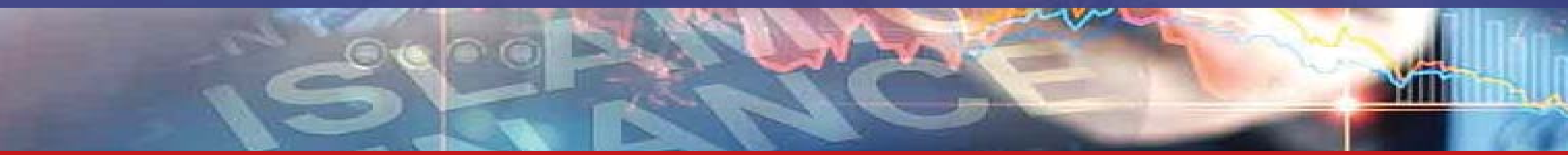
Shaping Pakistan's Islamic Economy with Halal Assets and Digital Innovation



By: ICMA Research and Publications Department

Islamic Finance Market – At a Glance

Islamic banking is rooted in Shariah law, which emphasizes ethical finance guided by principles such as fairness, transparency, and profit-and-loss sharing. It prohibits the payment or receipt of interest (riba), speculative transactions (gharar), excessive risk, and investment in haram (prohibited) sectors. Unlike conventional finance, Islamic finance views money not as a commodity but as a tool to support responsible economic activity, serving both Muslims and non-Muslims. As of 2023, Islamic finance has grown into a $4 trillion global industry. Islamic banking commands the largest share at 70.21%, followed by sukuk (25.16%), Islamic funds (3.92%), and takaful (0.71%).

Regional Breakdown: The Gulf Cooperation Council (GCC) leads with 52.5% of total Islamic finance assets, followed by East Asia and the Pacific (21.8%), the Middle East and North Africa (MENA) region (12.7%), Europe (8.3%), South Asia (3.1%), and Sub-Saharan Africa (0.7%).

Country-Wise Concentration: Around 95% of global Shariah-compliant assets are concentrated in just ten countries. Saudi Arabia and Iran each hold 25–30%, followed by Malaysia (12%) and the United Arab Emirates (10%).

Figure 1: Breakdown of the Global IFSI by Sector and Region (USD in billion) for 2023

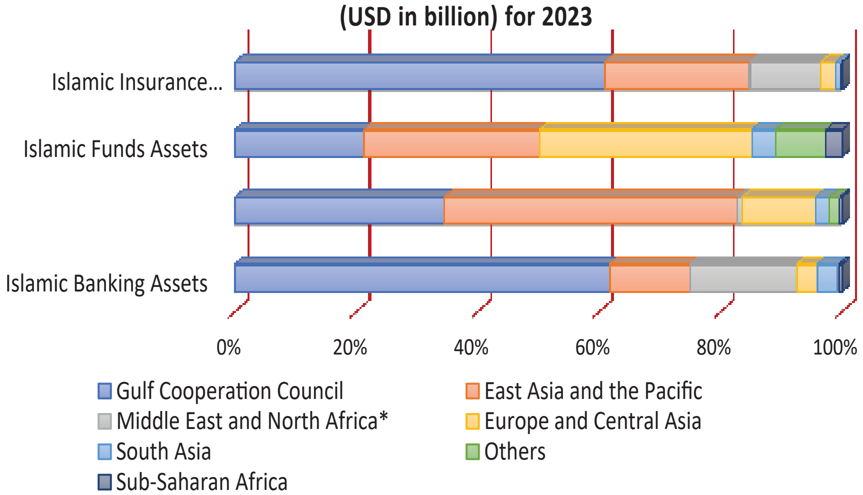


Table 1: Regional and Sectoral Breakdown of Global IFSI for 2023 (USD in billion)

Region	Islamic Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Islamic Insurance Contributions	Total	Share in %
Gulf Cooperation Council (GCC)	1,463.91	292.96	28.16	14.64	1,847.42	52.50%
East Asia and the Pacific	313.83	411.25	38.13	5.75	768.96	21.80%
Middle East & North Africa*	417.79	6.3	0.07	2.79	427.82	12.70%
Europe and Central Asia	79.7	102.02	46.24	0.61	228.57	8.30%
South Asia	83.58	19.63	5.13	0.24	108.58	3.10%
Others	-	14.64	11.06	-	25.7	0.90%
Sub-Saharan Africa	13.36	3.2	3.5	0.01	19.2	0.70%
Total	**2,372.17**	**850**	**132.29**	**24.04**	**3,378.5**	**100%**
Share%	**70.21%**	**25.16%**	**3.92%**	**0.71%**	**100%**	

Note*: Excluding GCC countries
Source: IFSB- Stability Report 2024

Comparative Adoption: Islamic vs. Non-Islamic Countries		
Category	**Islamic Countries**	**Non-Islamic Countries**
Top Adopters	Saudi Arabia, Iran, Malaysia, UAE, Kuwait, Qatar, Turkiye, Bahrain, Indonesia, Pakistan	UK, Luxembourg, South Africa, Nigeria, Hong Kong
Regulatory Frameworks	Central banks have dedicated Islamic finance divisions and Shariah boards	Islamic finance units operate under mainstream regulatory bodies with advisory input
Sukuk Issuance	High frequency of sovereign and corporate sukuk issuance; Saudi Arabia led MENA with $33.6 billion in issuances in H12024	UK was the first non-Muslim country to issue sovereign sukuk (2014), other countries like Luxembourg and Hong Kong have followed suit
Islamic Banking Assets	Often exceed 20% of total banking assets; Malaysia's Islamic banking assets constitute about 40% of its finance ecosystem	Islamic banking typically accounts for less than 5% of total banking assets in non-Islamic countries, but its presence is gradually expanding—such as in the UK, which now hosts five Islamic banks.
Institutional Support	Strong government and religious backing; initiatives like Saudi Arabia's Vision 2030 and the UAE's sustainability agendas support Islamic finance growth	Support through ethical investing and halal market strategies; growing interest in ESG-compliant financial products
Motivation	Religious, ethical, and inclusive financial access; alignment with Shari'ah principles	Market diversification, investor outreach, and alignment with ESG trends; appeal to ethical investors

Growth Trends in Islamic Finance

The Islamic finance sector comprises several key components:

- **Islamic Banking:** Global Islamic banking experienced steady growth between 2018 and 2023, with assets increasing at a compound annual growth rate (CAGR) of 10.72% and a year-on-year (YoY) growth of 7.21% in 2023. This growth was primarily driven by rising levels of financing and customer deposits.
- **Sukuk (Islamic Bonds):** The total outstanding value of sukuk reached USD 850 billion in 2023, reflecting a YoY growth rate of 2.45%, down from 7% in 2022.
- **Takaful (Islamic Insurance):** The global takaful market was valued at USD 0.04 billion in 2024 and is projected to grow to USD 0.05 billion in 2025, eventually reaching USD 0.12 billion by 2033, driven by a strong CAGR of 14.3%.
- **Islamic Funds and Asset Management:** Shari'ah-compliant assets under management (AuM) saw a moderate decline in 2023, falling to USD 182.24 billion, down from USD 207.96 billion in 2022.

Islamic Finance and the Rise of Digital Assets

As the global financial ecosystem undergoes rapid digital transformation, Islamic finance is progressively exploring the integration of blockchain technology, cryptocurrencies, and digital assets within the boundaries of Shariah compliance. This shift presents both promising opportunities and notable challenges for Islamic scholars, regulators, and fintech innovators. Below is a closer look at three key components shaping this development:

1) Islamic Cryptocurrencies

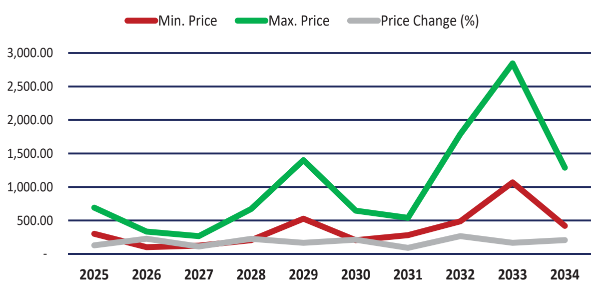
Islamic cryptocurrencies are digital currencies designed to comply with Shariah principles, particularly the prohibitions on **riba** (interest), **gharar** (excessive uncertainty), and involvement in **haram** (forbidden) activities. These cryptocurrencies aim to align with Islamic values by promoting ethical investment and minimizing speculation.

(a) OneGram (OGC) - Launched in Dubai, OneGram is a gold-backed cryptocurrency created to conform with Islamic finance principles by anchoring its value to a tangible asset, thereby reducing speculative risk. According to projections in ***Table 2,*** OneGram demonstrates strong growth potential from 2025 to 2034, with predicted price increases ranging from **91.64% to 267.19%.** Notable highlights include a projected **129.55% increase in 2025** and **267.19% in 2032,** reflecting consistent performance and growing appeal as a long-term, Shariah-compliant investment.

Table 2: OneGram Coin Price Prediction				
Year	**Min. Price**	**Max. Price**	**Price Change (%)**	**Remarks**
2025	300.99	690.92	129.55	Health growth-indicates potential for good returns.
2026	101.82	334.27	228.30	Highly volatile but attaractive growth potential.
2027	125.24	266.05	112.43	Moderate growth
2028	206.04	671.06	225.69	Strong price movement
2029	526.45	1,402.00	166.31	Consistently strong price growth
2030	206.61	646.46	212.89	Very strong-positive outlook
2031	281.71	539.86	91.64	Lower than previous years
2032	487.36	1,789.53	267.19	High growth
2033	1,068.27	2,844.90	166.31	Consistent strong performance
2034	419.25	1,288.52	207.34	Strong closing decade

Source: CoinData Flow - Link: https://coindataflow.com/en/prediction/onegram

Figure 2: OneGram Coin Price Prediction (in USD)



(b) **Islamic Coin (ISLM) - Islamic Coin (ISLM),** built on the **HAQQ blockchain,** aims to create a Shariah-compliant digital ecosystem for the global Muslim community. It adheres to Islamic finance principles by ensuring that a portion of every transaction is directed towards a charitable endowment fund **(Waqf DAO).** The coin avoids involvement in non-Islamic activities, such as gambling and alcohol, and maintains governance under a dedicated Shariah Board. These features uphold key Islamic finance values, including ethical oversight, transparency, and tangibility.

According to data presented in ***Table 3***, price projections for Islamic Coin from 2025 to 2034 demonstrate strong growth potential, with increases ranging from **91.64% to 267.19%.** Notably, **2026, 2028,** and **2032** are projected to be peak years with growth exceeding **200%**, reflecting heightened investor interest. This positions **Islamic Coin** as a promising Shariah-compliant digital asset, offering both ethical utility and attractive long-term returns.

2) Fungible Tokens

Fungible tokens are digital assets that are interchangeable and divisible, making them well-suited for representing Shariah-compliant real-world assets, such as:

(a) **Tokenized Real Estate -** Tokenized Real Estate is emerging as a transformative solution for Muslim investors seeking Shariah-compliant opportunities. By leveraging blockchain technology, investors can purchase fractional shares in real estate projects, ensuring direct ownership of tangible assets. This model is considered halal (permissible) as long as rental income is derived from permissible sources. The allocation of tokenized assets in real estate portfolios is projected to grow steadily—from 1.3% in 2023 to 6.0% by 2027 and beyond—indicating rising trust and adoption. This growth reflects broader portfolio trends, with tokenized allocations across entire portfolios rising from 1.5% in 2023 to 7.2% by 2027+, signaling a shift in institutional strategies. Real estate is particularly favored, with 56% of institutional investors and 49% of high-net-worth individuals ranking it as their top or second most preferred tokenized asset, following closely behind private equity. These trends underscore the growing appeal and acceptance of tokenized real estate as a viable and ethical investment option.

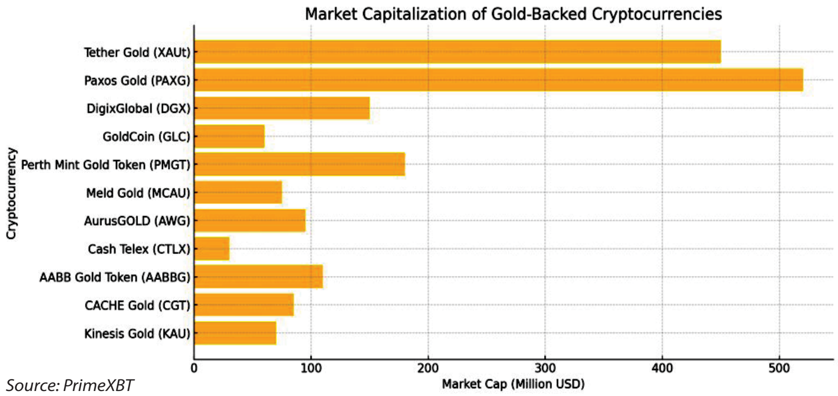
(b) **Gold-Backed Tokens -** Gold-backed digital tokens such as XAUt and DGX represent specific quantities of physical gold securely stored in vaults. They offer a modern, Shariah-compliant way to invest in a traditionally accepted Islamic asset. Since gold is considered halal when it is physically backed and deliverable, these tokens align with Islamic finance principles by ensuring transparency and tangible asset ownership. Gold-backed tokens also enable micro-investment opportunities, allowing wider access to gold ownership without engaging in speculative paper trading, which is generally discouraged under Shariah law.

Table 3: Islamic Coin Price Prediction

Year	Min. Price	Max. Price	Price Change in %	Remarks
2025	0.027	0.062	129.545	Healthy growth
2026	0.009	0.030	228.294	High growth, high potential
2027	0.011	0.024	112.442	Moderate and stable
2028	0.019	0.060	225.690	Strong investor confidence
2029	0.047	0.126	166.306	Consistently strong
2030	0.019	0.058	212.886	Positive and promising
2031	0.025	0.049	91.640	Lower, but still positive
2032	0.044	0.161	267.189	Peak growth year
2033	0.096	0.256	166.308	Strong continuation
2034	0.038	0.116	207.343	Solid decade-end performance

Source: CoinData flow- Link: *https://coindataflow.com/en/prediction/islamic-**coin***

Figure 4



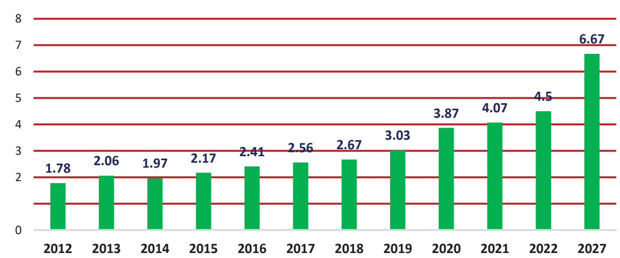
Source: PrimeXBT

As shown in Figure 4, Paxos Gold (PAXG) and Tether Gold (XAUt) dominate the market, each with capitalizations exceeding USD 500 million. Other notable tokens include DigixGlobal (DGX) and Perth Mint Gold Token (PMGT), reflecting growing market maturity and a diverse range of offerings. This expanding market capitalization highlights increasing investor trust in gold-backed tokens as reliable, Shariah-compliant stores of value within the digital asset ecosystem.

(c) Tokenized Sukuk - Tokenized sukuk have the potential to elevate Islamic finance by making Shariah-compliant bond investments more accessible to Muslims worldwide. Their integration with decentralized finance (DeFi) enhances capital efficiency and credibility, addressing concerns about the lack of real-world asset backing in conventional crypto products and aligning more closely with Islamic principles. For example, a Muslim investor traditionally limited to sukuk tied to real estate can now, through DeFi sukuk, invest in Shariah-compliant sectors such as green energy or tech startups. A tokenized sukuk funding a solar energy project, for instance, can be traded on decentralized exchanges, offering improved liquidity and broader market access. This innovation not only enables greater portfolio diversification but also upholds Islamic finance values—supporting projections that the global Islamic finance market will grow to USD 6.67 trillion by 2027.

Figure 5

DeFi Sukuk Market Value from 2012 to 2027 (USD in Trillion)



Source: HAQQ Insights

Case Studies

CASE STUDY 1

Malaysia – A Global Islamic Finance Powerhouse

Malaysia is a leader in global Islamic finance, accounting for over 20% of global sukuk issuance in 2023.

Key highlights:

- Strong regulatory support from Bank Negara Malaysia (BNM).
- Major players include Bank Islam and CIMB Islamic.
- Pioneer in green sukuk and digital crowdfunding initiatives.

CASE STUDY 2

United Kingdom – Islamic Finance in a Non-Muslim Market

The UK stands as a prominent Islamic finance hub outside the Muslim world.

Key highlights:

- Home to five fully Shariah-compliant banks.
- First non-Muslim country to issue sovereign sukuk.
- Strong institutional and academic backing for Islamic finance.

CASE STUDY 3

UAE – Blockchain and Islamic Digital Innovation

The UAE has pioneered the integration of blockchain technology with Shariah-compliant fintech solutions.

Key highlights:

- Dubai Blockchain Strategy drives digital transformation across sectors.
- **emCash:** The world's first state-issued blockchain currency.
- **Adab Solutions' FICE:** The only Shariah-compliant crypto exchange.
- **Wethaq platform:** Revolutionizes sukuk issuance with digital tools.
- Islamic finance market is projected to grow to USD 7.7 trillion by 2033

CASE STUDY 4

Kuwait Finance House (KFH)

KFH is a global leader in Islamic banking, known for its innovation and financial strength.

Key highlights:

- Acquired Ahli United Bank, raising assets to USD 124 billion.
- Launched **Tam**, Kuwait's first Shariah-compliant digital bank.
- Features biometric login, instant card issuance, and a comprehensive digital banking platform.

CASE STUDY 5
Etiqa Takaful Berhad

Etiqa is a regional leader in digital Islamic insurance, leveraging technology for ethical insurance solutions.

Key highlights:

- Operates across five Southeast Asian markets, serving over 11 million customers.
- Manages USD 2 billion in premiums and USD 11 billion in assets.
- First Malaysian takaful provider to endorse the UN Principles for Sustainable Insurance (PSI).
- Dominates Malaysia's online takaful market with a 55% share.

Key Lessons for Pakistan from the Global Islamic Finance Landscape

1) Tap into Growth Opportunities

Pakistan currently accounts for only 2% of global Islamic finance assets, despite having a large Muslim population and growing demand for Shariah-compliant solutions. To expand its share, Pakistan should enhance Islamic banking, increase sukuk issuance, and integrate digital financial services—drawing inspiration from successful models in Malaysia, Saudi Arabia, and the UAE.

2) Strengthen Shariah Governance and Regulation

A centralized regulatory framework, like Malaysia's Shariah Advisory Council, can ensure consistency, credibility, and compliance across all Islamic financial products. Such a system will improve investor confidence, reduce duplication, and support innovation in line with Islamic principles.

3) Accelerate Islamic Fintech Development

Pakistan should embrace digital transformation by leveraging blockchain, Islamic cryptocurrencies, gold-backed tokens, and tokenized sukuk. These tools can improve transparency, accessibility, and financial inclusion—especially for underserved populations—and position Pakistan in the growing Islamic digital finance space.

4) Grow the Takaful and Islamic Funds Sector

The Takaful (Islamic insurance) and Islamic asset management sectors remain underdeveloped. Pakistan should introduce targeted incentives, tax benefits, and supportive regulations to encourage growth. Regional models such as Malaysia's Takaful framework can offer useful guidance.

5) Increase Public Awareness and Institutional Support

Promoting Islamic financial literacy through media, educational curricula, and community outreach can drive broader adoption. Enhanced institutional support, including government-private sector collaboration, will help align Islamic finance with Pakistan's ethical, religious, and socio-economic goals.

6) Expand Green Sukuk and ESG-Aligned Offerings

Building on the successful issuance of Pakistan's green sukuk, the country can further develop Islamic financial products linked to environmental and social goals. This will attract sustainable investments and support Pakistan's climate and development objectives, in line with global ESG trends.

Conclusion

Islamic finance, based on Shariah principles of risk-sharing, transparency, and the prohibition of interest, reached $4 trillion in assets in 2023. The sector is led by Islamic banking (70%) and sukuk (25%), while takaful and Islamic funds remain underdeveloped. A few countries—Saudi Arabia, Iran, Malaysia, and the UAE—along with the GCC region (holding 52.5% of assets), dominate the market. Meanwhile, non-Muslim financial hubs like the UK and Luxembourg continue to expand global outreach.

Digital innovations such as gold-backed tokens, tokenized sukuk, and Shariah-compliant cryptocurrencies are improving liquidity and inclusion, with the global market projected to grow to $6.7 trillion by 2027.

Pakistan, holding just 2% of global Islamic finance assets, should prioritize the development of a unified Shariah-compliant regulatory framework, advance Islamic fintech, expand takaful and fund offerings, and build on its green sukuk initiatives to increase market share and enhance financial inclusion.

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