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Islamic Finance

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The Lure of Islamic Finance in Malaysia

In a year that has witnessed Dubai rebounding slowly from its severe debt crisis, global banks and companies are increasingly looking towards Malaysia, the world's biggest Islamic bond market as an attractive investment destination. The burst of the Gulf real estate and asset bubble coupled with a lack of investor confidence have jointly led to progressive shifting of liquidity from West to East.

For the uninitiated, Malaysia accounted for 42% of the global sukuk issuance of US\$19.1 billion last year and has seen ever more growth within the first nine months of 2010, of which ringgit-denominated sukuks made up 63% of total Islamic bonds issued on a global scale. Much of this growth is attributable to strict and effective regulation by the Central Bank of Malaysia, whereby prudent investors have seen more detailed rules on sukuk issuance outlined for the benefit of the investing community.

In consideration of the promise that Malaysia has to offer within the Islamic finance industry, it is no wide kept secret that Malaysian intermediaries have lately been urged by the Malaysian Government to look into exploring joint-venture opportunities with Chinese intermediaries, thus spurring greater capital market inflows between both countries.

Such is the growth of bilateral trade between Malaysia and China over the past decade, Malaysia is now China's number one trading partner in South East Asia. It is therefore easy to see why the Malaysian Government has identified Islamic Finance as a promising avenue for Malaysian intermediaries to further expand while playing a large role in growing Islamic finance in the fastest growing nation in the world.

Most recently, Dubai has said to be eyeing a US\$1.5 billion multi-sovereign currency sukuk in Malaysia, the first ever ringgit-denominated foreign sovereign issue. As the market infrastructure for bonds and sukuk are far more developed in an active secondary market like Malaysia's, investors shall also acknowledge that feeding into Malaysia's pool of liquidity is the country's strong fiscal position supported by thriving exports, robust domestic demand and sound stability of the nation's ruling coalition. In an increasingly competitive yet cautious investing environment, whereby global economic growth is expected to slow in 2011, Malaysia's attractiveness as an Islamic Finance powerhouse and accessible market only bodes well for the future of the global investing community.



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