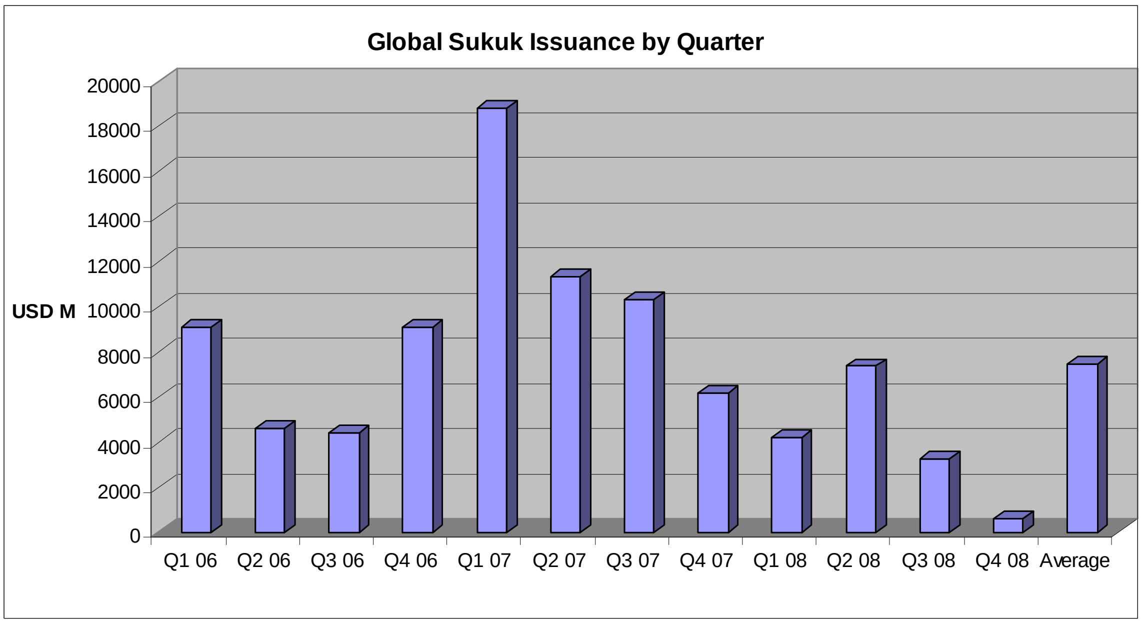
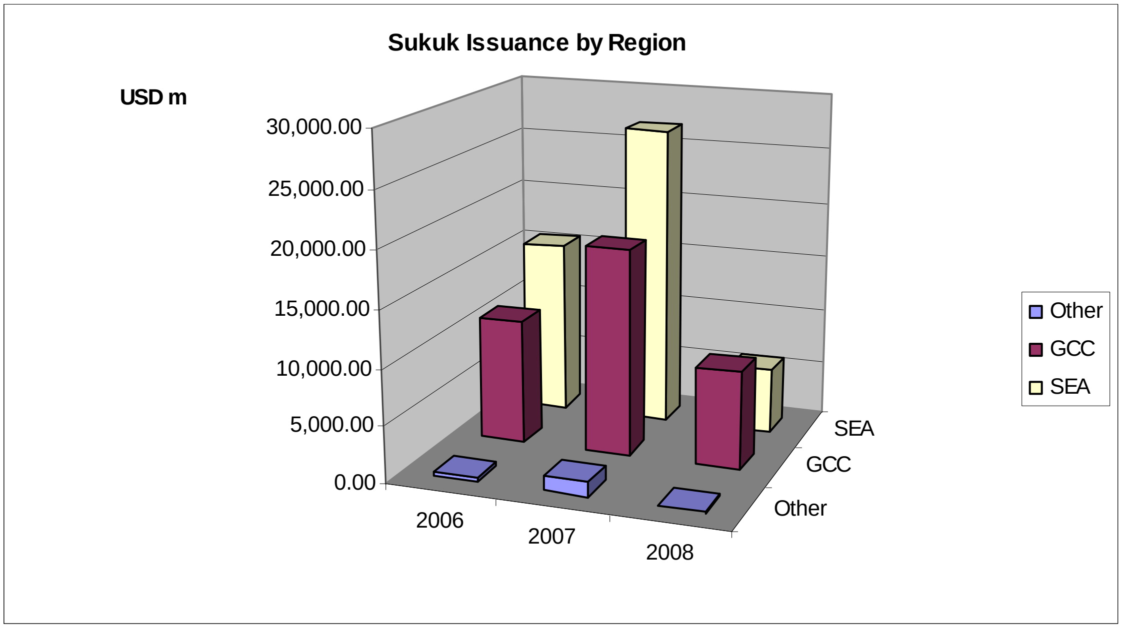
2008 Sees Worst Decline in Sukuk Market, Improvement in Islamic Syndicated Lending, Says IFIS

London, January 23rd 2009 - Sukuk or Islamic bond markets have witnessed a dramatic decline during 2008, especially during the 4th Quarter, according to the Islamic Finance Information Service (IFIS). Global sukuk issuance in Q4 2008 was the lowest since 2002, and 2008 was a worse year for sukuk than both 2006 and 2007.



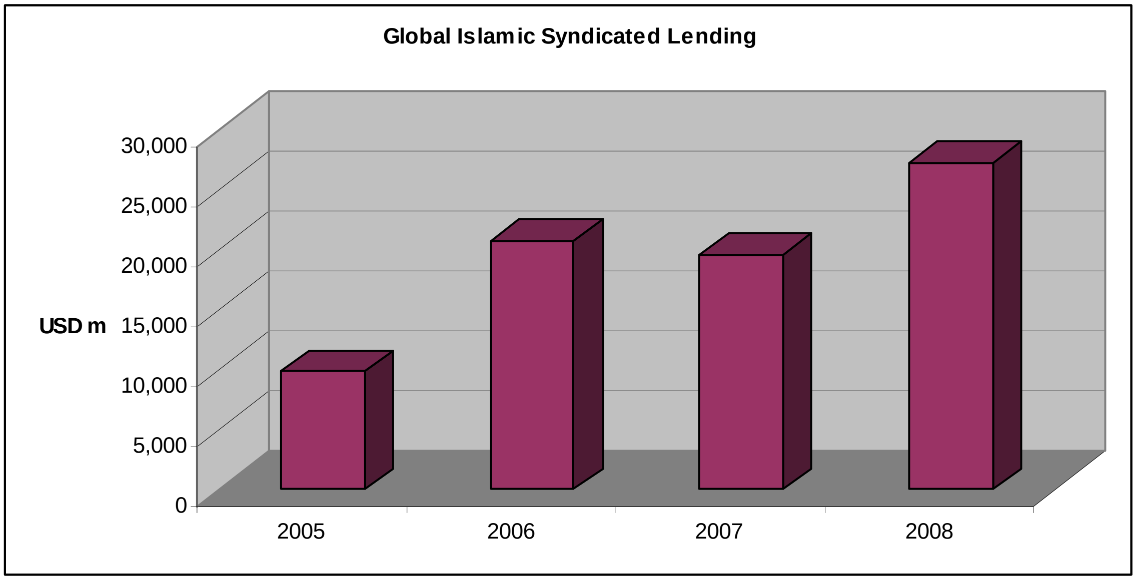
The decline in sukuk has been global, affecting both South East Asia (SEA) and the Gulf Cooperation Council (GCC). For Q4 2008, we saw no issuance in US Dollars at all, and we saw the amount of sukuk issued dropping to a mere USD 584 million, which makes Q4 the worst quarter since Q4 2002, before the boom in the sukuk market.

South East Asia was more severely impacted than the GCC in 2008, with issuance falling by 76% down to USD 6.57 billion for the entire year. The decline in the GCC was quite severe as well, however, with issuance falling to USD 9.06 billion, a 51% drop. The global total for sukuk issuance, USD 15.77 billion, was 66% lower than the figure for 2007. This is the first year on year drop in sukuk issuance since the year 2000.



Islamic Syndicated Lending:

Islamic syndicated lending did better than the sukuk market, with borrowing expanding from USD 19.6 billion in 2007 to USD 27.2 billion in 2008, a 32% expansion. In the GCC, Islamic syndicated lending provided the debt market with some buffer against the drop in sukuk issuance. Lending in the GCC rose from USD 17 billion in 2007 to USD 22 billion in 2008. This rise, while significant, is not enough to compensate for the drop in sukuk issuance, however, which had dropped by USD 9 billion in 2008 compared to 2007. And as with credit markets worldwide, Islamic syndicated lending froze almost completely in Q4 2008.



It would be too early to express optimism based on the increase in syndicated lending in 2008, however. The most likely explanation for this increase is that as sukuk markets contracted, investors turned to syndications as a better alternative for two reasons. First, the rise in LIBOR rates that accompanied the first stages of the credit crunch made sukuk borrowing more expensive. Second, as the sukuk market dried up, relationship-lending filled in some of the gap. Borrowers with a strong relationship with their banks could continue to borrow through syndications. But after credit markets globally froze in the last quarter, Islamic syndicated lending was hit just as badly as other markets.

It is more difficult to analyse Islamic syndicated loans outside the GCC, due to the relatively small number and value of deals. However, it would appear that Islamic syndicated lending for projects in North Africa and Europe was still active in the first quarter of 2008, before slowing down in Q2 and Q3 and practically freezing up completely in Q4.

Bookrunners and Arrangers:

The top two sukuk bookrunners in 2007, CIMB Islamic and HSBC Amanah, maintained their respective places on the top of the list. Of the top ten bookrunners, four were local banks while six were international banks. More significantly, the average amount credited to a bookrunner on the annual top ten list dropped from USD 2.379 billion in 2007 to USD 936 million in 2008, a 60 % drop.

2008 Islamic Bonds Bookrunners / Lead Managers League Table			
Ranking	Bookrunner / Lead Manager	Amount - US$m	Issues
1	CIMB Islamic	1,716.87	30
2	HSBC Amanah	1,385.42	21
3	JP Morgan	1,077.00	2
4	Calyon	1,016.60	2
5	Aseambankers Malaysia	844.92	25
6	Dubai Islamic Bank	814.75	5
7	Citigroup	741.51	12
8	Barclays Capital	645.38	3
9	Bank Negara Malaysia	626.95	1
10	Standard Chartered Bank	497.36	9

In syndicated lending, the top ten arrangers were mostly local, with only three international banks making the top ten in 2007 and in 2008. For 2008, Al Rajhi Bank took the first place, jumping from sixth place in 2007. Noor Islamic Bank had an impressive first year, coming in second place. Interestingly, even though the number and value of Islamic syndicated loans increased in 2008, the average amount of lending arranged by each of the top ten arrangers went down from USD 1566.86 billion in 2007 to USD 1132.14 in 2008. With the ranking of the top ten arrangers varying considerably between 2007 and 2008, this is further indication that unlike the sukuk market, there are no truly established leaders in the syndicated lending market. This market is far more open for competition.

2008 Islamic Syndicated Loans Arrangers League Table			
Ranking	Arranger	Amount - US$m	Issues
1	Al Rajhi Bank	2409.33	6
2	Noor Islamic Bank	2120.16	13
3	Standard Chartered Bank	1006.23	10
4	Samba Financial Group	995.95	6
5	Dubai Islamic Bank	948.23	9
6	HSBC Amanah	923.75	10
7	Gulf International Bank	767	3
8	Qatar Islamic Bank	752.25	7
9	Calyon	731	4
10	National Commercial Bank	667.5	2

Forecast 2009

Islamic bond issuance grew enormously between 2004 and 2007, with total issuance growing year on year by 49% in 2005, 153% in 2006 and 79% in 2007. 2007 sukuk issuance hit a record of USD 46.65 billion. These results, though impressive, came at a time of easy access to credit and benefited from oil prices that were at historical highs and rising. This led to ever increasing issuance, especially from the GCC. As the GCC bond market flourished even after the initial impact of the subprime mortgage crisis in 2007, there were those who thought that Islamic finance can withstand this downturn intact due to the nature and features of Islamic banking and finance, and therefore of the sukuk market.

This led to some unreasonable expectations for the industry. Some industry observers thought that Islamic finance had successfully separated from global conventional credit markets, which was an Islamic variation on the now debunked decoupling theory. Others claimed that Islamic markets were now mature, independent markets, not related to the price of oil. A third view that was sometimes expressed was that lower leverage and emphasis on holding and selling real, tangible assets will save the industry from the full impact of the subprime crisis and subsequent credit crunch. Essentially, all of the above emphasises the fundamentally different natures of Islamic finance and conventional finance.

But the evidence counters this. Sukuk have not done well in the past year. Total issuance in 2008 dropped by 66% compared to 2007, showing no immunity from the global downturn. The impact was felt across the board, with GCC issuance dropping by 50% and South East Asian issuance dropping by 75%. Financial institutions in the Gulf have been suffering a great deal, and both Islamic and non-Islamic institutions have run into trouble. Most of Asia, including Malaysia, has been hard hit by the global economic downturn, and financial institutions have and will continue to suffer as a result. This will continue to affect the sukuk market until the financial sector recovers.

The increase in relationship lending that we saw in the syndicated loans market will not be sufficient to reverse this. Our opinion is that syndicated lending simply lagged the sukuk market, and will probably not behave too differently from the sukuk market in 2009. For both, IFIS does not expect a recovery before the recovery in conventional markets.

Notably, whereas in the West the crisis was first limited to the banking sector and then spread to the real economy, the crisis in the GCC and in Asia is different. The GCC is suffering because the price of oil, the main source of revenue for the region, collapsed. With its collapse, and with the global financial crisis taking hold in the rest of the world, the GCC too experienced severe liquidity shortages. This lack of liquidity has severely constrained the credit hungry construction sector, which had fuelled the GCC growth story in recent years and towards which much of the proceeds of sukuk and syndicated lending have been directed. With world real estate prices generally on the decline, investors are questioning the soundness of real estate investments, especially in markets perceived to be overheated. This impression certainly exists in the GCC, and there is significant anecdotal evidence that indicates a rapid fall in real estate prices in Dubai and other places. It is not clear exactly how much exposure do banks have to the sector, and until it is clear, we do not expect confidence to be restored. As such, we expect banks to hoard cash and restrict lending in the GCC as they have in other markets. Moreover, the lack of disclosure in the region makes events such as the sudden collapse of Khaleej Bank, the troubles of Investment Dar and the default of Global Investment House more likely. These and other considerations have prompted international rating agencies such as Moody's and Fitch to downgrade the credit rating a significant number of GCC financial institutions, Islamic and otherwise. These considerations all make raising funds more challenging and reduce confidents in the markets and in borrowers' ability to repay their debts. However, mainly due to the enormous currency reserves accumulated in GCC countries over the past few years, we do not expect the severity of the crunch to be comparable to that experienced by Western credit markets. Therefore in all likelihood, we will start seeing a recovery in the GCC in the second half of 2009, but it will not be a far better year than 2008.

Malaysia is in serious trouble as well. The government had budgeted for oil at USD 125 per barrel, which today seems hopelessly unrealistic. If oil averages USD 45 dollar per barrel, Malaysia would lose some 29% of its total revenues and will probably suffer a large deficit. It is beyond doubt that the government would need to review and reduce its spending as a result, but doing so in the face of a global recession carries enormous risks. Moreover, the country is a net commodity exporter, and is now receiving far less for its exports. As such, the Malaysian economy is in trouble and the sukuk market will be affected accordingly. Until the macro conditions in the Malaysian economy improve, no change will be seen on the sukuk market. We do not expect 2009 to be much better than 2008 for Malaysia.

Notes to Editors:

IFIS (Islamic Finance Information Service) is the most comprehensive online Islamic finance information portal with global coverage. It exclusively tracks the developments in the Islamic financial world, and is a significant source of information for industry participants, top investment banks, corporations, law firms, consultants, rating agencies, researchers, insurance companies, universities and libraries, multilateral organizations etc. IFIS maintains documentation and pricing information on sukuk and investment funds, and also tracks syndicated loans, Shariah scholars, project finance, legislation, research and news.

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For questions on this press release, please contact IFIS at the details below.

Rakiya Sanusi
Director
Islamic Finance Information Service
Internet Securities Inc
T: +44 2077 798 490
F: +44 2077 798 224
E: rsanusi@securities.com
W: www.securities.com/ifis

Firas Abi Ali
Senior Analyst and Product Manager
Islamic Finance Information Service
Internet Securities Inc
T: +44 2077 798 491
F: +44 2077 798 224
E: fabiali@securities.com
W: www.securities.com/ifis