

Islamic banking

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Authorities and religious scholars of the country are very keen to abolish riba and expand the coverage of Islamic banking as soon as possible. Speaking on a resolution on 10th July, 2018 in the Senate, Caretaker Finance Minister Dr Shamshad Akhtar said that the government was committed to promoting Islamic banking and its regulation in the country. "When I was Governor of the central bank, I aggressively promoted Islamic finance industry and subsequent governments were also engaged in promoting the industry," she pointed out. Close to dollar 3.6 billion worth of Sukuk bonds were floated in the international market and the Islamic financial banks have been growing at a fairly decent rate of 14.5 percent for an industry that took off in early 2000s. The Senate, nonetheless, passed a resolution which called upon the government to take necessary steps to abolish riba/interest at the earliest and at least 30 percent of all the new government debt should be replaced with the Shariah-compliant mode. The resolution also recommended that the funds of Ministry of Religious Affairs released for Hajj, Zakat and Ushr should be invested under the Shariah-complaint mode. Senator Faraz said that Islamic banking is a reality in Pakistan and all over the world and the government should allocate some proportion of the funds to the Islamic banking sector for borrowing. Senator Mushtaq of Jamaat-e-Islami told the house that it was mentioned in the 1973 Constitution that riba system would be abolished as soon as possible but was not abolished despite the lapse of 45 years. Senator Rehman of PPP said that Sukuk bond was also a form of riba-based loan and asked the government to get rid of the growing foreign debt.

Responding to the remarks of Senators, Dr Shamshad Akhtar explained that the government had no issue in replacing 10 percent of government debt with Shariah-compliant mode of financing but expanding Islamic banking at a fast pace would be detrimental and "we have to let the market grow naturally." Past governments had been trying to float Sukuk bonds but much more properties were required for the required volume. The CEOs of Islamic banks were also complaining about the lack of Sukuks to enable them to meet the liquidity reserve requirement which was the real problem and it would take a long time to prepare additional Sukuk instruments.

We feel that the debate in the Senate about Islamic banking was quite informative and reflected various points of view on the subject. While most of the Senators in the house want the replacement of riba-based financial system with Shariah-compliant mode as soon as possible, the authorities in the State Bank and in the government think that the shift to the new system should be gradual or natural. Also, they feel that the Islamic banking system had witnessed a fairly rapid growth since its introduction in early 2000s and forced acceleration was not conducive to the health of the industry. The Finance Minister talked particularly about the lack of Sukuks which was hindering the growth of Islamic finance. The most strange and perhaps unusual point was, however, made by Rehman Malik of the PPP who opined that Sukuk bond was also a form of riba-based loan and it had nothing to do with Islamic system. The Islamic scholars should take a serious note of this remark. If it was really so, the authorities of the country would have to take a fresh look at the matter and come up with new guidelines.

Anyhow, there is no argument that a substantial part of the population of this country is eager to adopt Shariah-compliant mode of financing and Islamic banking industry has grown considerably since 2001-02. As of December, 2017, the industry's asset base had reached Rs 2.3 trillion or 12.4 percent of the overall banking system assets while deposits stood at Rs 1.9 trillion or 14.5 percent of the overall banking industry's deposits. In terms of number of providers, 5 full-fledged Islamic banks and 16 Islamic banking branches of conventional banks are providing Shariah-compliant products and services. Islamic Banking Divisions of conventional banks have also increased their outreach for deposit mobilisation through 1,277 Islamic Banking Windows. Mode-wise breakup of financing reveals that the share of Diminishing Musharakah remained higher in overall financing followed by Musharakah and Murabaha. Overall,

however, we agree with the viewpoint of the Finance Minister that the government has provided all the facilities and Islamic banking should be allowed to grow in a natural normal way because any sudden change or disruption forced from the above could destabilise the whole financial system and prove very costly for the country.

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