

Sri Lanka: Islamic financial services sector



SRI LANKA

By Shiraz Refai

Sri Lanka's economy is primarily based on agriculture, manufacturing, and exporting commodities like tea, rubber, and spices. It has also developed its tourism industry, attracting visitors with its beautiful beaches and lush landscapes. As per 2023 data on the economic composition, services dominated at 59.9%, followed by industry at 25.6% and agriculture at 8.3%. Taxes and subsidies contributed 6.2% to GDP.

Over the past few years, Sri Lanka's alternate financial services (AFS) business has grown year-on-year (YOY) at an average rate of 22% in assets and 23% in deposits. On the road to the economic recovery, both banking and non-banking financial institution (NBFI) sectors collectively seen a strong comeback in 2021/22 with asset growth recorded at 27.11% and deposit growth at 37.73% in comparison to the previous financial year. And in 2022/23 the AFS business has seen a slight dip but had a robust 18.51% asset growth and 20.21% growth in deposits book (Chart 1 and 2).

The collective industry performance has generated LKR4.12 billion (US\$13.50 million) profit before tax (PBT) in 2022/23 compared to LKR4.64 billion (US\$15.21 million) in 2021/22 with a slight dip in YOY decline of -11% (Chart 3). The banking sector dominated the PBT contribution at industry level as banks and NBFIs stood at 78.14% and 21.85% respectively in 2022/23, comparison to (banks) 63.73% and (NBFIs) 36.27% in 2021/22 (Chart 4).

Given the circumstances that both banks and NBFIs have successfully maintained the quality of books and supported by inherent product features, the industry has recorded non-performing loan (NPL) ratio of 0.61% for 2022/23 compared with 2.93% NPL ratio in 2021/23. Further it was evident that the service point network has increased to 482 in 2022/23 from 400 in previous year with signs of development in reach to cater growing demands for Islamic financial services.

The Islamic finance sector in Sri Lanka has made substantial efforts to enhance comprehension and advocate for sustainable practices in order to cultivate

a climate-resilient economy. Key industry participants such as LOLC Al-Falaah and Amana are actively participating in constructive discussions with climate experts, paving the way for the creation of a blueprint for climate action to facilitate the shift towards a low-carbon and climate-resilient economy.

The industry renowned for its sustainable economic advantages, has effectively contributed to the revival of the Sri Lankan economy. Demonstrating resilience throughout the previous year, this sector has exhibited consistent growth, aligning with the government's diverse initiatives and strategies aimed at mitigating the economic decline and ensuring stability. ☺

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Chart 1: Asset portfolio – YOY growth

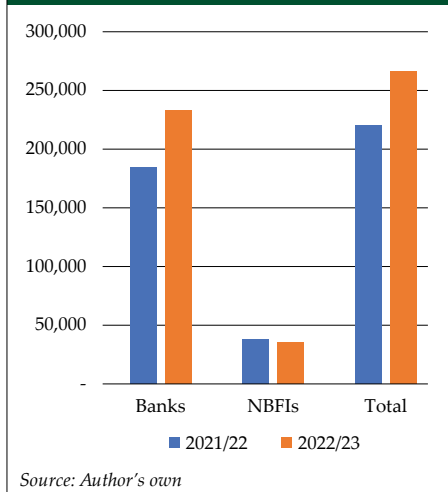


Chart 2: Deposit portfolio – YOY growth

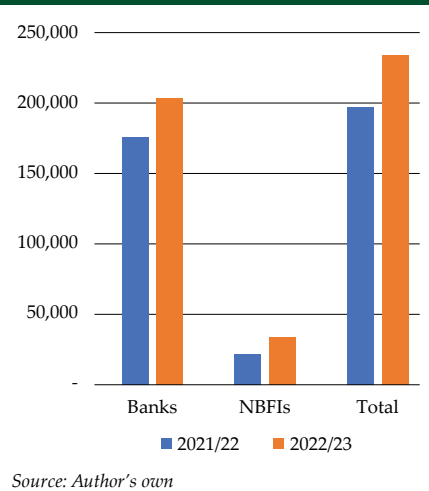


Chart 3: PBT – YOY growth

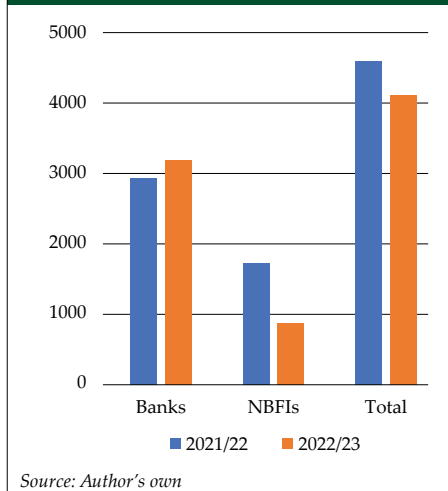


Chart 4: Contribution of PBT

