**BPM Report # 124**

**BUSINESS AND POLITICS IN THE MUSLIM WORLD**

**Weekly Report on Global Islamic Finance and Business in the Muslim World**

**Period: June 13 – 19, 2010**

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**Report Outline**

## *GLOBAL FINANCE & GLOBAL ISLAMIC FINANCE*

**Islamic banking comes to Asia**

Sunday, Jun 13, 2010

THE first Asian chapter of the World Islamic Banking Conference (WIBC) kicks off in Singapore on Monday with the aim of pinpointing where the fast-growing sector is heading in Asia and the Middle East.

The two-day event, hosted with the support of the Monetary Authority of Singapore (MAS), features policy makers and industry leaders taking part in high-level discussions and debates.

There will also be discussions on Islamic funds and investments opportunities, the outlook for the industry in specific markets, including Singapore, business drivers for Islamic finance and areas of research in the sector.

Singapore's Minister for Trade and Industry and deputy chairman of MAS, Mr Lim Hng Kiang will deliver the inaugural address at the conference's opening. The governor of the Central Bank of Bahrain, Mr Rasheed M. Al Maraj, and the governor of the Central Bank of the UAE, Mr Sultan Bin Nasser Al Suwaidi, will lead the first keynote session.

In addition to regulators from the Gulf Cooperation Council, speakers also include market practitioners and academics involved in Islamic finance. Over 350 industry players representing more than 170 Islamic finance institutions are expected to at the event, which is being organized by Dubai-based business information services firm, Middle East Global Advisors (MEGA).

Key findings from this year's edition of an Ernst & Young report on Islamic funds and investments will also be presented. An exhibition on Islamic financial services is being held concurrently with the conference, which is taking place at the Raffles City Convention Centre. The event ends on Tuesday.

*http://www.straitstimes.com/BreakingNews/Singapore/Story/STIStory_539826.html*

**Islamic finance to grow at double the pace of conventional banks**

Monday, June 14, 2010

SINGAPORE: The Islamic finance sector, expected to grow at double the pace of conventional banking, will likely cross the US$1 trillion mark in total assets this year.

Trade and Industry Minister Lim Hng Kiang said this at the launch of the inaugural World Islamic Banking Conference Asia Summit in Singapore on Monday.

Experts see Islamic banking growing in popularity as more investors take to ethical investments.

The global financial crisis hit many conventional banks. Islamic financial institutions also felt the fallout.

But Singapore believes the general outlook for Islamic finance remains positive.

"Due to its widening acceptance and its appeal as a means for ethical investment, the industry is expected to continue growing at twice the pace of its conventional counterpart. As such, surveys estimate that the industry will soon cross the US$1 trillion mark in total assets," said Mr Lim, who is also the deputy chairman of the Monetary Authority of Singapore.

As a financial hub, Mr Lim said Singapore is ready to help promote Islamic finance.

He said the Middle East and Asia can complement each other's development and explore new growth areas for mutual benefit.

Singapore could tap on markets like the United Arab Emirates (UAE), whose banking sector saw total asset over liabilities grow 4.2 percent to over US$410 billion last year.

The UAE's Central Bank Governor, Sultan Bin Nasser Al Suwaidi, said the UAE's economy will also grow at an average rate of four percent this year and in 2011.

He added that the UAE's total deposits grew at 6.4 percent to US$266.8 billion and total loans and advances increased at 4.1 percent to US$275 billion.

Islamic banks in Bahrain also saw their assets hit US$26 billion last year, compared to US$2 billion in year 2000.

The market share of Islamic banks has also increased from 1.8 percent of total banking assets to over 11 percent in the same period.

But Bahrain's central bank chief, Rasheed Mohammed Al Maraj, said the Islamic finance sector can learn from the financial crisis.

He said: "Although the Islamic financial industry was relatively insulated from the first round effects of the crisis because it did not invest in 'toxic' structured financial products, it has not been able to avoid the second round effects.

"These have included sharply reduced liquidity in all markets, and the effect of the global economic downturn on the credit-worthiness of all borrowers, including those who are customers of Islamic financial institutions.

"The principles of sound finance - do not concentrate risk, do not rely on collateral with unrealistic valuations - apply equally to Islamic institutions as to conventional ones.

"It should be clear that there is a great deal of work to be done to ensure that the foundations of Islamic financial industry are sufficiently strong to support the very much bigger structure that now stands upon them."

Experts say Islamic financing today is increasingly attracting non-Muslim consumers, and with Asia's Islamic financing sector set to grow by up to 10 percent over the next 12 months, practitioners believe the industry will attract even more users, with its less complicated banking products.

But some central bank chiefs and experts have laid out key challenges for the industry. They include the need for improved regulatory framework and to beef up on Islamic financing's ability to withstand future risks.

The World Islamic Banking Conference (WIBC) has been held successfully in Bahrain for the past 16 years.

The WIBC Asian Summit will now be an annual event, anchored in Singapore.

Singapore says it hopes the Summit will become an important event on the Islamic finance calendar over time and catalyze even greater engagement between the Middle East and Asia. –

*Channel News Asia*

*http://www.channelnewsasia.com/stories/singaporebusinessnews/view/1063046/1/.html*

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**Islamic banking positive**

Monday, June 14, 2010

THE global financial crisis has hit the Islamic banking industry but the outlook for the sector remains positive said Trade and Industry Minister, Mr Lim Hng Kiang on Monday. Mr Lim told the World Islamic World Islamic Banking Conference, Asia Summit, that the industry must 'pay greater attention to issues related to capital adequacy, market liquidity and risk management'.

And thanks to widening acceptance and its appeal as a means for ethical investment, Islamic banking is expected to keep growing at twice the pace of its conventional counterpart, added Mr Lim, who is also deputy chairman of the Monetary Authority of Singapore (MAS). He noted that surveys estimate the industry will soon cross the US$1 trillion mark in total assets.

'Singapore, as a financial centre offering a full suite of financial services, is ready to play a wider developmental role in promoting Islamic finance in response to rising demand for Shariah-compliant products and services', said Mr Lim.

Other speakers at the two-day event held at the Raffles City Convention Center highlighted a number of prominent challenges including the lack of standardized Shariah documentation across Islamic scholars in different jurisdictions. These scholars ultimately decide whether a product meets with Islamic doctrine and will be distributed.

The industry also lacks scale, the conference noted. Suggestions to increase size, or scale, ranged from consolidation, improved production innovation and tapping onto new customer segments including the retail segment who have typically not been the target focus for such products.

Calls for better education, focused training and in-depth research were also made by speakers at the conference, noting that the availability of Islamic scholars, especially in Asia, was very scarce.

*http://www.straitstimes.com/BreakingNews/Singapore/Story/STIStory_540238.html*

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**Asian Institute of Finance in Talks to Spread Wings**

Monday, June 14, 2010

KUALA LUMPUR: Malaysian- based Asian Institute of Finance (AIF), in an effort to spread its wings to three regions, is currently in talks with several parties to develop professional and skilled talent in the financial services industry.

It’s Executive Director and Chief Executive Officer, Daniel Viets, said the new markets were Switzeland, France, China, United States and Canada.

"AIF promotes Malaysia's financial services human capital development programmes more holistically, both domestically and regionally.

"In the pursuit of that effort, we have identified strategic alliances and hope to see our efforts bear fruit by early next year," he told Bernama in an interview Monday.

Currently, AIF has alliances in all Southeast nations and in the United Kingdom through affiliated institutions.

AIF, established in November 2008, is a joint initiative by Bank Negara and the Securities Commission to support human capital development in the financial sector.

AIF aspires to become an institution of global excellence in support of the advancement of the financial services industry in Malaysia through strengthened arrangements with four training institutions.

The institutions are Institute Bank-Bank Malaysia (IBBM), Islamic Banking and Finance Institute Malaysia (IBFIM), Malaysian Insurance Institute (MII) and Securities Industry Development Corporation (SIDC).

Over 43,000 candidates are currently participating in about 2,000 programmes conducted by AIF.

Viets said spreading its foothold to new markets is part of AIF's expansion plan, going forward, as it realized there was continuous need to upgrade talent within the financial services industry.

The industry consists of conventional banking, Islamic banking, insurance, Takaful and capital market sectors.

"An important focus for AIF is to elevate the capacity of the key training institutions to meet not only the current development needs of the industry but also to respond proactively to the rapidly changing financial landscape which will place greater demands on the skills of financial professionals," he explained.

He added the financial services industry contributed 11.5 per cent to the nation's Gross Domestic Product last year which clearly indicated the growing demand locally.

Viets said Malaysia was short of well-trained and developed talent due to its rapid growth.

"The local market capacity is for 280,000 candidates to be trained in Malaysia's financial services industry.

"Moreover, with Malaysia moving forward to become the hub in Islamic banking, it requires more professional and skilled talents," he explained.

Besides developing talents, Viets said it was also important to retain the talent within Malaysia.

AIF focuses on the development of competency framework for financial service professionals, programme quality assurance and enhancing infrastructure for learning.

Going forward in uplifting AIF's capacity towards global excellence in delivering professionals and advanced-level human capital development, Viets said AIF would focus on capital building, accreditation and certification, rationalization and branding.

*BERNAMA*

*http://www.bernama.com.my/bernama/v3/news_lite.php?id=505709*

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**Islamic finance 'must focus on regulations'**

Tuesday, June 15, 2010

Manama: To continue to grow, Islamic finance needs to examine its foundations and ensure they are strong enough to support the massive growth the industry has seen in recent years.

That was the message from Central Bank of Bahrain Governor Rasheed Al Maraj to delegates at the first Annual World Islamic Banking Conference Asia Summit in Singapore yesterday.

In a keynote address, he said that three issues the industry had to address were concerns about achieving certainty in contracts, the need to enhance the industry's ability to manage risk and the development of a regulatory framework to keep pace with the rapid growth of the industry.

'It is a fact that we are still some way from developing standard documentation which is recognized as Shariah-compliant by scholars from different jurisdictions and from different schools of Islamic jurisprudence,' he said.

'As long as there is a risk that a contract which is recognized as Shariah-compliant by some scholars will not be recognized as such by others, there exists a lack of legal certainty in the industry.

'The result has been that Islamic financial institutions have had a predominantly domestic focus and have not been able to achieve the scale economies that might make them viable competitors to conventional institutions which do enjoy these benefits,' he said.

'Since the global financial crisis began, we have seen the first defaults on Sukuk,' he added.

'These defaults have raised a number of difficult legal questions which are currently before the courts.

'The conventional financial industry received a wake-up call during the crisis concerning the importance of understanding, monitoring and controlling liquidity risks. The Islamic financial industry must recognize that it too needs good liquidity risk management.

'How Islamic financial institutions can manage their liquidity risk given the relative absence of short-term money market instruments has been a problem for the industry for some time,' he added.

He said the industry had to limit the concentration of risk in particular economic sectors or asset types.

'The industry's preference for a real asset to back financial transactions has, unfortunately, resulted in a relatively high concentration of risk in real estate,' he said.

'As a result, many Islamic financial institutions have asset portfolios which are concentrated on this potentially very volatile sector.'

Although the Islamic financial industry was relatively insulated from the first round effects of the crisis because it did not invest in toxic structured financial products, it has not been able to avoid the second round effects, he said.

'These have included sharply reduced liquidity in all markets, and the effect of the global economic downturn on the credit-worthiness of all borrowers, including those who are customers of Islamic financial institutions,' he added.

'The principles of sound finance - do not concentrate risk, do not rely on collateral with unrealistic valuations - apply equally to Islamic institutions as to conventional ones.

'As the international standard setting bodies develop new prudential standards that reflect the lessons of the crisis we need to be ready to revise the prudential framework for Islamic financial institutions accordingly.

'We will need to adapt the new capital adequacy and liquidity standards for conventional institutions to reflect the specific circumstances of the Islamic financial industry.

'Even so, I strongly believe that if we can ensure that the foundations are sufficiently robust, the Islamic financial industry has a great and profitable future ahead of it,' he said.

*Trade Arabia News Service*

*http://www.tradearabia.com/news/newsdetails.asp?Sn=BANK&artid=181504*

**Islamic finance ‘very resilient’**

Kingdom’s banking outlook stable; challenges ‘remain’

JEDDAH – The outlook for the Saudi banking system is stable, underpinned by the sector’s resilience and its ability so far to absorb the impact of the global financial crisis and deteriorating macroeconomic conditions. Moody’s Investors Service said on its comment for June. Moody’s believes that the banking sector will benefit from the Saudi government’s continued commitment to supporting the economy with an expansionary budget and numerous infrastructure projects.

Indeed, the Saudi government has prudently invested its oil revenue windfalls of recent years and has historically been the main driver of economic activity. The impact of the financial crisis has been contained, as Saudi banks are not significantly dependent on market funding, while any losses from structured products and other risky investments have been comfortably absorbed. The 10 Saudi banks rated by Moody’s not only have established and defensible local franchises, but have also improved their risk-management culture in recent years aided by Basel II implementation.

Moody’s stable outlook is further supported by the Saudi banking system’s strict regulation, close monitoring and systemic support, which have ensured that the sector remains adequately funded and liquid and is well-prepared to cope with economic downturns. “We note that current operating conditions remain tough, with nominal GDP in 2009 likely to decline by 10-15 percent due to the reduction in oil revenue. Although we expect these conditions to lead to deterioration in the Saudi banking sector’s financial metrics, we believe that the metrics are likely to remain supportive of the banks’ current ratings,” the report said.

The downside risks implied by the volatile market conditions could be exacerbated by a further deterioration in the operating/macro conditions and a worse-than-anticipated deterioration in asset quality. In particular, private sector corporate and family-owned businesses remain the most vulnerable loan category. If these weaker-than-anticipated parameters do materialize - and this is a key risk - then the profitability and capitalization metrics of Saudi banks would also be affected, it said.

“This outcome could prompt us to consider changing the outlook for the sector, reflecting the sector’s resilience and its ability so far to absorb the impact of the global financial crisis and deteriorating macroeconomic conditions.

Although the Saudi Arabian banking system has proved to be robust, well-regulated and relatively stable, “we believe that some operating and regulatory environment challenges remain.”

Indeed, the Saudi banking sector has to cope with the high concentrations in lending and deposit, mismatches in the maturity profiles of assets and liabilities, scarce human capital, the continued limited diversification of the Saudi economy beyond the hydrocarbons sector and volatility in the country's real and nominal output, and the strong loan growth of recent years, which is only now being tested by more challenging operating conditions, Moody's said.

Moreover, Moody's said the Arab world's banking sector, as a whole, "has proven fairly resilient to the current crisis, mainly due to profitable domestic markets, ample liquidity and successful banking reforms. Bankers in the Arab world have had little incentive to seek inflated returns abroad and their activity in domestic markets helped to part-insulate the banking systems across the Maghreb and Mashreq. We also consider that regulation and supervision within banks in the Arab world has improved dramatically, helping financial institutions to better allocate assets and manage their risks more efficiently."

However, the report added that "this does not mean that risk-immunity is something that characterizes the banking systems and asset types of the Arab world." The risks in the region are more idiosyncratic than globally driven, but mainly center around the maintenance of political stability (both regional and local), and the price of oil. Our ratings have, however, we believe accurately reflected these factors and the concentration risks and volatility, all of which have culminated in largely stable ratings on banks in the Arab world.

On Islamic finance, Moody's said both structural factors and economic cyclical drivers have contributed to the rapid increase in the size of Islamic finance since the early years of the current decade. Islamic banks have so far been very resilient, it noted.

Altogether, the industry is still heavily dependent on oil for its own liquidity requirements and growth. There is a close correlation between oil prices and the pace at which Islamic finance has expanded; for as long as hydrocarbons remain expensive, Islamic finance will continue to grow. Islamic finance is expanding geographically, despite the crisis. It has extended its influence into Western banking markets, and in Muslim Asia.

This implies that the gradual internationalization of Islamic finance has been due more to structural features rather than economic cycles. Today, the market is driven by demand, not supply, as was the case around 30 years ago.

Islamic banks' main competitive advantage comes from the structure of their deposits base, which is dominated by retail deposits that are ample, stable and cheap. Therefore, margins are wide, which helps sustain both capital and liquidity - a critical strength in times of global financial turmoil.

Diversity has been increasing in Islamic banking, which now comprises three broad categories of market participants (i) relatively diversified commercial banks; (ii) specialized financial institutions, mainly in retail and mortgages; and (iii) Shariah-compliant investment banks. In a bull market, the latter outperforms the two first categories (as was the case between 2003 and 2007); but in times of financial stress, Islamic investment banks are the most severely hit. They do not suffer because they are Islamic, but because they have no access to retail deposits, and suffer from high funding concentrations while their assets remain volatile, risky and concentrated.

The Sukuk market was the other compartment of the Islamic market that reacted immediately to the liquidity drought.

Under normal conditions, Sukuk issuance should have reached at least $50 billion in 2008, but only $15 billion was successfully priced and placed in the market.  Spreads widened to the point where issuers did not really consider Sukuk as a credible alternative for funding (despite similar spread widening across all types of debt).

In 2009 however, the market recovered, essentially because of sovereign intervention. Corporations and banks are still lagging this recovery as they are more concerned with stabilizing their funding sources, managing their risks, and monitoring existing portfolios rather than issuing debt.

*Saudi Gazette*

*http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=2010061575346*

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**Indonesia plans tax incentives for Islamic banking**

Move to help nation compete with Malaysia

Wednesday, June 16, 2010

Singapore: Indonesia may provide tax incentives for Sukuk issues and Shariah bank deposits to better compete with Malaysia, the world's top Sukuk market, the central bank said yesterday.

One tax incentive being considered would help boost bank capital and another could provide a tax holiday for Sukuk issues, Mulya E. Siregar, an Islamic banking director at Bank Indonesia, said.

Indonesia has already removed double taxation on Islamic finance transactions to give the industry a level playing field with conventional banking, but Siregar said more was needed.

"To support Islamic banking and finance, it's not enough just to have tax neutrality. We need also tax incentives like in Malaysia," he told Reuters on the sidelines of an Islamic banking conference in Singapore.

"For investment to come into Indonesia, it is possible to give a kind of holiday tax."

Islamic bank assets in Indonesia are just a fraction of total bank assets, while in Malaysia they are close to a fifth of the total.

Indonesia's Islamic bank assets were 66 trillion rupiah (Dh26.5 billion) as of December 2009, compared with 2,534 trillion rupiah for the banking industry as a whole, central bank figures show.

In Malaysia, Islamic banking assets totaled about $95 billion, or 19.6 per cent of the total, as of December 2009, the central bank has estimated.

Still, with the world's biggest Muslim population, Islamic bankers say Indonesia is set for explosive growth. But first, authorities need to lay the right legal and regulatory framework.

Malaysia is the world's top Sukuk market. It accounted for about 40 per cent of total global issuance last year of $19.1 billion. Industry incentives include a 20 per cent stamp duty exemption on Islamic financing instruments until 2015.

Siregar said Indonesia's finance ministry and central bank are studying tax incentives that could boost growth of Islamic finance. The study is expected to be finished by the end of 2010.

*Exemption on earnings*

One idea is to effectively exempt banks from paying tax on earnings from returns on deposits.

Instead, the amount they would have paid would be parked with the bank as a form of government holding to help boost the bank's capital.

Siregar said it was crucial to attract foreign funds into Indonesia.

"Right now the investor from many countries, especially the Middle East, actually want to come to Indonesia because there are many projects in Indonesia and there are many opportunities," he said.

"But if you compare to Malaysia, which provides tax incentives, how come they will come to Indonesia? So what is important is that funds are coming to Indonesia."

*http://gulfnews.com/business/economy/indonesia-plans-tax-incentives-for-islamic-banking-1.641642*

## Islamic Bank to become major shareholder of Nava

The Islamic Bank of Thailand will become the major shareholder of SET-listed Nava Leasing Plc holding a 49% stake, expanding its business coverage in southern Thailand, said managing director Nantaphol Pongspaibool.

The bank will buy 465.5 million shares at 1.20 baht apiece from the company, 265.5 million shares through a partial tender offer and another 200 million shares via private placement. Nava's new registered capital after the completion of the whole process at the end of 2010 will be 950 million baht, up from 750 million baht.

The company will also completely dispose of its treasury stocks of 10,255,600 shares. Its other major shareholders include the Phansaichue Group holding 12.23%, Somrudee Kanchanavisetsri at 3.68%, the Simthumnimit Group at 2.37% and Aungkana Worasatit at 2.70%.

The company informed the Stock Exchange of Thailand that it would maintain its business direction in the hire-purchase and financial lease sector after Islamic Bank makes its purchase. It will emphasize increasing branches to cover southern areas to support lending to Muslim customers by using funding from the bank to expand.

An extraordinary shareholders' meeting will be called on July 13 to approve the allotment of the capital increase.

NVL shares closed on 9, June, 2010 on the SET at 1.09 baht, down two satang, in total trade of 90 million baht.

*http://www.cibafi.org/newscenter/english/Details.aspx?Id=8619&Cat=0*

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## Islamic Banks Should Diversify, Manage Risks, McKinsey Says

Tuesday, June 15, 2010

Islamic banks should diversify into areas such as asset management after real estate industry investments caused them greater losses during the credit crisis than conventional banks, according to McKinsey & Co Inc.

One third of the assets of Islamic banks in Qatar are “directly exposed in some way to real estate” compared with 15 percent for other banks, Amer Afiouni, Islamic finance associate principal at the consulting firm, said in Singapore. “Whether on the liquidity front or work-out front, Islamic banks need to look at their profitability and risk management.”

Financial institutions worldwide either wrote-down or lost a combined $1.77 trillion as the subprime mortgage meltdown in the U.S. sparked a global recession. As economies recover, Islamic banks, which comply with Muslim law banning the receipt of interest and investments in gambling or alcohol, should look to expand into areas such as asset and wealth management where traditionally their presence has been weak, Dubai-based Afiouni said at the 2010 World Islamic Banking Conference.

"Islamic banks aren't present in many high growth areas, and are almost absent from investment banking league tables," he said.

*http://www.businessweek.com/news/2010-06-15/islamic-banks-should-diversify-manage-risks-mckinsey-says.html*

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**SBP developing mechanism for IBIs' liquidity management: Anwar**

Wednesday, June 16, 2010

KARACHI: Acting governor of State Bank of Pakistan, Yaseen Anwar said that the central bank is working actively with the stakeholders to develop Shariah-compliant instruments that will provide some flexible and convenient mechanism for managing the surplus liquidity in the Islamic banking industry.

Delivering a welcome note at a talk by Dr Zamir Iqbal, a renowned scholar on Islamic Finance, on 'What Needs to be Done for Islamic Finance to Succeed' at State Bank of Pakistan, Anwar said that Islamic Banking Institutions (IBIs) in the country are facing the issue of short-term liquidity management. "This not only adversely impacts the profitability of IBIs but also inhibits aggressive deposit mobilization by them," he added.

However, he said that with the development of new Shariah-compliant instruments, this problem will be resolved and they will also be instrumental in the development of Islamic inter-bank money market besides providing a platform for developing benchmark for pricing of Islamic finance products.

Talking about some of the challenges being faced by IBIs, Anwar said that the gross absence of participatory modes of financing is amongst the key challenges faced by the industry as presently the industry has an exclusive and overwhelming focus on debt/trade based modes of Murabaha and Ijarah. He said although these modes minimize the Islamic banks' risk to almost equivalent to that of conventional banks, they are not sufficient to achieve the socio-economic objectives of Islamic Finance. The participatory modes like Musharka and Mudaraba, on the other hand, not only ensure risks sharing between the banks and entrepreneurs but also promote equitable distribution of rewards amongst the entrepreneurs and investors (the IBIs and their depositors), he added.

The acting governor, however, pointed out that there are inherent risks that include moral hazards, adverse selection, none or limited record keeping, etc. that discourage IBIs from building Islamic Finance portfolios based on participatory modes. “SBP has plans to facilitate and catalyze gradual movement of the industry towards build-up of profit and loss sharing based financing portfolio,” he added.

Anwar also pointed out that limited capacity; particularly the scarcity of trained Islamic bankers is another important challenge that poses a serious threat to the growth and development of the industry on a sound footing. Most Islamic bankers have a conventional banking background and thus we need to develop a better understanding of Islamic finance and its inherent strengths and benefits for the business community and society as a whole, he added.

He informed the participants that SBP has taken a number of initiatives in the past to train Islamic bankers. However, the growth of the industry is much faster than the supply of trained and well-qualified Islamic bankers.

*http://www.dailytimes.com.pk/default.asp?page=2010\06\16\story_16-6-2010_pg5_10*

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***SUKUK (ISLAMIC BONDS)***

## GCC investors support second Malaysia Global Sukuk launch

Sunday, June 13, 2010

LONON: Investors from the Gulf Cooperation Council (GCC) countries led by the Jeddah-based Islamic Development Bank (IDB) were heavy subscribers to the recent $1.25 billion Sukuk al-ijara issued by the Malaysian government thus indicating increased comfort of Middle East investors with sovereign Malaysian risk, especially in tough market conditions and a dearth of such investment grade opportunities in the region itself.

The issuer, 1 Malaysia Sukuk Global Berhad, which issued the 144A/Reg-S registered securities on behalf of the Malaysian government, must have been pleased with the final pricing of the issue at US Treasury 5-Year plus 180 basis points with yields touching 3.928 percent to be distributed on a fixed-rate basis annually.

According to the joint lead managers and book runners, CIMB of Malaysia, Barclays Capital and HSBC, the pricing reflected the lowest absolute yield achieved by an Asian sovereign in the past 5 years. This Sukuk is also the second bond to be issued by an emerging market country in the past five years to yield below 4 percent, and the first ever by an Asian emerging market sovereign issuer.

With an initial price guidance of US Treasury's plus 190 basis points, pricing was edged downwards because of a strong order book and investor demand. By the close of the order book, demand had increased to an overwhelming $6.0 billion from over 270 domestic and international investors, reflecting the confidence of the global investors on the strong macroeconomic fundamentals of Malaysia. Subsequently the offering was upsized to $1.25 billion at a final pricing of US Treasury 5-Year plus 180 basis points. The Sukuk were subsequently issued with a five-year bullet with a maturity date of June 4, 2015.

An encouraging sign was that demand was particularly strong from Middle Eastern investors, who subscribed 26 percent of the allocation. In fact, the IDB pledged to take 10 percent of the final issue size which they were allocated, although the Malaysian government was keen on the IDB to take a greater lead with a higher subscription. Sources also stressed that three GCC central banks subscribed through their sovereign wealth funds (SWFs) which have hitherto been conspicuous in their absence in their involvement in the Islamic capital markets.

"We were eventually happy with the outcome and the pricing. The Malaysians wanted us to commit upfront to a huge subscription, but we are obliged like any other multilateral development bank to see how the order book developed and the pricing and yield dynamics turned out. The market forecast is difficult for the next few weeks. As such if trading suffers then the spreads would also come down. However, we have great confidence in sovereign Malaysia, which is clearly very proactive in the Islamic capital markets space," explained one GCC banker.

Others stress that the A3 (stable) by Moody's Investors' Service and A- (stable) by Standard & Poor's (S&P), further inspired market confidence in the issuance.

The latest Malaysian sovereign Sukuk however must also be put in proper perspective. This is Malaysia's second only global sovereign Sukuk. The first one - the $600 million Malaysia Global Sukuk - was issued way back in 2002 thus precipitating the handful of other sovereign and corporate issuances that followed. The first Malaysia global Sukuk was the pioneer debut issue, but it has taken another eight years for a follow up issue. Since then the country has led the world in Sukuk issuance - whether sovereign global or domestic or corporate issuances.

But, with only Qatar, Bahrain, Pakistan, Brunei and Indonesia the only other sovereigns to issue Sukuk to date, the market depth for such issuances is woefully inadequate, which in turn is putting paid to any semblance of the development of a benchmark for such issuances and therefore any secondary trading activity.

Any euphoria about the Sukuk market growing at 40 percent per annum should be tempered with the reality that there are far too few issuances and issuers: There is a lack of diversity in structures; tenors and maturities are far too short (on average 3 to 5 years thus inhibiting proper liquidity flow in the market); there are hardly any project finance Sukuk; and some differences in Shariah issues remain outstanding, albeit these are more exaggerated than real.

To Malaysia's credit, this latest Sukuk issuance was not needed to raise funds, for Malaysia has plenty of liquidity currently. The intention to issue a second sovereign global Sukuk was first announced by Prime Minister Najib Tun Abdul Razak at the World Islamic Economic Forum in Kuala Lumpur at the end of May 2010. Against a backdrop of a volatile and challenging market environment, the pricing for the Sukuk settled down at US Treasury 5-Year plus 2.128 percent with a yield of 3.928 percent. The underlying asset for the Sukuk transaction is a selection of hospitals from a pool of 12 state-owned hospitals.

The investors' road show began on May 19 with a launching ceremony in Kuala Lumpur, followed with investors' presentations in major financial centers - Singapore, Hong Kong, Jeddah, Riyadh, Abu Dhabi, Dubai, London and New York - over a space of seven days. Seizing the first window of opportunity in a volatile market environment in the past few weeks, the book opened on May 27 and the deal was completed within a tight window to limit market and execution risk.

Malaysian and other Islamic investors accounted for 18 percent of the issue subscription, the rest of Asia for 21 percent, Europe for 20 percent and the US for 15 percent. This reflected renewed interest by GCC investors in sovereign Malaysian Islamic papers, especially when such activity in the local GCC markets are currently limited due to market and other conditions.

Banks were the main investors with 41 percent of the deal, followed by asset and fund managers at 36 percent, central banks and sovereign wealth funds at 11 percent, insurance and pension funds 6 percent, private banks and corporations at 6 percent.

Initial trading of the Sukuk was brisk on Bursa Malaysia, Labuan International Financial Exchange and the Hong Kong Stock Exchange, but the market is forecast to potentially turn lower over the next few weeks. Investors however see the importance of this Sukuk beyond the mere liquidity needs of Malaysia and believe that it will better serve as a benchmark issue for both the domestic market and for other regional issuers looking to price as high-grade issuers.

*http://arabnews.com/economy/islamicfinance/article65446.ece*

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**BNP Fund Arm Favors Middle East Sovereign Sukuk on Debt Ratings**

Monday, June 14, 2010

Islamic bonds from Middle Eastern governments including the United Arab Emirates are attractive because of wealth created from oil, BNP Paribas Investment Partners said.

“Our preferences are for sovereign and quasi-sovereign credit,” Rafael Martinez Dalmau, director of emerging markets and Islamic investments at BNP Paribas Investment, the asset management unit of BNP Paribas SA, said in a telephone interview in Singapore. “We feel that those are two sectors that we like in terms of credit worthiness.”

The average spread, or extra yield, on Gulf Arab government and corporate Sukuk above the London interbank offered rate narrowed 15 basis points this year to 530 basis points, or 5.3 percentage points, according to HSBC/NASDAQ Dubai GCC U.S. Dollar Sukuk Index. The spread reached 575 basis points on November 26 after Dubai World said it would seek to delay repaying loans.

The six Gulf Cooperation Council countries, including the U.A.E., Qatar and Saudi Arabia, hold about 40 percent of the world’s proven oil reserves. The region’s governments are spending billions to diversify their economies away from oil.

*Gulf Economies*

Dubai Electricity & Water Authority sold $1 billion bonds in April at 8.5 percent, becoming Dubai's first government-owned entity to tap credit markets since the debt crisis. Saudi Electricity Co., the state-controlled power producer, raised 7 billion riyals ($1.9 billion) issuing Sukuk in May. The U.A.E. has a long-term rating of Aa2 at Moody's Investors Service, the third highest investment grade, and Saudi Arabia is rated one level lower at Aa3.

BNP Paribas Investment will consider allocating funds to Islamic bonds sold by the U.A.E. government because "the economics and fundamentals are definitely warranted an allocation," Dalmau said. The Gulf state holds 7.3 percent of the world's proven oil reserves, most of which is located in the emirate of Abu Dhabi. Dalmau declined to provide details on bonds owned by BNP Paribas Investment.

The asset management division had 530 billion euros ($646 billion) under management as of Dec. 31, 2009, according to data on the company's website. About 2 percent of those funds were invested in the Middle East and Africa. Islamic bonds are asset- based securities that pay a profit rate to investors to comply with Shariah law's prohibition on interest payments.

*Record Sales*

Gulf issuers raised $2.3 billion so far this year, about 19 percent less than the amount they borrowed during the same period of 2009, according to data compiled by Bloomberg. Sales from the region reached a record $18.2 billion in 2007.

The Dubai government and its state-owned companies have racked up $109.3 billion of debt and about $15.5 billion of that is due this year, according to International Monetary Fund estimates. The emirate had to borrow $20 billion from Abu Dhabi to help state-owned companies pay debt.

*Bloomberg*

*http://www.businessweek.com/news/2010-06-14/bnp-fund-arm-favors-middle-east-sovereign-Sukuk-on-debt-ratings.html*

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**Dubai may launch dollar Sukuk this year**

Monday, June 14, 2010

Dubai may launch a dollar-denominated Islamic bond as early as the third quarter of this year after well-received presentations to investors last week, banking sector sources familiar with the road show said on Monday.

One source at the arrangers of the road show - run by HSBC and Mitsubishi - declined to confirm whether Dubai might issue a bond later this year.

But a fund manager familiar with the presentations said they had pointed to a 7-10 year Sukuk, and a senior fixed income trader said the issue could come in the third quarter.

"The arrangers said the reception was very good, they are talking about a 7-10 year Sukuk," said one European fund manager.

Dubai went on a non-deal road show, meeting non-Islamic investors in Switzerland, France, Germany and Britain between June 4-10, in a mixture of presentations and one-to-one meetings, investors said.

The presentations were designed to show Dubai's general macro-economic outlook, without any specific deal plans, a source at one of the arrangers said.

"There was a very strong reception," the source added. But pressed on whether a bond deal was in the works, the source declined to comment.

Dubai issued a five-year dollar and dirham two-tranche Sukuk in October 2009, shortly before state-owned conglomerate Dubai World rocked markets with a standstill request on billions in debt payments.

The Islamic bond has been strengthening after Dubai World announced a well-received restructuring last month. Dubai's $1.25bn 5-year tranche was trading at 96 on Monday, giving a yield of 7.48 percent.

A Sukuk would likely be offered at more generous pricing than a conventional bond, providing a carrot for investors, fund managers said.

"I reckon there could be an issue sooner than later," said one fixed income head familiar with Dubai's presentation.

"Q3 now looks more of a possibility," he said.

Dubai's 2010 budget deficit was projected at AED6bn ($1.63bn), the government said in January, but Dubai officials were indicating a slightly smaller deficit of $1-1.5bn, the European fund manager said.

"Dubai could issue $1bn at least," he added.

However, issuance may be delayed by Dubai's need to get a credit rating, a prerequisite for many investors to buy international debt.

The UAE has a rating of Aa2 from Moody's but Dubai does not have its own rating.

*http://www.arabianbusiness.com/590522-dubai-may-launch-dollar-Sukuk-this-year*

## *ISLAMIC FINANCE EVENTS; SEMINARS, WORKSHOPS & CONFERENCES*

### Summit to focus on opportunities for Islamic finance

Industry banks on growth in Asian markets

Monday, June 14, 2010

Singapore: The first annual World Islamic Banking Conference: Asia (WIBC Asia) opens in Singapore Monday amid a slew of opportunities for Islamic finance in Asian markets, Singaporean officials said.

The two-day meeting is being held this year as the global economic recovery takes shape following the international financial crisis, the officials added.

Hosted by the Monetary Authority of Singapore, WIBC Asia is expected to attract more than 300 industry leaders looking to capitalize on new growth opportunities for Islamic finance in Asian markets.

"[The] Monetary Authority of Singapore (MAS) believes that Islamic fin-ance will be its central focus on supporting real economic activity in trade [and] investments and [the] growth of productive capacity will remain especially relevant," officials at MAS said.

Lim Hng Kiang, Singapore's Minister of Trade and Industry and deputy chairman of the MAS, will deliver the opening speech.

Sultan Bin Nasser Al Suwaidi, governor of the UAE Central Bank, Rasheed Al Maraj, governor of the Bahraini Central Bank, are expected to speak at the plenary session, which will focus on the next phase of growth for Islamic banking and finance.

Speaking at the 16th WIBC in Bahrain last Dec-ember, Heng Swee Keat, governor of the Monetary Authority of Singapore Heng, said he was pleased that the WIBC Asia was coming to Singapore.

"Islamic finance will provide an increasingly important bridge in the growing connectivity between the Middle East and Asia," he said.

"Singapore is pleased to help catalyze deeper relations between these two high-growth regions. [The] WIBC Asia will provide a unique platform for the industry to share experiences from established centres of Islamic finance."

While Singapore seeks to bring about greater awareness within its financial and business community of the growing opportunities and potential of Islamic finance, it also hopes the conference will shed more light on available opportunities for Islamic finance.

*Asset backing*

One of the strengths of the Islamic banking system is its feature of asset backing, experts said.

Though the Islamic banking system is also being considered safer than conventional banking systems, it has come under scrutiny during the financial crisis. Still, several centres for Islamic banking are emerging in South-east Asia. Malaysia still is the main centre for that type of banking. Interest in Islamic finance has been growing over the past two years.

Participants at the conference will also look at developments in key markets, among which are China, Japan, Malaysia and Turkey.

*http://gulfnews.com/business/banking/summit-to-focus-on-opportunities-for-islamic-finance-1.640711*

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**International Islamic banking and finances summit to be held in Kazan**

Tuesday, 15 June 2010

Moscow, June 15, Interfax – The 2nd International Islamic Banking and Finances Summit to be held in Kazan on June 28-29, Russian Foreign Ministry's Ambassador-at-large Konstantin Shuvalov told *Interfax-Religion* in his interview.
He reminded that the Islamic Development Bank, acting "under OIC umbrella", had earlier signed a memorandum of understanding with Tatar government.

According to Shuvalov, financial institutions of Saudi Arabia, Kuwait, the UAE and other Arab states of the Persian Gulf show interest to interaction with Russia in the investment field, but corresponding work on Russia – Islamic partners format is at a preliminary stage.

Speaking on priorities of Russian diplomacy in the Muslim world, the interviewee of the agency noted that Russia and Islamic states were partners in forming "polycentric architecture of global management."

"Our other priority in Islamic world is tuning up the dialogue of civilizations based on the importance of civilization and cultural diversity. Traditional priority of our interaction is preventing and settling conflicts at regional and national levels," the ambassador said. Another priority is wide development of economic, in particular financial, investment and project cooperation.

*http://www.interfax-religion.com/?act=news&div=7364*

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## *ISLAMIC FINANCE: ARTICLES/COMMENTARIES*

**Nigeria on track to be Africa's Islamic finance hub**

Islamic scholar and Central Bank of Nigeria Governor Mallam Sanusi Lamido Sanusi hopes to achieve his dream by 2020

June 14, 2010

It's been one year since Mallam Sanusi Lamido Sanusi, a career banker and an Islamic scholar, was appointed governor of the Central Bank of Nigeria (CBN).

In that year, as Governor of Central Bank of Nigeria, he has witnessed unprecedented changes.

Sanusi attended Ahmadu Bello University (ABU), Zaria, Nigeria where he obtained a Bachelor of Science degree in Economics in 1981. Sanusi also holds a first class degree in Shariah and Islamic Studies from the African International University in Khartoum, Sudan.

He began his working career in 1983 as an academic at ABU Zaria where he taught economics.

In 1985, he moved to the banking industry where he had a distinguished career mostly in the area of risk management.

In January 2009 he rose to the position of Group Managing Director and Chief Executive Officer of First Bank one of Nigeria's biggest banks, in January, 2009.

Sanusi is known in the banking industry for his contribution towards developing a risk management culture in the Nigerian banking sector.

He spoke to *Gulf News* about the scope of Islamic finance in Nigeria.

*Gulf News: Governor Sanusi, you have accomplished much in your private sector career and the country is obviously grateful, hence, being appointed as central bank governor, but what are central bank challenges for Islamic finance?*

Sanusi Lamido Sanusi: The major challenges for the Central Bank of Nigeria (CBN) with respect to Islamic banking include but are not limited to the following:

- Dearth of knowledge, skills and technical cap-acity to regulate, supervise, or operate Islamic finance industry
- Lack of Shariah-compliant liquidity management instruments
- The absence of accounting and auditing standards pertinent to Islamic institutions.

- Dearth of Shariah scholars knowledgeable in conventional economics, law, accounting, banking and finance.
- Lack of mass awareness of Islamic finance and its benefits.

While the above challenges are not peculiar to Nigeria, the CBN has nonetheless taken steps to address them.

For instance, the CBN has sponsored and organized local and overseas training programmes for its officials to address the knowledge and capacity gaps.

Equally, the Islamic Development Bank recently approved a Technical Assistance programme for the CBN for the purpose of capacity building and creation of awareness on Islamic banking in Nigeria.

Furthermore, the CBN will leverage on its membership and/or relationship with international organizations and other regulatory agencies such as the Islamic Financial Services Board (Islamic FinanceSB), Bank Negara Malaysia and Bank of Sudan to further address these challenges.

*It would seem a natural for Nigeria, an Organization of Islamic Conference country with abundant natural resources such as oil, to have an Islamic finance offering. Has the time arrived for retail and/or wholesale Islamic finance or continuing internal challenges to be now addressed? What are they? Education? Awareness? Regulations?*

I think the time has arrived for Islamic finance in Nigeria. This position is informed by the tremendous demand for the service by some segments of the Nigerian society.

While the CBN welcomes the development, it is however, imperative that the enabling regulatory environment is put in place as a necessary first step.

Consequently, the CBN recently issued a draft framework for the regulation and supervision of non-interest banks in Nigeria for comments by stakeholders.

*We are seeing more events in Islamic finance in Nigeria, where is Islamic finance today in Nigeria? What is the pull factor: Will of the people? High networths? Institutions?*

Islamic finance can be said to be at a nascent and rudimentary stage in Nigeria.

There is currently one major player called Lotus Capital, which operates as a fund manager and is regulated by the Securities and Exchange Commission (SEC).

Also, Habib Bank (now Bank PHB) has operated an Islamic window since 1996, while the CBN in 2004 granted an Approval-in-Principle to a prospective Islamic bank called Jaiz International.

Consequently, the industry is lacking in breadth and depth. However, the CBN is set to introduce a new banking model that would usher in new licensing and capital regimes for prospective Islamic banks.

While there exists enormous potential for Islamic finance to thrive in Nig-eria, the discernable "pull factor" in my opinion is the intrinsic benefits of Islamic finance, the will of the people, the pioneering efforts of some financial institutions and the facilitating role of the regulatory authorities.

Nigeria has a significant segment of its population, Muslim and non-Muslim, which desires alternative and ethical financing and investing.

The CBN is planning to organize an international conference to create mass awareness and secure the buy-in of all stakeholders.

*Nigeria, at one level is like two very large democracies, US and India, towards Islamic finance, regarding perception issues and separation between state and religion. What are the lessons from other non-Muslims countries, like UK, Singapore, France and others, that have planted the flag of Islamic finance hub for Nigeria?*

The CBN is committed to the development of a conducive and inclusive financial system that is safe and sound.

The current effort to create an enabling environment for Islamic finance is situated within the context of the Government's Financial System Strategy (FSS) 20: 2020, which is designed to make Nigeria Africa's financial hub by the year 2020.

A critical element of the strategic initiative is the need to develop Nigeria's physical and regulatory infrastructure that would promote and support the growth and development of Islamic finance in Nigeria.

*This century is about linkages and bridge building to other countries and regions, for Nigeria, in Islamic finance, build and expand bridges to the GCC?*

As a member and integral part of the global financial community, it is in Nigeria's strategic interest to establish and maintain linkages and bridges with other countries and regions across the world.

While there is as yet no formal arrangement or mechanism for regulatory co-operation and collaboration with any country in the GCC, the CBN looks forward to a strategic partnership with agencies such as the Central Bank of Bahrain towards the development of a robust regulatory framework and capacity building on Islamic Banking.

As you are aware, Bahrain is arguably one of the major global hubs in Islamic finance and home to a number of operating, regulatory and educational institutions on Islamic finance.

Consequently, I believe a strategic linkage with Bahrain would energize and give the needed momentum to our efforts.

In this regard, I should also add that the CBN recently signed a Memorandum of Understanding with the Bank Negara, Malaysia covering a broad spectrum of issues on regulatory co-operation and collaboration including Islamic banking.

This would no doubt deepen the mutually beneficial relationship between the CBN and BNM.

Our membership of the Islamic FinanceSB has afforded me the opportunity to establish good personal relationships with several GCC and Asian governors and beyond Islamic finance, our country stands to benefit from these links.

To give you one example, the governor of the central bank of the UAE is adopting a positive approach to Nigerian banks that want to establish representative offices in his country principally on the back of the confidence engendered by these relationships and conversations.

We also plan to tap into the extensive experience of these countries as we try to set up a sovereign wealth fund, and may even succeed.

*We hear about Islamic finance in Kenya, Gambia, South Africa, Tanzania, but none have said they want to be an Islamic finance hub outright. Will Nigeria be the first country to plant the Islamic finance hub for all of Africa? What would be the benefits for Nigeria?*

As I mentioned earlier, Nigeria has developed a strategic agenda aimed at making it one of the top 20 economies in the world and Africa's financial hub by the year 2020.

It is my expectation that Nigeria would become Africa's Islamic financial hub. Of course, this would translate to multiple benefits for Nigeria. These benefits may include increase in foreign direct investments (FDI), infrastructure development, increase in employment and development of the real sector of the economy.

*And, finally, where do you hope Islamic finance will be after you leave office?*

It is my hope that in the near term, Islamic finance in Nigeria will develop into an enviable pedestal on a par with its peers in Bahrain, Malaysia and other emerging hubs such as Dubai. I look forward to an industry with a robust and world-class regulatory infrastructure. To me, that would be a cherished legacy to bequeath to the industry and Nigeria.

*http://gulfnews.com/business/banking/nigeria-on-track-to-be-africa-s-islamic-finance-hub-1.640710*

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## *GENERAL ECONOMIC & BUSINESS DEVELOPMENTS*

### Latest UN climate text under fire

MONDAY, JUNE 14, 2010

Rich and poor nations alike have criticized a new blueprint for a UN climate treaty as two weeks of talks in Bonn among 185 countries ended with small steps towards an elusive deal.

A streamlined climate draft, meant to help talks on a new pact, cut out some of the most draconian options for greenhouse gas and dropped all references to "Copenhagen," where a UN summit in December fell short of agreeing a treaty.

Several members of the the Group of 77 developing nations said the 22-page text wrongly put emphasis on greenhouse gas curbs by the poor, not the rich.

"The group is dismayed that the ... text is unbalanced," the bloc said in a statement.

*'Unacceptable' elements*

The talks were the mid-way point to the next big gathering of the United Nations Framework Convention on Climate Change, taking place in the Mexican resort of Cancun from November 29 to December 10.

Among rich nations, the United States said it would study the draft but that some elements were "unacceptable".

The European Union also expressed "concerns" about the text, which updates a previous 42-page draft rejected last week.

The new text outlines a goal of cutting world emissions of greenhouse gases by "at least 50 to 85 percent from 1990 levels by 2050" and for developed nations to reduce emissions by at least 80 to 95 per cent from 1990 levels by mid-century.

It drops far more radical options, some championed by Bolivia, for a cut of at least 95 per cent in world emissions by 2050 as part of a fight to slow droughts, floods, a spread of disease and rising sea levels.

Margaret Mukahanana-Sangarwe of Zimbabwe, who chaired the talks, said the text would be updated for a next meeting in Bonn in August.

Yvo de Boer, the departing head of the UN Climate Change Secretariat, said he felt the main reaction to the text was that, "yes, it has shortcomings ...but that people are willing to take it as the basis for future work".

Many delegates say that a new legally binding deal is out of reach for 2010 and now more likely in 2011.

Apart from deep splits over negotiating texts, US legislation on cutting emissions is stalled in the senate.

*'Important progress'*

The May 31 to June 11 session in Germany was the biggest since Copenhagen, where more than 120 nations agreed a non-binding deal to limit a rise in average world temperatures to below two degrees Celsius over pre-industrial times. But it lacked details of how to reach this goal.

Discussing Bonn, de Boer said: "This session has made important progress ... countries have been talking to each other rather than at each other."

He said an extra meeting of negotiators was likely in China before the annual meeting in Cancun.

The new draft text keeps some elements of the Copenhagen Accord, including a plan for aid to developing nations of $10bn a year from 2010 to 2012, rising to more than $100bn from 2020.

Commenting on the draft, Kaisa Kosonen of Greenpeace said: "Everyone will find something they like, as well as something they hate."

*Aljazeera*

**IMF 'confident' on Spain's economy**

FRIDAY, JUNE 18, 2010

The head of the International Monetary Fund (IMF) has expressed confidence in the medium- and long-term prospects for the Spanish economy following talks with the country's prime minister in Madrid.

Dominique Strauss-Kahn met Jose Luis Rodriguez Zapatero in the Spanish capital on Friday to discuss the government's measures to convince financial markets that Spain's finances are under control.

The talks came at the end of a tumultuous week for Spain, marked by rumours that the EU and IMF were putting together a Greek-style bailout for the country.

However, a plan to convince skeptical markets that Spanish banks are sound and a successful auction of long-term government bonds on Thursday appear to have eased investor fears.

*'Huge confidence'*

Strauss-Kahn said that Zapatero's austerity measures, including spending cuts and reform of the labour market, were "very effective" and that he had "huge confidence" in Spain's economy.

Zapatero said that he had explained to the IMF chief the various measures that the government is taking.

"I conveyed to [Strauss-Kahn] the determination of the Spanish government to implement and to make effective every single one of these reforms that we have launched, to demonstrate that Spain can overcome the crisis and emerge with a stronger economy," he said.

Tim Friend, Al Jazeera's correspondent in Madrid, said it is "unlikely" that there will be civil unrest in Spain similar to that in Greece.

"There are distinct differences between the two countries: Greece essentially lied about its prospects and there was a lot of false data, Spain, however, is determined to have transparency," he said.

"Although it's a painful process, at least if they understand why this course is being taken then perhaps social unrest can be avoided.

"But that said, there is always the possibility that if things take a turn for the worst - and there is a lot of growing poverty here amongst people who've been directly affected by the recession - then it's always possible that will express itself in anger and violence on the streets.

"But I think it's unlikely we'll see a repetition of the sort of violence and indeed deaths that we've seen in Greece in Athens."

*'Stress tests'*

To calm market nerves about the strength of its financial institutions, Elena Salgado, the country's finance minister, said the Bank of Spain will publish "stress tests" on the ability of its banks to withstand any sudden financial shocks.

On Thursday, European leaders meeting in Brussels had also agreed to release the results of similar tests for their banks.

"By announcing its intention to publish the results, Spain has raised the stakes and the market expectations, now it will need to show that it is up to the challenge," said Marco Annunziata, the chief economist at UniCredit Group.

On Wednesday, *El Economista*, a Spanish business newspaper, said the IMF, the EU and the US Treasury had drawn up a rescue plan for Spain, including a credit line of between $246bn and $307bn.

The EU, the IMF and the Spanish government strongly denied the reports.

At an EU summit in Brussels on Thursday, Zapatero slammed what he called "all these unfounded rumours" and Nicolas Sarkozy, the French president, offered his support when he said there was "no problem" with Spain's finances.

*Bond sale*

After Spain's public deficit ballooned to 11.2 per cent of gross domestic product last year, the Socialist government launched an austerity drive to slash the shortfall between revenues and spending to the eurozone limit of three per cent in 2013.

On Wednesday, the government also passed crucial reforms of the rigid job market, deemed essential for reviving the economy - but only after talks with the unions and employers broke down.

As a result, the country's two main unions have called a general strike for September 29 to protest against the plan, which they charged "will harm the rights of workers" and "delay the economic recovery".

In what markets took as a positive sign that the government is getting to grips with the crisis, the treasury on Thursday got through a critical loan test as a sale of debt bonds attracted strong demand.

Commenting on the sale, which raised a total of $4.3bn, Cyril Regnat, a bond strategist at French investment bank Natixis, said: "Spain has passed its test."

*Aljazeera*