

Is the Interest Policy Responsible for the Global Financial Crises?

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Abstract: Interest represents the allocation of an unearned and imaginary income, which is assumed to have been born out of the exchanges of derivatives on the basis of their nominal values. This is one of the main reasons for the recent financial bubble resulting in the global financial crisis in 2008. This paper first aims to define interest from the Islamic perspective in the light of the Koran and the Prophetic tradition. In addition to the interest of debt which is known by all, the prophet Mohammad taught the mankind another kind of interest, that is 'interest of exchange' that appears in the exchanges of goods, different foreign currencies, and financial derivatives. Then, the paper primarily aims to examine the role and the place of interest mechanism in the crises, particularly in the 2008 Global Financial Crisis.

Key words: 2008 Global Financial Crisis, Interest, Financial Bubble, Business Cycle.
JEL Classification: D3, E4, E43

Introduction

Interest policy is one of the most important reasons of business cycles, which is considered by many inherent in the market systems. We can rather say that business cycles are not inherent in a pure market systems but in the interest-based economic systems. With its uncertain outcomes, interest is one of the most important reasons of economic fluctuations. Intervention in the markets through interest policies distorts the markets' natural structure. In this paper we research if there is any effect of interest in the reasons of crisis.

Shortly putting, *interest* can be defined from Islamic perspective as a measurable or noticeable imbalance or disproportionate in exchanges or loans for one party to the loss of the other. With its this nature, interest causes economic disparities between individuals, factors of production and even nations, resulting in considerable social and economic problems. These imbalances appear as *bubbles* and crises eventually in the financial markets when they can not be sustained. Though not expressed so far so clearly, interest based transactions are the most effectual reasons of the economic bubbles and their consequences in the form of crises. This is a reason for interest to be banned by all the religions and for its being criticized by most of the philosophers and scholars throughout history.

Economy is required for social, administrative, political life and prosperity of people. Economy is to earn and sell, change or interchange; may be open or closed or else be interested in wealth movements. All of them could be expanded and explained by different directions. Person to person, people to people or nation to nation absolutely. A whole thought of economy deals with the size of experiences, traditions, nationally improvements, individually segments of life: a man in home leading the family, or a woman in a production counter supporting the incomes of her living or her family; no doubtful differences of economical approaches. How to understand economy? In a short expression: in the whole life of human body, not apart from the last crises originated from the United States have spread all around the world expectedly. It is known and relearned that principles of economy have to be overviewed. Whether it grew out of unchangeable standarts or not. If so, how to think the truth?

An important item of economy, not far away from it, the 'capital' has been discussed by the economists where to place it. In the mid lap of the economy, on top or bottom, the relations of capital has not only gone through

the gaps in terminology, but in social life also. Ideology has involved the economical and administrative views so as to carry society to a high level of existence. Islamic approach differs from capitalist and communist definitions. Liberalism or socialism, nationalism or conservatism or else have similar definitions in the overlook. It has been normally encountered from Islam that it objects interests which has come and acquired various shapes and qualifications.

Ownership is defined in capitalism as individuals', in socialists as society', but Islam defines it that possession is Allah(cc)'s, individuals are only the saver. This point of view attracts the rules in economy like the other social parts. Interest concept, which is rejected by Islam, triggers the flow of economy binding with a highly considerable elements programmed in the economical system. 'Society man' differs from the 'wolf man' by the way of helping the other. 'Satiated is not of us when his neighbor is hungry' has been said by the Prophet when the conception of 'laissez faire, laissez passer' has taken place years after this hadith with 'man is wolf of the other' to spite.

The money based capital and the goods based capital always has a potential of having interest in the movements, transactions such as a lender being under a cover while shaded by the borrower/debtors. The Prophet's hadith says : 'Lending which provides beneficium is interest.'

Financing and capital movements

Capital markets, banks, various types of institutions like insurance companies, investment trusts, real estate investment trusts, factoring institutions,.. have all helped the flow of financial accumulation to the desired locations for years. Islam considers capital as an 'accumulated labor'. As a respect for this accumulated labor, even though it is not as fresh as a ready enterprise, Islam does not deny the right of the capital that causes increase in the outcome by being engaged in the production process.

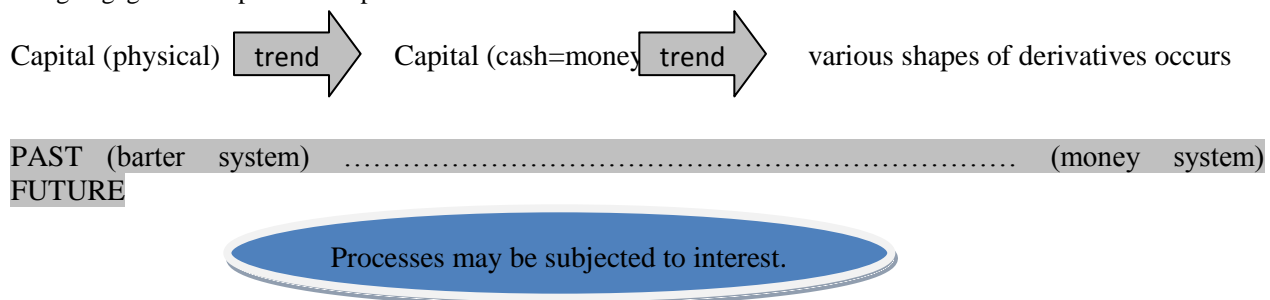


Figure 1: Capital status has been changing by the effect of trade and finance composition.

What is interest?

'Interest' can be defined from Islamic perspective as a measurable or noticeable imbalance or disproportionate in exchanges or loans for one party to the loss of the other. Interest' in the Islamic literature is 'riba', which means excess, surplus and growth. From the Islamic perspective, *interest* is an actual or potential/prospective excess/surplus in one of the two items without any comparable and corresponding equivalent, which appears both in loans and exchanges of goods or currencies, and which causes harm to either of two parties.¹³

¹³ Ozsoy, Ismail (1995), Faiz, *Islam Ansiklopedisi (Islamic Encyclopedia)*, Türkiye Diyanet Vakfi, XII-110-26.

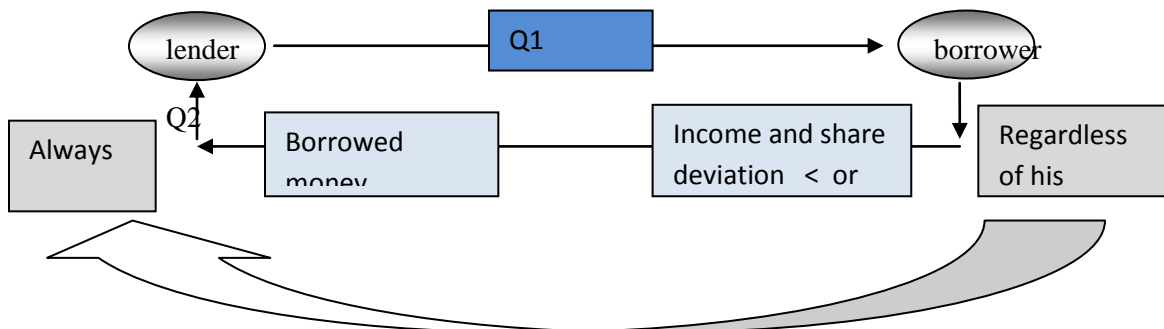


Figure 2: Unearned and disproportional share qualification of interest in the *debt interest mode*.

There are two kinds of interest. First, *interest of debt/loan* (riba al-dain), one that appears in debts, loans included, as a percentage or any fixed payment added to the principle. That is the most widespread, and the most debated, kind of interest known by all throughout the human history. Islam introduced the concept *interest of exchange* that occurs in the exchanges of goods and currencies on the spot (hand-to-hand) and/or forward (for a fixed term) basis. While the Koran deals with interest of debt, the Prophetic tradition (the hadith) predominantly deals with interest of exchange. The *interest of exchange* (riba al-bai‘) is also divided into two kinds; one is called *interest of surplus* (riba al-fadl) that appears as a quantitative surplus in one of the exchanged items of the same kind;¹⁴ and one is called *interest of delay or deferral* (riba al-nasia) that appears in exchanges as a quantitative or potential surplus (value differentiation) when one of the items exchanged is delayed, except the exchange wherein one of the items is money.¹⁵ Thus, the concept interest in Islam is both different and more comprehensive than in other systems.

So, the interest can be grouped as (even if cash or physical capital):

1-Debt interest

2-Exchange interest

a-Time delay

b-Surplus

¹⁴ As in the case when two measures of wheat is exchanged for three measures of wheat, even if it is due to the difference of quality.

¹⁵ As in the case when 1 tone of iron is sold for the same amount of iron on a deferral basis; let alone for a more amount of iron delayed. Here, interest arises as a potential and prospective value differentiation between two items due to the delayed delivery of one of the items. Time is a reason for this value differentiation between the present and future items exchanged; hence, it causes a potential excess in one of the items when compared to the other item. Because nobody knows in advance for whom and how much this potential surplus proves to be actual, Islam prohibited all the delayed sales in principle.

A new approach

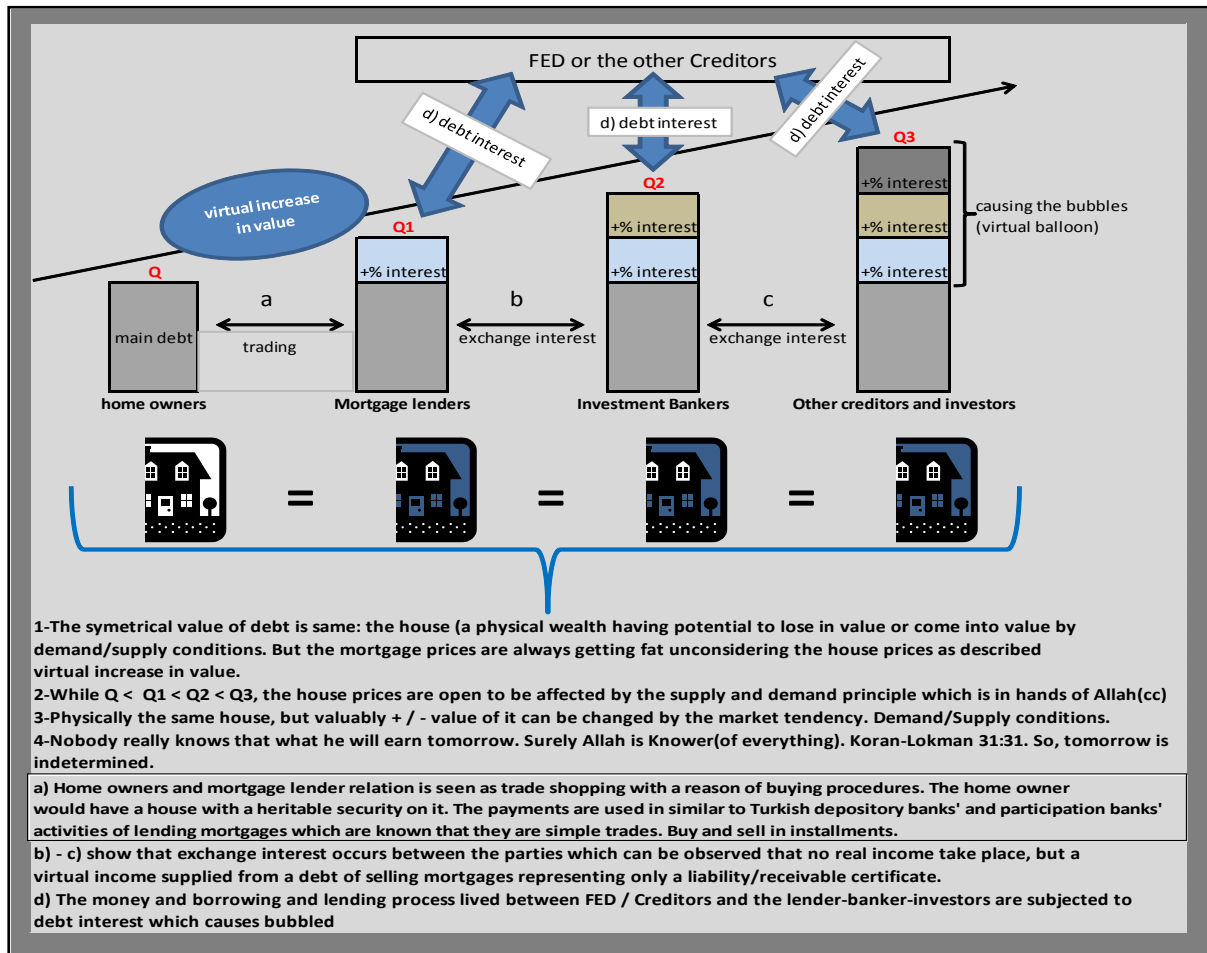


Figure 3: Interest steps in the mortgage cycle which cause unearned income and disproportional share.

The 2008 crisis has experienced the Vatican at a highly position not suffering the wrong approach by saying ‘make Islamic banking (interest-free banking). This unexpected warning and offer attracted the attentions to a very interesting and important call and offer because it came from the Vatican, the center of the Catholic world, which is the most radical branch of the Christian World. The daily “L’Osservatore Romano”, the semi-official newspaper of the Vatican, offered the system of “interest-free banking” as the way out from the crisis. The article in the newspaper stated, “The ethic principles on which Islamic banking is based facilitate trust and cash flow.” The offer that came from a completely unexpected address caused remarkable reactions especially in Europe. As a matter of fact, Financial Times, one of the most prestigious economy newspapers in the world, quoted that article and interpreted on it. The analysis that the newspaper did was more interesting: “*The Vatican rarely makes a statement about economic issues. That the Vatican recommends the Islamic finance system gives enough clues about the dimensions of the global financial system.*” Praising the Islamic finance system, the Financial Times advised banks to take Muslims as models during crises in the future. It emphasized that the Islamic finance system could help form new rules in the Western finance world.¹⁶

Fortune is not in hands of human

The importance of *term* or *time* derives from the possibility that the value balance, which is established between the two items by the parties –seller and buyer-, may shift and be destroyed in the forward sales, and value

¹⁶ Participation Banks Association of Turkey (2010), Participation Banks 2009, p.28.

differentiation/disparity/inequality may take place between the two exchanged goods. Some of the significant causes of this value differentiation and inequality can be listed as follow: Instability of the market conditions, -that is, rises and falls in the money and commodity markets-, the loss of opportunity of the creditor because of their deprivation of using their money or commodity during the term, and the unexpected increase of the burden on the debtor because of the sudden and unpredictable value changes in the borrowed money or commodity in question.

Therefore today's 100 units of commodity (or money) may turn to a *value* of 110 and or 90 units tomorrow. With these properties, term or time is the most important cause of uncertainty and, hence, of conflict. So term/time is the main reason of interest in the forward (delayed-deferred) sales. So, it is doubtless to say that the the causes of crises lived in 2008 was resulted from the exchange interest.

Interest chain is designed and established on the groups:

Home Owners: Prime and sub-prime groups who are debtors to the mortgage lenders.

Mortgage Brokers: Finds houses and arrange communication between mortgages lenders and home owners by having a commission.

Mortgage Lenders: Lending home owners by using mortgages.

Investment Bankers (Wall Street): Buy mortgages from lenders by a maturity date with a surplus agreed between them.

Investors and Creditors: They are the group of pension funds, mutual funds, insurance companies,... which buy mortgages from investment bankers by a maturity date so as to earn more and more then FED has offered (%1). Some of the Creditors come from Japan, China, Middle-East,..¹⁷

The house prices are always going on they experienced, so the expectations are mixed with their ambitions of earning more and more with no limit of increase. But one thing has not been taken into considering:

Open Market and Supply-Demand Relations Principle

Business cycles appear as a self-correction, self-defense, and self-stabilization mechanisms of the markets. In fact, supply and demand functions are in the hands of Allah(cc) that nobody can plays roles on his own. At first, when house prices were going up, bankers were buying the mortgages from the lenders, however open markets self correction has been forgotten. With its famously important instrument: *money*.

Time value and location value

Does money have a time value? Money is not a commodity to sell, it is a measure tool for measuring the goods and for comparing them. Criticized the term 'time value of money', it is a unit of value/measure not a commodity itself to be transferred with a surplus to another.

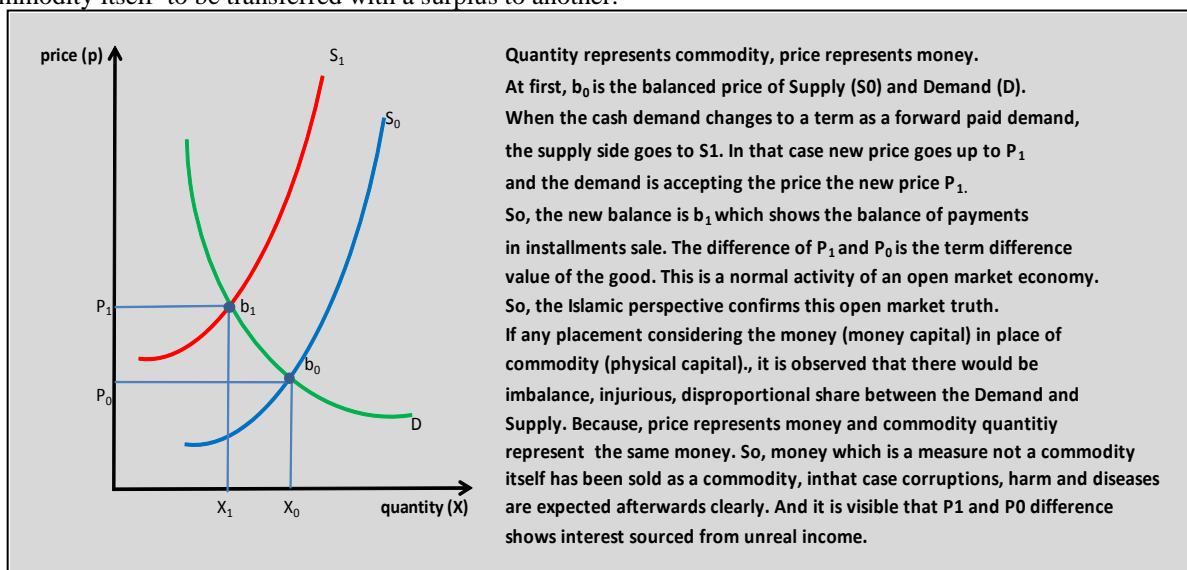


Figure 4: An open market reality: interest or profit, supply and demand functions in cash and forward sale;

¹⁷ <http://www.crisisofcredit.com/>, access May 9th, 2010.

Steps of crises while living blind to interest – Papered economy

Money is a cash capital which exists for supplying the deficiency of man like a blood in body. When it is used as a commodity as in the place of a physical capital, then it refers to be a wealthy object. However, it has been a calibration instrument to measure and value the thing as a mirror in front of the objects as it has no value itself. In another word, it shows values of things when you measure them by this device and label them by prices. As in the graph it is clearly observed that while the y axis shows this prices, the x axis shows the quantity of the goods and the P_0 and P_1 difference is paid for the term difference called ‘term value’. This term value represents:

a-Time value: It depends on the value when a commodity has been prepared ready to be used today for a consumer which he could not reach at least saving money for years.

b-Location value: It depends on the value of transportation and servicing a commodity ready for the customer to reach easily in his attainable close area.

When the price is in one side, the other side is represented by money, then it corrupts the truth that money only measures what you measure with it. So,

Money is anything that is generally accepted as payment for goods and services and repayment of debts. The main functions of money are distinguished as:

-a medium of exchange,
-a unit of account,
-a store of value,
and occasionally,
-a standard of deferred payment.¹⁸

Injustice occurs such as between people, like placing or labeling a thing in spite of its genesis. So, when you place money instead of the quantity referring the commodity, you will see P_1 and P_0 difference represents the interest. Not a valid and legal value in the Islamic perspective money is not a commodity. The mortgages in the crisis represented money, debt and it has been always sold like a commodity step by step without considering its realities. The interest is lived in the crises imbalancing the reality locations of the instruments. These imbalances appear as *bubbles* and crises eventually in the financial markets when they can not be sustained. The getting fat or let say expanding values in the paper prices are far away from the realities. In papered economy, the goods are the hopes, not manufacturing any real commodity, benefit, service or else. Selling dream of expectations without calculation of future prices + or -. Forever increasing value is the base by showing one of the reasons like inflation. But in fact it can not be clearly defined that a relationship between the interest and inflation. Interest is used for the future planning contrary to the inflation which shows the past. But it could be said that interest causes harm to the financials and the real economy as the other harms it gives.

An interest realized inordinarily: exchange interest

‘Interest of exchange’ appears in the exchanges of goods, different foreign currencies, and financial derivatives also. In the crisis mortgages have been sold step by step from lender to banker to investors. Velocity of money collapsed all around the financial system as a commodity which has been bought and sold instead of velocity of utilities represented by producing wealth, manufacturing goods or servicing a real benefit. In fact, interest represents the allocation of an unearned and imaginary income, which is assumed to have been born out of the exchanges of derivatives on the basis of their nominal values.

In the crisis the principle of demand and supply has worked again. The supply increase in the market and the prices of houses go down. The home owners paying \$300,000 asked themselves that why they have been paying more in spite of the price \$90,000 on that day.

When the payments turn into houses at first there was not any problem for banks, but after the others have come, lots of houses have been in the market waiting to be sold, the prices decreased and the problems enlarged. For sale and for saken houses which the mortgage lenders, the investment bankers and the investors possess, have become valueless. The banks also having lots of debts for that borrowed from the other creditors, have valueless

¹⁸ <http://en.wikipedia.org/wiki/Money> ,Wikipedia, access May 10th, 2010.

mortgages and the chain, money flow did not work. The financial system is frozen. And bankruptcy has been occurred.¹⁹

Crisis paces

The name of the crisis is defined as: sub-prime mortgages, collateralized debt obligations, frozen credit markets, credit default swaps.²⁰ But in fact it is clearly seen in the operations the exchange interest caused virtual bubbles in the balance sheets of the mentioned investors.

Rates confliction – winners and losers - Bubble income

Higher rates causes happiness to lender while the lower rates pleasing the borrower. The confliction lives in interest transactions for years as stock exchanges live in the opposite direction. When the rates get higher, subjected company's worker, the holder, the owner, the broker,..all of them get happy. In the crisis, all the lenders, bankers, investors have been nourished by the virtual income of mortgages. No real income, no real production, no real assets. Only a debt flow has been observed in the economy. Transferring the mortgages misleded the owners as if they worked in a real based production or service. It is clearly that interest based transactions are the most effectual reasons of the economic bubbles and their consequences in the form of crises.

Consuming without producing – National wealth - Earn more than adding, disproportional share

When any default and bankruptcy occurs, the damage make all the people affected by the decreasing value: as higher prices, unemployment, worthless economy,..etc. Papers have been lived in hand for a few period lenders, bankers, investors,.. What is observed that is produced? Nothing. In this way, the volume of finance is getting higher and GDP is multiplied in terms of nothing referring finance transaction (derivated actions)

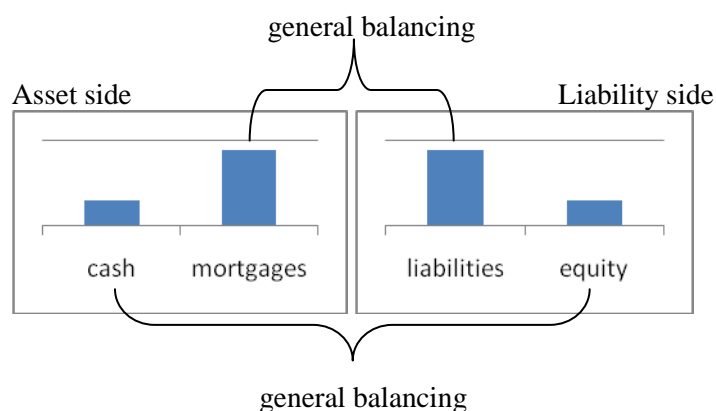


Figure 5 : Simple structure of mortgage holder's balance sheet to follow up his assets and liabilities.

Mortgages (the mortgage bonds) are sold by installments and they carried out returns in terms of time as tried to be described. But the balances are broken. What was the real reason, what caused the crisis, interest role was played how? 'To be lawful, any profit or benefit should be linked to the performance of a real asset and to its risk.' Interest causes an unreal asset, at least unreal values.

Banking system ready for high level of debt: where to go

¹⁹ <http://www.crisisofcredit.com/>, access May 9th, 2010

²⁰ <http://www.crisisofcredit.com/>, access May 9th, 2010

Selling a sum of money with a higher return, we see in all the crediting values let say in the leverage system. Investment bankers used Leverage system to become rich “*increase in debt as term/maturity date is extended*” as is generally understood today.²¹ Leverage is borrowing money to amplify the outcome of a deal. Interest of debt which is known by all, the banks borrow multiples of the real money amount. The debt interest is worked in this operation. And the balloon is swelled.

Investor stay living on lots of funds willing to make an action to earn more. Having high returns than the FED and others, mortgages has a potential advantage of income as they have seen. Then a chain is established between the lenders – bankers – investors. The mortgages are sold from the beginning step of lenders to the investors with a different rates of interests bound to their risk groups. Safer mortgages have lower interest, risky ones have higher. The bankers made the mortgages into three slices : safe, okay and risky. The commissions paid to the investors, %4 for safe mortgages, %7 for Okay, and %10 for the risky ones. The system is called *CDO Colateral Debt Obligations*. With a small fee insurance has been established. After that rating agencies are called to rate these three groups of mortgages, high commissions have been given to risky mortgages which have been used in and sold to other risk takers.²²

Happy chain is working good at the beginning. The broker, the lender, the banker and the investors earned till the default of payments began. After some of them failed to pay, having mortgages in hands caused the losses of money, thousands of mortgages which were in the hands of investors, bankers and lenders became worthless.

Risks in crediting, why is the liabilities bloomed, the balance

It is easy to pay to lender. Thousands of mortgages are in their hands. The banks get money and pay back his loans and earns lots of money. The investors are very pleased to have more than %1. The investors wanted more. The banks turned to lenders and they to brokers. And they saw that no home owners lasted for getting mortgages to sell. When the home owner has been default to pay, the lender gets the house for the reason of mortgages. So, there has been no worries about it and the prices are labeled to get higher prices everytime.

Lenders added risks to new mortgages in order to sell more and get more money and the corruption is seen in the balance sheets. Using Leverage System which have eased banks to get credits from investors in terms of 1 / 100 loans, they have reached high amounts of money.²³ Liability is that they are the obligor and compensates it by the mortgages on the asset side. Mortgages are the assets having high returns than the FED and others. But in any default position and result at first cash are used for the liabilities, or the mortgages are turned to cash and it is spent for the liabilities, if any inadequate position then equity is decreased for balance, and at the end a frozen market is seen as in the crisis.

²¹ Hamood, Sami H. A. (1976), *Tatweer al-A'mal al-Masrifiiyye bima Yattafiqu wa al-Shareeah al-Islamiyye*, Kahire, p. 104.

²² <http://www.crisisofcredit.com/>, access May 9th, 2010.

²³ <http://www.crisisofcredit.com/>, access May 9th, 2010.

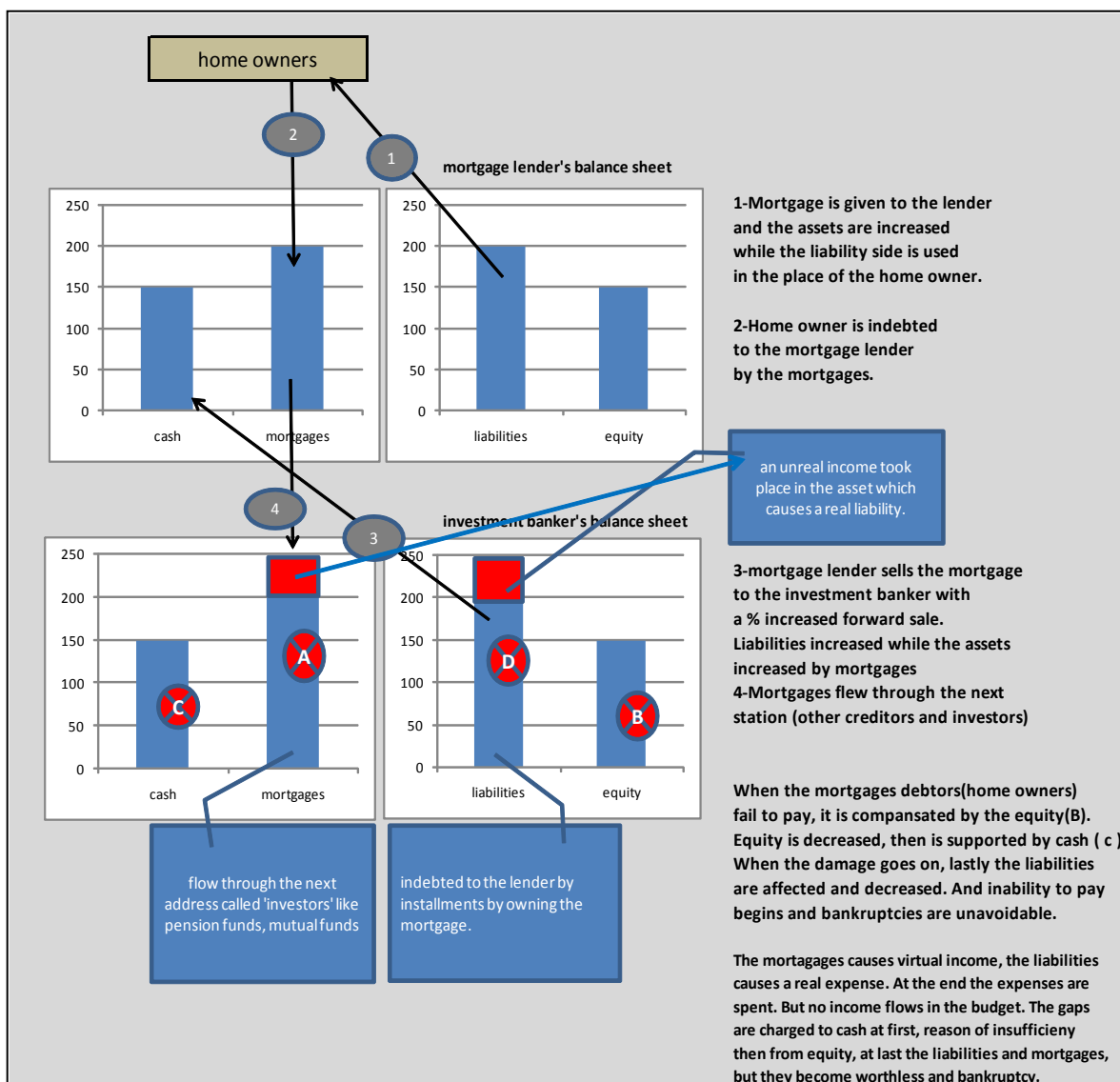


Figure 6 : Mortgage cycle: Exchange interest in the financial structure.

Unchangeable experiences and facts

Doing the job good

The risk is added by: no down payment, no proof of income, no other documents,...etc. Instead of responsible ones, less responsible ones called sub-prime mortgages. Myopic and uncontrolled lending and furious of money caused wastefulness, as a matter of fact some analysts explain the reasons by the ethical principles also.

Avoiding interests

Since all of the interest-based transactions have the characteristics of harming either of the parties, payer or receiver, any kind of extra payment above the principal is considered as interest/riba and clearly prohibited by the Koran, regardless of its being 'simple' or 'compound interest', or its being named 'rent', 'profit', 'return', 'revenue', or its being called with different terms in any language. Islam attached a great importance to the term 'right' and its protection. Thus, it prohibited interest identifying it with injustice and wrongfulness.

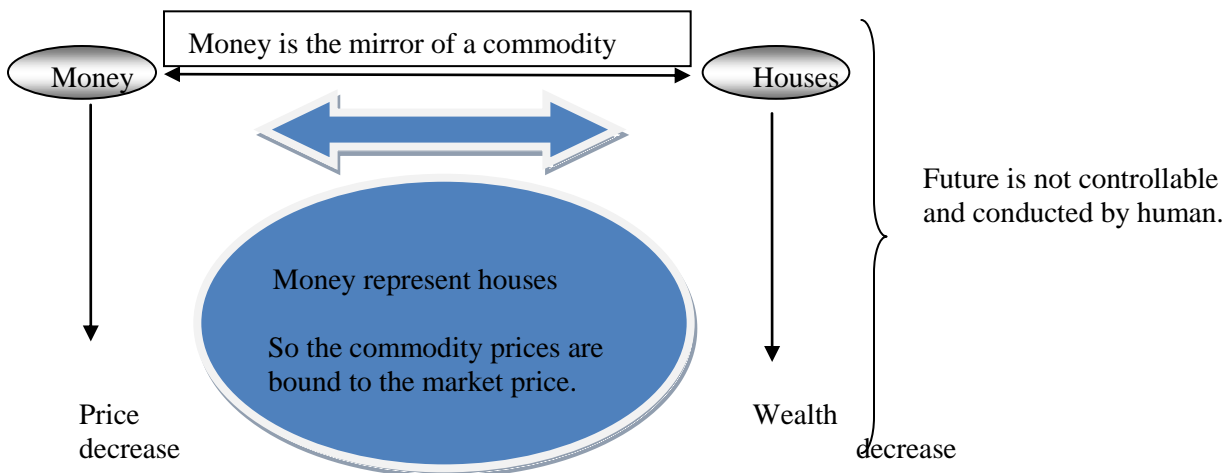


Figure 7: Money factor in the open market: mortgage example

Table 1: Measures taken by Countries against Crisis²⁴

What are arranged after the crisis disease?

a- National wealth is engaged for these guarantees

	BANK RESPONSIBILITIES				BANK ASSETS		OTHER		
	a) Giving full guarantee or increasing the guarantee for deposit accounts	b) Guarantee for or purchasing the debts of banks	c) Capital injection	d) Nationalization	e) Ring-fencing bad assets	f) Planning of purchasing toxic assets	g) Funding private bonds	h) Funding financial stocks based on assets	i) Limiting or banning short-selling
America	x	x	x	x	x	x	x	x	x
Japan		x	x				x	x	x
Europe Region	x								
Germany	x	x	x			x			x
France		x	x						x
Italy	x		x						x
England	x	x	x	x	x		x	x	x

b- Guaranteeing the virtual growth produced by banks

c- Capital is used for the gaps of faults instead of investments required by people.

d- Contrary to the focusing on the main activities fulfilled by the government

e- The false results of the operations are charged to all people.

f- National wealths are harmed.

g- Unplanned expenses in spite of planned investments

h- In fact this is contrary to the virtual certificate (mortgage) based assets to be funded.

i- This is binded to leverage system that was used with ambitions to be rich which is called leverage.

After the crisis USA is shranked by \$500billion with a GDP growth rate of %-2,9 while China grew \$400billion with a GDP growth rate of %8,7. So, the gap between these two countries decreased by nearly \$1trillion.²⁵ It is noticed that the countries that lived interests causing virtual balloons and fattening in the GDP has

²⁴ Participation Banks Association of Turkey (2010), Participation Banks 2009, p.8, OECD General Outlook 2009

²⁵ http://www.dunya.com/abd-ekonomisi-son-6-yilin-en-hizli-buyume-rakamini-gordu_79589_haber.html , access 10/05/2010

imagined as if a growth has been in their economy. However, unreal growth in the their economies shrunked the GDP as usual. The Prophet in his hadith said ‘The results of the interest transactions is always poverty’.

The table IMF published as seen below points out that the countries which lives this virtual bubbled economy by derivatives and by exchange interests, have been much more affected from the global crisis. Prouding of an unreal grew economy has abandon its place to a shrunk GDP and bankruptcy after a time. While China has a successful outlook, the other ones , especially USA, Germany has lowered their national incomes in mentioned crisis periods.

G20 Countries Global Heat Map

	2008					2009							
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
Western Hemisphere													
USA	Light Blue	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	Light Blue
Canada	Dark Orange	Yellow	Yellow	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Light Green	Light Green	Light Green	Light Green	White
Mexico	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	White
Brazil	Light Blue	Yellow	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Argentina	Light Blue	Light Blue	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	Light Green	Light Green	Light Green	White
Asia Pacific													
Japan	Dark Orange	Dark Orange	Yellow	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Light Green	Light Blue	Light Blue	Light Blue
Australia	Yellow	Yellow	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Light Green	Yellow	Yellow	Light Green	Light Green	White	White
Korea	Light Blue	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Light Green	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Green
China	Light Green	Yellow	Yellow	Yellow	Yellow	Light Green	Light Green	Light Blue	Light Blue	Light Blue	Light Blue	Dark Blue	Dark Blue
Indonesia	Yellow	Dark Orange	Dark Orange	Dark Orange	Light Green	Light Green	Light Blue	Light Blue	Light Blue	Yellow	Yellow	Light Blue	Light Blue
India	Dark Blue	Yellow	Dark Orange	Dark Orange	Yellow	Yellow	Light Green	Light Green	Light Green	Light Blue	Light Blue	Light Blue	Light Blue
Europe													
Germany	Yellow	Yellow	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Light Green	Light Green	Light Green	Light Green
France	Yellow	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Yellow	Light Green	Light Green	Light Blue	Light Blue
Italy	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Yellow	Yellow	Light Green	Yellow	Light Green
England	Dark Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	Light Green	Light Green	Light Green
Turkey	Yellow	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Light Green	Yellow	Light Green	Light Green	Light Blue	Light Blue	Light Blue
Russia	Light Green	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Yellow	Light Green	Light Green	Light Green	Light Green
Africa													
S. Africa	Yellow	Yellow	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Dark Orange	Yellow	Yellow	Yellow	Light Green	Light Green

Table 2: G20 Countries Global Heat Map²⁶

Legend: Dark orange: Contraction at a increasing rate

Yellow: Contraction at a moderating rate Light green: Moving sideways

Light blue: Expansion but level below trend Blue: Expansion and level at or above trend

White: Data not available

Conclusion

The crediting are as in the case that sub-prime is a disadvantage, but in any case the supply and demand principle does not give permission to arrange the future prices. When his friends asked him to

www.dtm.gov.tr/dtadmin/upload/IHR/PazaraGirisDb/abd_pazara_giris.doc , access 10/05/2010

<http://www.steelorbis.com.tr/celik-haberleri/guncel-haberler/cinin-2009-yili-gsyihsi-3354-trilyon-rmb-509202.htm> , access 10/05/2010

²⁶ Participation Banks Association of Turkey (2010), Participation Banks 2009, p.9, IMF G-20 Global Economic Prospects and Principles for Policy Exit

arrange the prices as some requirements got expense, the Prophet said ‘The arrangements of prices are in hands of Allah(cc), so I can not interfere the right to this rule.’

The principle of demand and supply could have been lived as follows with the same results of cheaper priced of the houses in the crisis.

- a) More houses could have been instituted.
- b) On the other hand, the value of dollars could have been revaluated,
- c) A war could have made the price down,

then the prices would have gone down.

While the quest for “*the way out from the crisis*” accelerated in 2009, an international conference held in Jakarta, the capital city of Indonesia, indicates what level the point of view regarding interest-free banking has reached. During the conference, the answer given by Michael Saleh Gassner, one of the prominent experts on the system of interest-free banking to the question, “*Is it a utopia to prevent the financial crisis by the Islamic banking system?*”, was a historical one: “*Not entirely. According to the rules of Islamic banking, it is forbidden to earn interest on money, just this prohibition avoided crises in a sustainable manner in conclusion.*” (Peter Philipp, Deutsche Welle, Jakarta, 17.03.2009) Indeed, as it is stated in the article by Philipp, the fact that Islamic banking does not allow foreign exchange speculation, hedge funds and transfer of credits as it happened in the mortgage crisis in the USA functions like a safety valve during crises.²⁷

In the steps of mortgages journey from the home owners to the investor, the debt interest and the exchange interest have lived clearly by virtual income in the place of a real one. Non existent income is placed in their assets by the mortgages they have sold them to the others. And the other ones have sold them to another. The chain went on in this way. They all spent and after seeing the prices fell down and made a losing their activities, there has bankruptcies have been experienced and the nation got poor.

As a result of this research we have been certainly sure that the interest is the main reason of the crisis. We have followed up the exchange interest in mortgages which have caused unearned and disproportional share in incomes in the mortgage sale cycles, not only between bankers and lenders, but bankers and the other investors as well. On the other hand it is obvious that debt interest has been lived between FED, Creditors from Europe, Middle East, and the bankers. This crisis experienced the interests’ high bad effects in national incomes, harms individuals by earning virtual income and spending real wealths. While China and Argentina have been living away from the bad effects to their GDP, the others, i.e. USA, Germany, Japan, France have been lost their strength of GDP and highly bad affected from the crisis. However Turkey has been using conventional banking with interest-free banking, there has not any mortgage crisis has been observed. Turkey has less mortgage crediting than USA, but the main point is that Turkey has not sold the mortgages in terms of money which was unearned and had to be waited for the collection date.

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²⁷ Participation Banks Association of Turkey (2010), *Participation Banks 2009*, p.29.