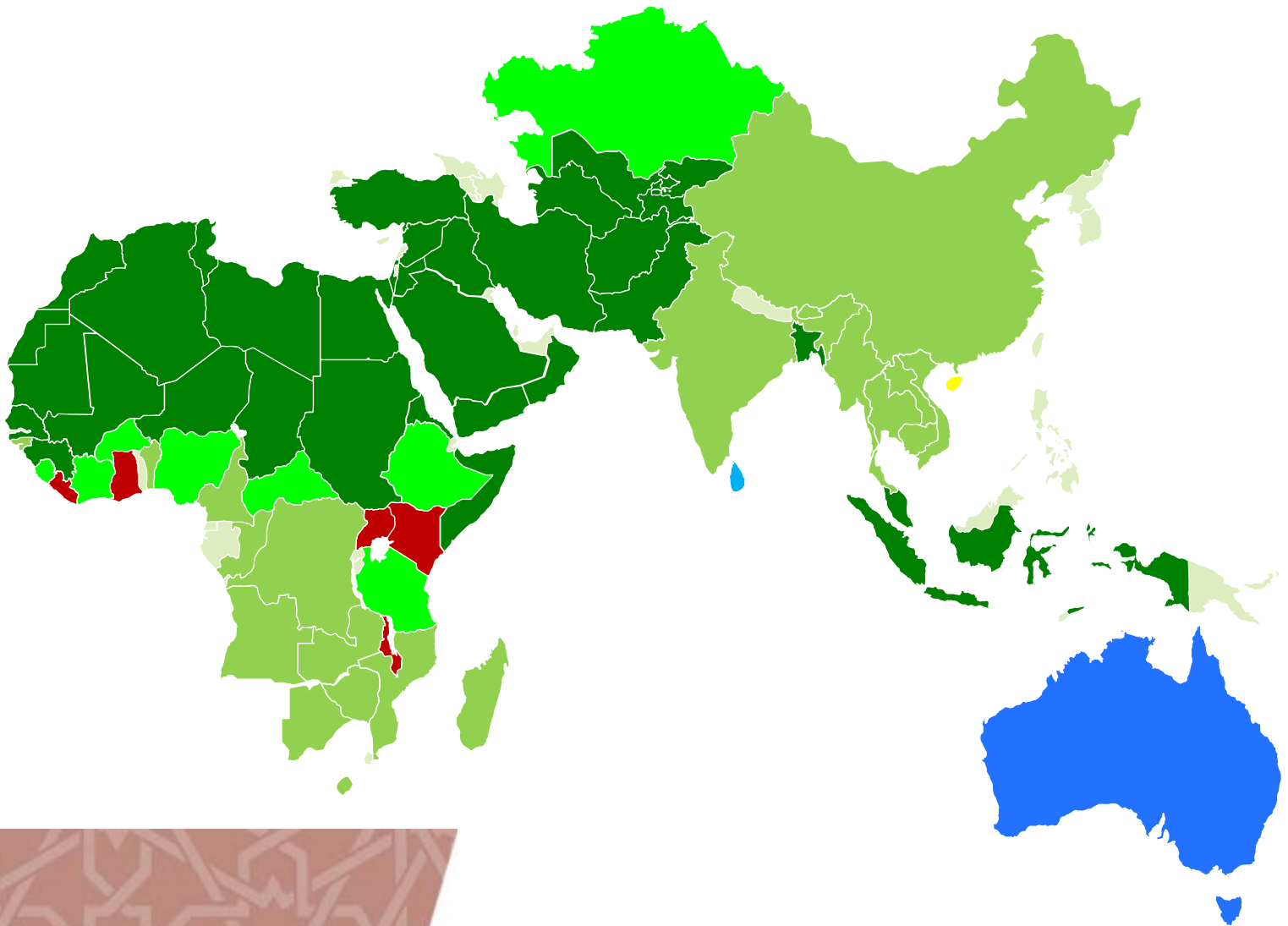


Source: Deutsche Bank, Bloomberg Finance LP, Zawya

# Sri Lanka needs inward investment...



...and can exploit the regional trade opportunity...



But this will not happen without strengths in Islamic finance!



[dreamstime.com](http://dreamstime.com)

## The commercial case is clear

### Is it worth it?

Could it attract capital and funding?

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Does it support the vision for our country?

Is it ethical and morally right?

Does the cost benefit balance work?

Is it profitable?

It is inevitable in the long term?



## The timing is right....

- **Growth** – The Sri Lankan economy experienced growth of 8.3% in 2011 [source: Annual budget documents]. The growth rate is projected at 8% in 2012 [source: Governor, Central Bank]
- **Improvement in Debt to GDP ratio** – Sri Lanka's debt to GDP ratio came down to 78 percent by end-2011, from 82 percent in 2010 [source: Governor, Central Bank]
- **Recent outlook** – Recently, Fitch upgraded Sri Lanka's long-term foreign-currency rating to 'BB-' with a stable outlook from 'B+' / Positive in July 2011
- **Key growth Indicators** [Source: The World Bank]

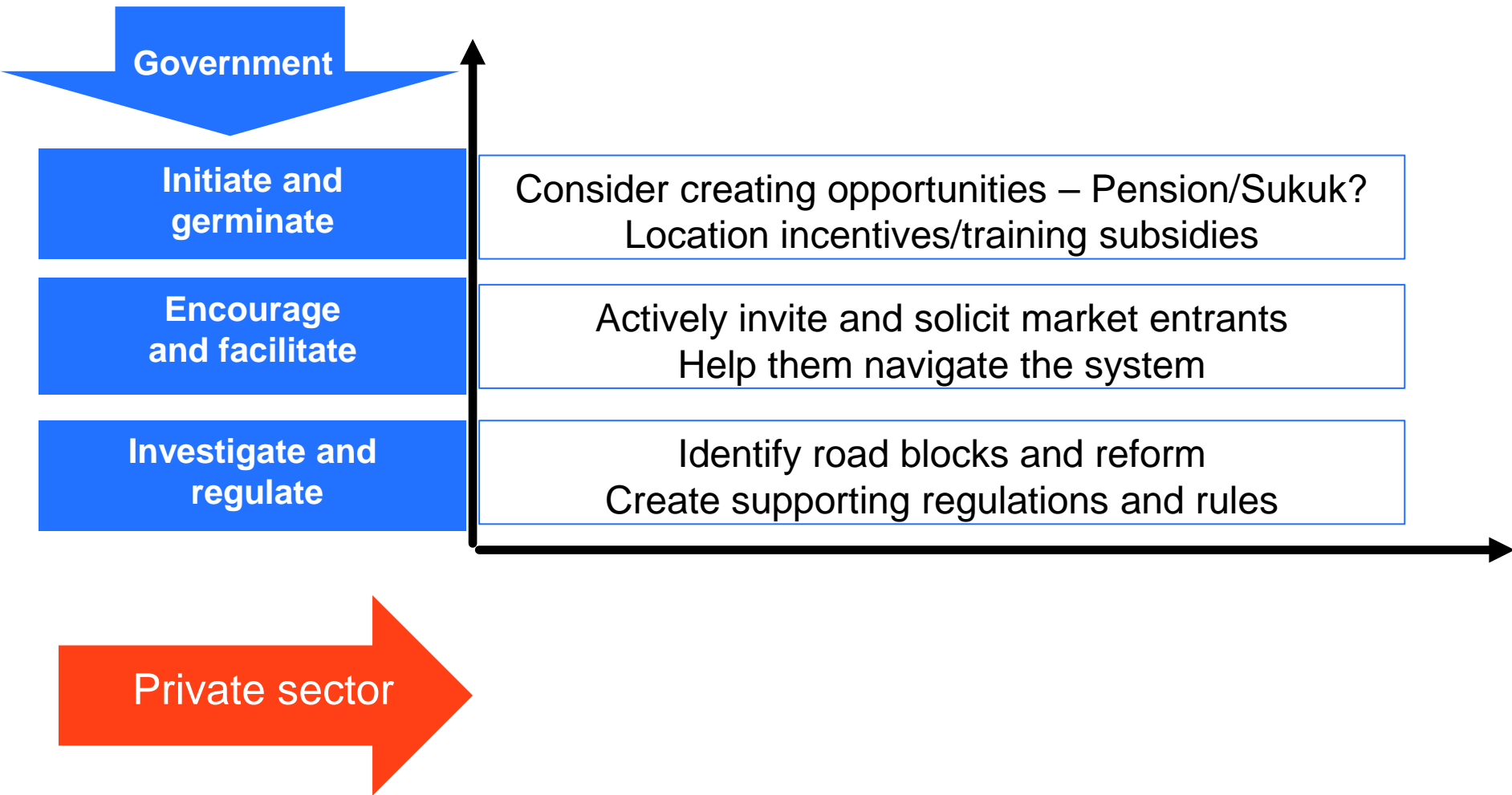
Indicator	2008	2009	2010
Overall GDP growth rate	6.0%	3.5%	8.0%
GDP growth per capita	5%	3%	7%
Consumer price index (2005 = 100)	156.21	161.55	171.14
Deposit interest rate	10.89%	10.61%	6.90%
Lending interest rate	18.89%	15.67%	10.22%
Total reserves, including gold (current US\$)	2.617bn	5.353bn	7.195bn
Market capitalisation of listed companies (current US\$)	4.325bn	8.0133bn	19.924bn
Workers' remittances and compensation of employees (current US\$)	2.947bn	3.363bn	4.155bn



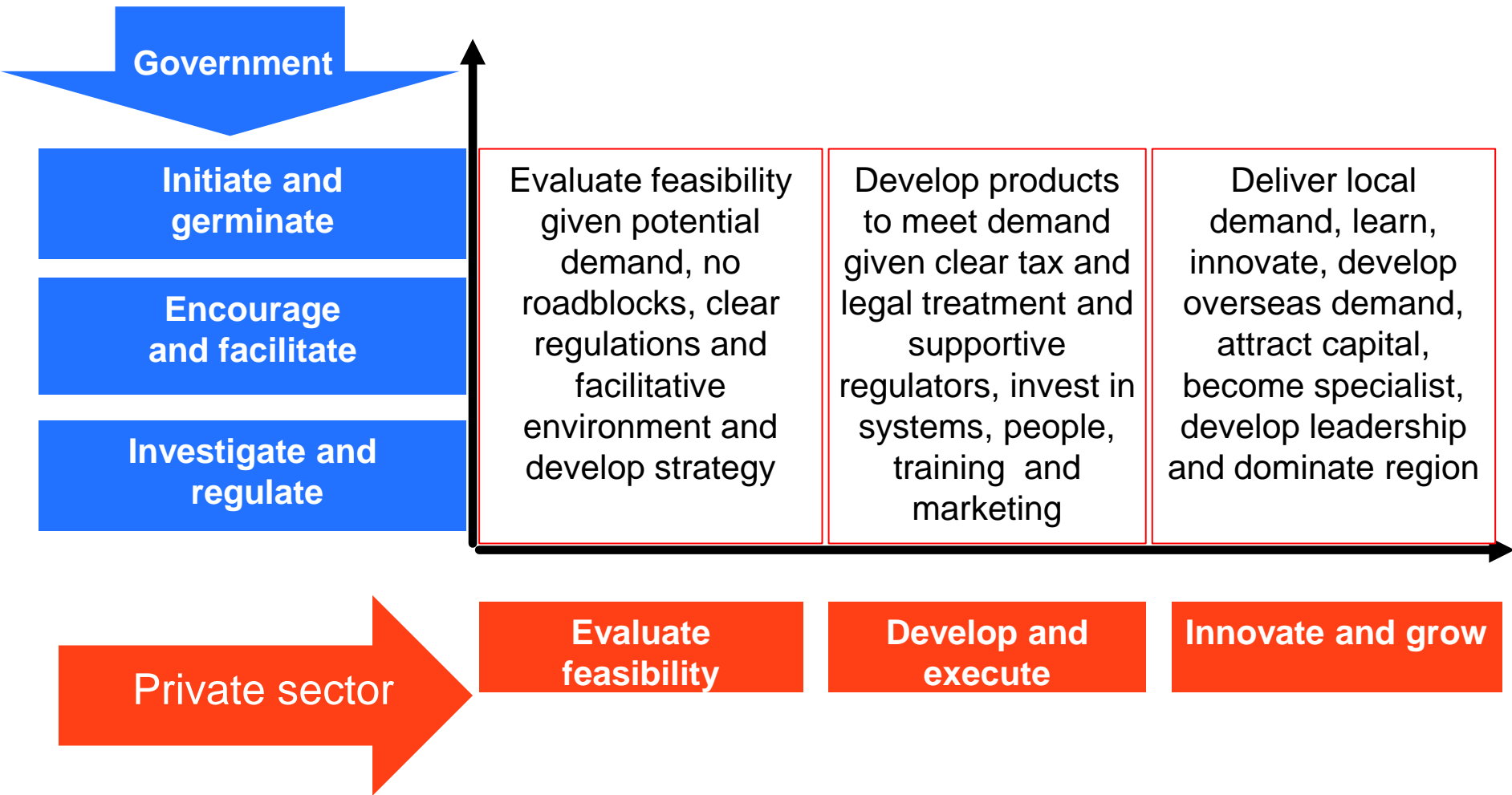
## .... and some steps have been taken...

- Amendments made to the Banking Act
- The establishment of Amana Bank
- Banks offering Islamic financial products
- Consulting firms providing Islamic financial advisory services
- Islamic finance education
- Recourse to Islamic finance by Sri Lankan Airlines
- Changes to tax regime

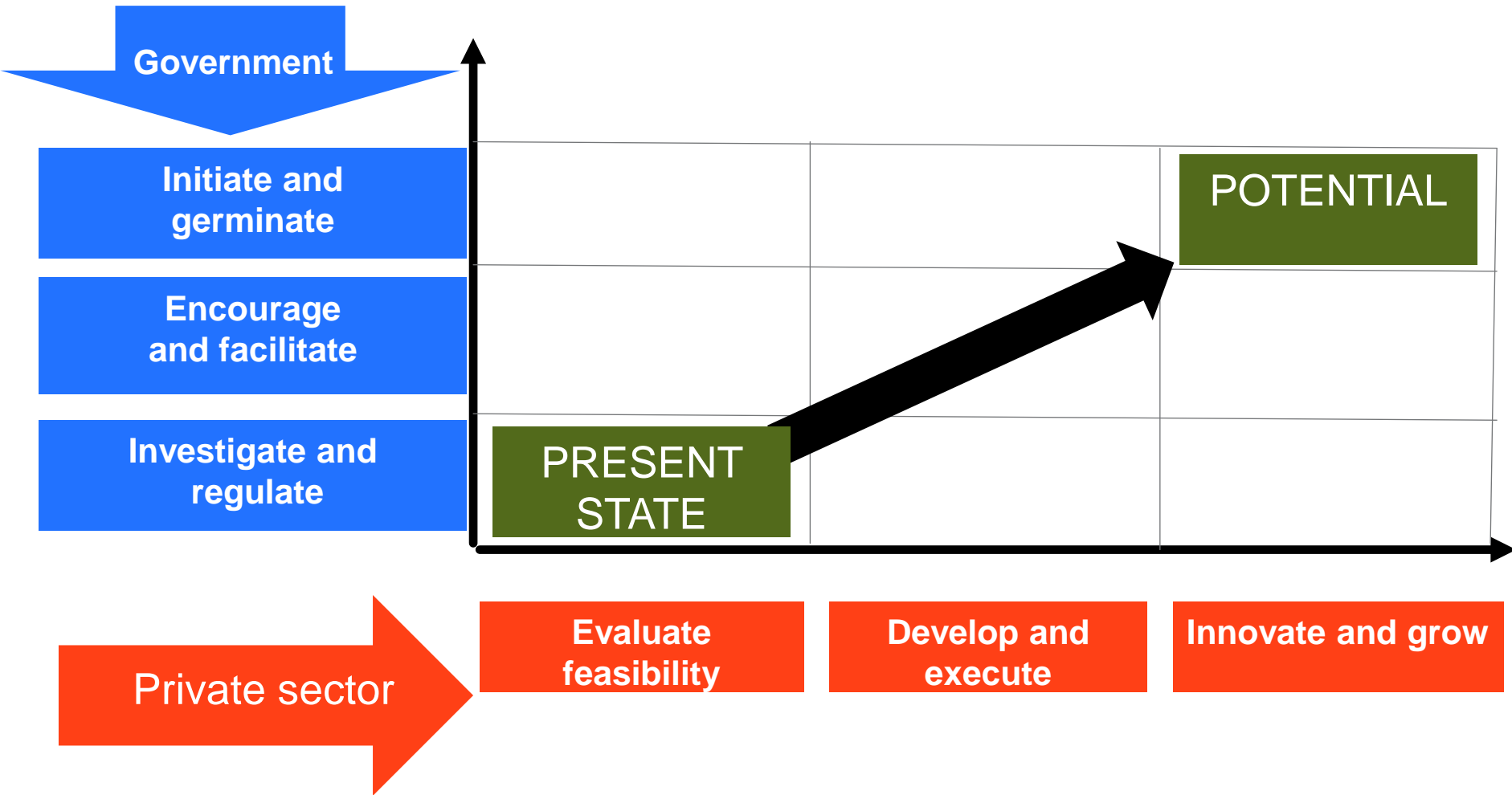
# .... So what next for Sri Lanka? – The Market/Industry readiness matrix



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# Suggested steps

## Government

### Basic elements

Vocal government support and enabling legal framework

Level playing field for taxation

Sovereign Sukuk issuance

Liquidity management solutions including LOLR arrangements

### Industry building initiatives

Human resource

Commonly different

Marketable products & quality of service

Scale of operations

## Private sector



**Thank You**

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**Questions?**

