

Zeti Akhtar Aziz: Brief overview of the Malaysian bond market

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launch of the RM760 million Wawasan Bond by the International Bank for Reconstruction and Development, Kuala Lumpur, 27 April 2005.

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Assalamualaikum warahmatullahi wabarakatuh and good evening

Mr Hiro Tsubota, Principal Financial Officer IBRD

Mr Michael Bennett, Senior Legal Counsel, IBRD

Dato' Nazir Razak, Chief Executive, CIMB

Mr Jeremy Oliver, Managing Director, ABN AMRO Bank Malaysia Berhad

Representatives from the Ministry of Finance, Bank Negara Malaysia and the Securities Commission

Ladies and Gentlemen

It gives me great pleasure to accept the invitation to witness the launch of the 760 million Ringgit-denominated Wawasan Bonds by the International Bank for Reconstruction and Development (IBRD). The decision to launch this bond in Malaysia is reflective of the confidence in the Malaysian capital market. This represents another milestone in the development of Malaysia's domestic bond market.

Malaysia's regulatory institutions are committed to the development of the country's bond market to the advantage of borrowers and investors. Our financial system continues to be transformed and redefined to become increasingly more diversified, more robust and more competitive. The significant progress achieved in the development of our bond market has been an important part of this process. With the foundations for strong performance in our financial system now being achieved, steps have been initiated to implement phased deregulation and liberalisation of the financial and capital markets. This is not only to enhance competitiveness in the Malaysian financial markets but also to strengthen its international integration, thereby facilitating our economic inter-linkages with the global economy.

As part of this process, Bank Negara Malaysia on April 11, 2004, liberalised the foreign exchange administration rules to permit Multilateral Financial Institutions and Multinational Corporations to raise ringgit-denominated bonds in the Malaysian capital market. The recent liberalisation of the foreign exchange administration rules on 23 March 2005, has also eliminated remnants of the restrictions on investors and greatly enhanced access to the Malaysian domestic market. The Malaysian foreign exchange environment is now by far, much more liberal than that existing prior to September 1998. To make the Malaysian capital market more competitive, the Government of Malaysia has also exempted non-residents from paying withholding tax on investments in such ringgit bonds issued in Malaysia.

Infrastructure development on the issuance, trading, information dissemination and settlement system have also been improved to encourage new issuance and sustain existing instruments. In addition, the regular issuance of Government securities in both conventional and Islamic instruments with different maturities has facilitated the creation of a benchmark yield curve. To meet investors' demand and diversify further Islamic financial instruments, the Government has recently issued shorter-term Islamic Treasury Bills and longer-term Islamic bonds with a maturity of 10 years.

With the development of the ringgit bond market it has continued to become an increasingly important source of financing to the economy. Total gross financing amounted to RM85.8 billion. As a result, total outstanding ringgit bonds increased by 10.7% to RM363 billion, which is equivalent to 81% of the gross domestic product. The general market conditions have also remained favourable for both issuance and trading activities, given the low inflation and interest rate environment and the strengthening of economic fundamentals. The Islamic bond market has also experienced exceptional growth. In 2004 the market expanded by 13.4%.

To further enhance market turnover, Bank Negara Malaysia announced in January this year the usage of repurchase agreements as a monetary policy instrument, introduced the Institutional Custodian Programme to enable borrowing and lending of securities, and provided a securities lending facility for principal dealers. The implementation of these measures are aimed at improving the price discovery process and increasing the efficiency of capital allocation within the financial system. To facilitate the further development of the Islamic bond market, the Government has also imposed tax neutrality between the treatment on Islamic and conventional capital market products.

It has been just one year since we allowed Multilateral Development Banks and Multinational Corporations to issue Ringgit denominated bonds in Malaysia, and we are now witnessing the third issuance of such bonds by a supranational. In that, I am pleased to welcome the IBRD's issuance of its 760 million Ringgit Wawasan Bonds in Malaysia. We are pleased to note that the World Bank has decided to make its inaugural issuance structured in compliance with the Shariah. This would indeed contribute to further broaden and develop the Islamic domestic capital market. This Islamic securities issuance is the largest Ringgit issuance by a supranational to-date.

In closing, I would like to thank the International Bank for Reconstruction and Development for the confidence it has placed in the Malaysian capital market. We look forward to see other issuances by non-resident issuers into the Ringgit capital market, thereby contributing towards broadening and deepening the market. Such issues will have far reaching advantages for the domestic bond market.

Let me once again, congratulate the World Bank and the Joint Lead Managers CIMB and ABN AMRO, for a successful issuance of the IBRD bond debut in Malaysia.

Thank you.