

24/07/2001

Malaysia's Islamic banking, financial system a role model

MALAYSIA has the most successful Islamic banking and financial system, a fact recognised by other Muslim countries which often seek its advice on the matter, said Datuk Seri Dr Mahathir Mohamad.

The Prime Minister said Malaysia had received many delegations wanting to learn about the country's Islamic banking system as well as requests for technical assistance to establish a similar set-up in their countries.

Replying to Abdul Hamid Abdul Rahman (BN-Sg Benut), Dr Mahathir, who is also Finance Minister, said Malaysia hoped it could play a bigger role in promoting Islamic banking and finance, besides spearheading efforts to develop a common fund among Islamic countries.

He said Malaysia had also offered to host the International Financial Services Organisation, a move in tandem with the new role to be played by the country.

To Abdul Hamid's query on Islamic dinar, Dr Mahathir said the proposal for an Islamic currency was mooted to reduce dependence on the US dollar.

Citing Malaysia as an example, he said 80 per cent of the country's trade payments was made in US dollars, adding the greenback gained added strength due to demand for the currency.

"However, if we can have an Islamic currency which is pegged to gold, it can facilitate trade with Muslim countries or non-Muslim nations agreeable to the arrangement.

"The matter is being studied and we will hold a seminar involving Muslim countries and banks on how an Islamic dinar can be implemented and its role in trade, especially among Islamic countries."

Husam Musa (Pas-Kubang Kerian) wanted to know why other aspects of Islamic jurisprudence, like criminal law, was not adopted by the Government when Islamic banking had been proven successful.

He also queried whether Petronas would be the first agency to demand foreign buyers that payments for its oil be made in gold.

Dr Mahathir said the Government did not reject or neglect Islamic laws unlike Pas with its unIslamic practices, such as labelling other Muslims as infidels.

"Islam allows flexibility and does not teach its followers to implement things in haste and which can lead to chaos.

"That's why the Government and Umno exercise caution in implementing Islamic laws because there are quarters who want to politicise it and cause chaos."

On Petronas accepting gold as payments, Dr Mahathir said at the moment, no one was willing to adopt such an arrangement.

"But if buyers are willing, we will accept."

To the original question from Abdul Hamid, Dr Mahathir said Malaysia aspired to emerge as the region's Islamic financial centre.

He said an Islamic banking system and Takaful insurance recognised as a model by OIC countries were already in place.

To further promote the country as the region's Islamic financial centre, he said various measures had and would be taken.

These included developing Labuan into a reputable Islamic offshore financial centre, organising international conferences and seminars on Islamic finance and banking, and providing technical assistance and expertise on the matter to countries like Indonesia, Brunei, Singapore, Bangladesh and some Middle East countries.

Dr Mahathir also said the country's economy was now sound and competitive compared to the situation during the 1997 financial crisis.

This, he said, was because of its strong fundamentals like high reserves, low short-term debts and a strong banking system.

As of last month, Dr Mahathir said the reserves were capable of sustaining 3.9 months of retained imports while the short-term liabilities constituted only 10.6 per cent of total debts and 17.7 per cent of the reserves.

Dr Mahathir said the country's risk weighted capital ratio stood at 12.1 per cent while non-performing loans were capped at 7.4 per cent.

"The current slowdown cannot be compared to the 1997 financial crisis which affected certain countries only and precipitated by rogue currency traders taking advantage of weaknesses in the international financial system.

"But the current slowdown is cyclical and affecting countries which depend largely on exports of electronic products," he said when replying to Datuk Mustafa Ali (Pas-Dungun).

Due to the US slowdown, he said Malaysia's exports grew at only 0.2 per cent for the first five months compared to 19.3 in the corresponding period last year.

Exports of electronic and electrical products, he said, registered a decrease of 1.9 per cent compared to a growth of 20.7 per cent last year.

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