

SEMINAR ON ISLAMIC FINANCE

ROME, 11 NOVEMBER 2009

Opening address

Ladies and gentlemen,

I am pleased to welcome you today to this Seminar, organized by Banca d'Italia on the subject of Islamic finance, the component of the financial industry which, complying with Islamic prescriptions, avoids, in particular, the use of interest in financial transactions. This is predicated on the principle that profits should be considered legitimate only upon the condition that they be generated from fully sharing in the business risk of an investment (the so called "profit and loss sharing principle").

Islamic finance has witnessed a rapid expansion over the last decade, with annual growth rates of assets in the range of 10-15 per cent, and a wide dissemination across countries, beyond its traditional centers of gravity in the Middle East and South East Asia. The development of Islamic securities, notably the *sukuks*, has also contributed to increasing this sector's activity in international capital markets.

Although official statistics are not yet available to accurately measure global developments of the industry, private estimates assess its current size at above \$ 800 billion dollars, in terms of intermediated assets, with more than 600 institutions engaged in Islamic finance and operating in around 50 countries; in the last few years, the industry has also been developing in Europe, with the opening of some Islamic banks in the UK, the issuance of a *sukuk* bond by a German Land, and increased activity in the field of Islamic investment funds management.

The growth of Islamic finance in recent years is one aspect of the increased role being played in the global financial system by a number of emerging economies. This is, of course, a welcome development, as it opens up new opportunities for the productive channeling of financial resources both to these countries and other markets. It does, however, also add to the complexity of the global financial system. As the recent crisis has taught us, growing complexity calls for enhanced international cooperation by policymakers and regulators, lest the benefits of a dynamic financial system are jeopardized by instability.

The active participation of the monetary authorities of Saudi Arabia and of Indonesia - the country with the largest Muslim population in the world - in the work of the Financial Stability Board is, in this respect, an important contribution to the pursuit of our common goal of a sound global financial system.

There can be no effective cooperation, however, without an adequate knowledge of the key features of different components of the financial system, and of their interactions. It is in this spirit that Banca d'Italia has taken the initiative to organize today's Seminar, with the aim of better understanding the characteristics of this industry and its implications for the financial system in Europe and in Italy.

For Banca d'Italia, it is an important opportunity to deepen our knowledge of this subject, in view of its relevance for the Bank's institutional duties, as a member of the Eurosystem and as the Authority for banking and financial supervision in Italy: we have, therefore, chosen to specifically focus the Seminar on issues pertaining to monetary policy and banking supervision.

A cursory look at the program should be sufficient to suggest that Islamic finance and its interactions with conventional financial practices are a source of numerous intriguing questions. I am therefore confident that the subject will stimulate the interest of participants in today's Seminar,

and most grateful to the highly qualified representatives from various monetary and banking authorities, International Institutions, and academia who have accepted to join the three panels.

I mentioned the importance of policy cooperation for the safeguard of a sound global financial system. Dr. Zeti Akhtar Aziz, the Governor of Bank Negara Malaysia, who has kindly accepted to be the keynote speaker of today's Seminar, is an outstanding example of a civil servant who has put international cooperation at the center of her professional activity, throughout her distinguished career: she has, in this respect, chaired the EMEAP's Taskforce on "Regional Cooperation among Central Banks in Asia" and is currently Chairperson of the BIS Asian Consultative Group. An accomplished economist, she is also one of the leading experts in Islamic Finance, having played a key role in the establishment of the Islamic Financial Services Board, of which she was later Council Chairperson in 2007.

Unfortunately, official engagements with the Malaysian government, which were set only in the last few days, have prevented Dr. Zeti Akhtar Aziz from traveling to Europe for this Seminar. While she cannot be physically with us today, she has nevertheless made a point of participating in the event, and has sent us a video recording of her address, which we are now going to show.

Let me therefore leave the "virtual" floor to Dr. Akhtar Aziz, looking forward to her address, and to the interesting sessions which will unfold during the day.