

PMEX Commodity Murabaha: An Efficient Liquidity Management Tool for the Islamic Finance Industry

When it comes to Islamic banking in Pakistan, the sector is growing at the rate of over 30 percent annually and its asset base has crossed PKR 1 trillion. However, such a significant growth has created surplus liquidity in the Islamic Finance industry. While deposits are on the increase, Islamic Financial Institutions (IFIs) have limited lending/investment options because private sector credit demand has remained low due to subdued economic activities in the country.

In addition, there is an acute shortage of Islamic Money Market related instruments which are necessary to efficiently deploy the liquidity being generated due to increase in deposits. Although these IFIs have developed certain means by which the liquidity is currently being managed, there is no standardized product available to completely and efficiently meet the need of the industry. Considering the above, IFIs are looking for more trustworthy and efficient ways for conducting such transactions.

In the light of the above, Pakistan Mercantile Exchange (PMEX) has taken the initiative to develop an online Murabaha contract to facilitate the IFIs in line with International commodity exchanges such as London Metal Exchange, Bursa Malaysia & Jakarta Futures Exchange which are also enabling Murabaha transactions and are acting as hubs for Islamic Banking liquidity management.

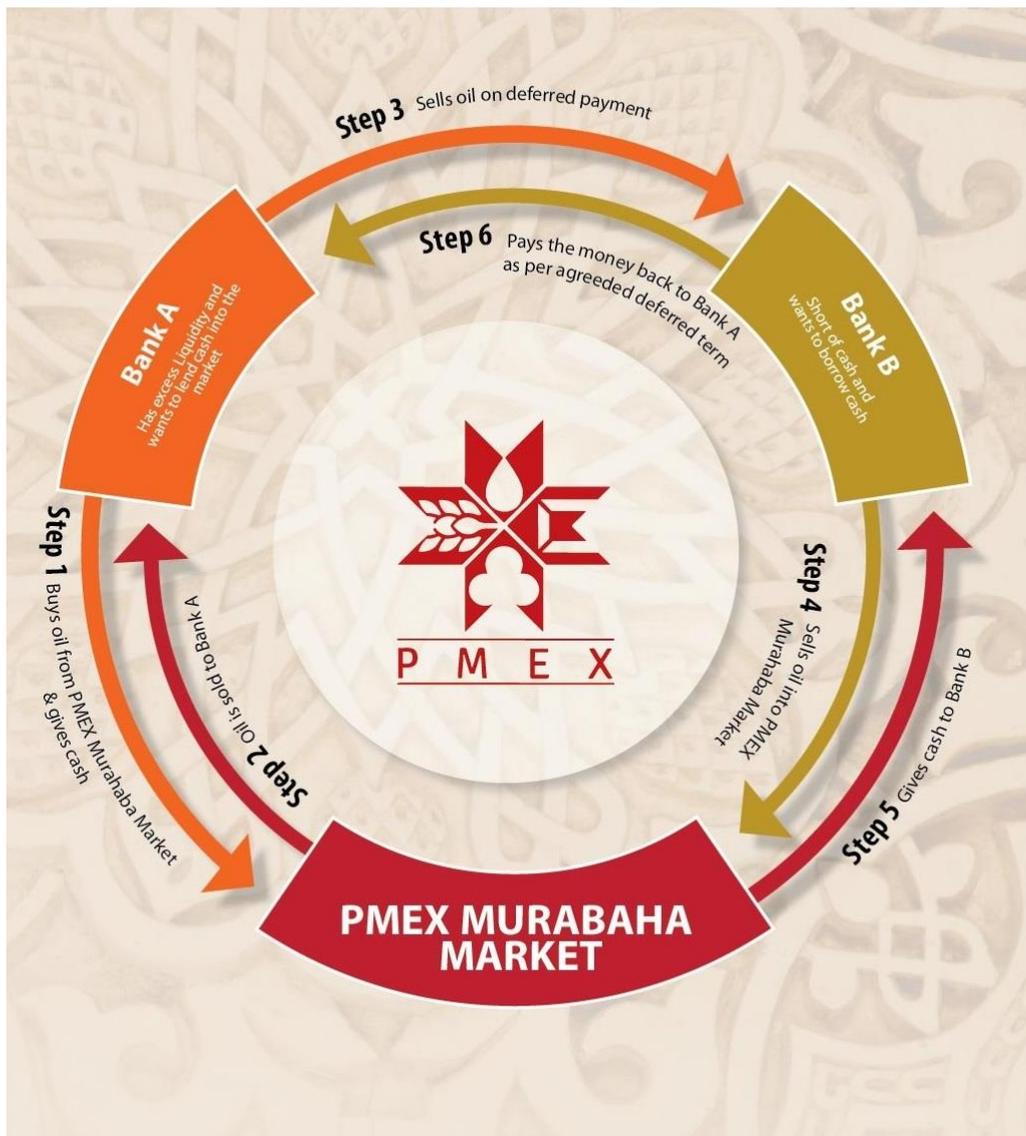
This proposed Murabaha product would greatly strengthen the Islamic financial sector of Pakistan by bringing them at par with commercial banks with regards to efficient deployment of liquidity. We envision that the proposed Murabaha product will eventually serve as an industry benchmark and be the first choice for the IFIs.

While developing the contract, PMEX hired the services of one of the leading Shariah scholars of the industry to advice on the development of a product that fulfills the needs of both Sharia and IFIs. With the assistance of the Sharia Advisor, PMEX lead multiple discussions with financial institutions and industry stakeholders and concluded that High Speed Diesel (HSD) would be the ideal underlying asset for the Murabaha Market.

The product meets key requirements of Sharia i.e. abundant supply, non-perishable nature, adequate infrastructure for the storage and handling, sold by all the OMCs operating in the country and certified quality standards of the product. Moreover, the price determination of the product is fixed by Oil & Gas Regulatory Authority (OGRA).

PMEX has been encouraged by the interest and enthusiasm shown by the Islamic banking industry in the proposed Murabaha contract and is confident that this product will be a game changer for Islamic banks in overcoming excessive liquidity issue.

Presently, all the modalities have been worked out and the Exchange is planning to launch the product as soon as it gets the necessary approval from Securities and Exchange Commission of Pakistan (SECP).



This article was published in Pulse, Issue 4 July – September 2014 and PMEX Annual Report 2014