

Mohd Razif bin Abd Kadir: Economic outlook and business opportunities in Malaysia

Opening remarks by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, for Malaysia Country Showcase at the IFSB Summit: "Economic Outlook and Business Opportunities in Malaysia", Dubai, 14 May 2007.

* * *

I would like to welcome you to the Malaysia Country Showcase held in conjunction with the 4th Islamic Financial Services Board Summit. On behalf of the Malaysian delegation, I wish to thank you for your presence here on this important occasion as it gives us an opportunity to share the Malaysian business proposition and to nurture strong trade and investment ties in the region.

We are fortunate to have with us distinguished panel of experts who will be engaging in an interactive discourse. Today's forum provides a platform for greater awareness of the economic climate and outlook as well as the business potentials and opportunities in Malaysia.

A decade after the financial crisis, the Malaysian economy including the financial system is at its strongest position. Malaysia has greater economic flexibility to shift to new areas of growth and thus sustain the development momentum. Economic growth has been achieved with relative price stability, low unemployment and strong external balances. The level of savings remains high at 37 percent as a percentage to the GDP and the level of external reserves remains strong at USD91 billion. Malaysia has also taken advantage of globalisation to strengthen its economic and financial relationships with the major trading blocs across the globe. In 2006, the total value of the external trade exceeded RM1 trillion for the first time. Foreign direct investment has been sustained, particularly into the new areas of growth. The private sector continues as the main driver of growth for the fifth consecutive year, while the public sector plays a supportive role. GDP per capita at current prices has increased to about USD 6,000 in 2006.

While Malaysia continues to attract investment, both domestic and foreign from the traditional sectors, new sectors such as the manufacturing, services, and oil and gas sectors are gaining in importance. Resources are flowing into new growth areas such as revitalised agriculture sector, high-technology manufacturing industries and biotechnology. The services sector such as information technology services, shared services and outsourcing, health and medical tourism, and financial services, in particular Islamic finance has increased its market share.

The Malaysian Islamic banking system saw in particular strong performance in 2006 with higher profitability, and has remained well capitalised. Islamic banking assets amounting to about USD34 billion or 13 percent in terms of market share. The takaful sector stands at USD1.7 billion. The Malaysian Islamic capital market has been equally encouraging. Islamic corporate bonds now amounting to USD36 billion, or 48 percent of the total corporate bond issuance in Malaysia. The domestic bond market plays a crucial role in ensuring that the financing needs of the economy are being fulfilled. The multinationals and multi-lateral institutions such as the International Finance Corporation and the International Bank for Reconstruction and Development has begun to tap the fund from the Malaysian capital market by issuing ringgit sukuks, thus increasing its depth and diversity. The Malaysian private debt securities market including the conventional market has become the second largest market in Asia.

The economic and financial linkages between Asia and the Middle East are growing. While the world trade has on the average expanded by 10% over the period 2001-2005, Asia's trade with the Middle East has increased on the average by 24%. More than half of the exports from the Gulf states goes to Asia and more than one-fifth of its imports are from Asia. While the US remains the major recipient of investment flows from the GCC, Asia has surpassed the Euro region as the second most popular investment destination.

Malaysia is well positioned to provide the linkages through Islamic finance to support the flow of this kind of investment. We have put in place a comprehensive Islamic financial system that includes the legal, Shariah and regulatory infrastructure, supported by a diversity of players and a wide range of products and services. Our capital market has depth and breadth that is supported by an active secondary bond market. Situated centrally in the Asian time zone, Malaysia offers to serve as an investment gateway to the region, specialising in Islamic fund and wealth management, and providing

a platform for the issuance of sukuk. Malaysia launched the MIFC initiative last year in order to provide a more conducive business environment. We have liberalised the foreign equity to a maximum of 49 percent in existing Islamic banks and takaful companies.

New licences for International Islamic Bank and International Takaful Operator for the conduct of full range Islamic banking business or takaful and retakaful business in international currencies are being offered. Operational flexibility is given to new licensees to be set up as a branch or subsidiary who will enjoy tax holiday for 10 years under the Income Tax Act. Stamp duty exemption for ten years beginning this year has been granted on foreign currency instruments executed by these participants, and on instruments relating to ringgit and foreign currency Islamic securities. Approval has been granted to fully exempt from withholding tax any profits or income on non-residents' investments in non-ringgit Islamic securities including sukuk issued in Malaysia.

Malaysia maintains a liberal foreign exchange administration regime where investors are freely able to obtain ringgit and foreign currencies to fund their investments in Malaysia. We have relaxed the rules further to allow resident and foreign issuers to raise foreign currency-denominated bonds, including Islamic bonds. Foreigners investing in Malaysia are also free to hedge with onshore banks their committed flow of funds such as the repatriation of investment proceeds, dividends and profits from Malaysia as well as the purchase of ringgit assets in Malaysia. There is free mobility of inward and outward movement of funds relating to both foreign direct investment and portfolio capital investments. Multilateral development banks and multinational corporations may also issue ringgit or non-ringgit denominated instruments in the domestic bond market.

To enhance the delivery system, an executive committee of key government officials, financial regulators and industry players has been set up for the implementation of the initiatives to support the operations in the Islamic financial system. Among others, an "executive green lane" has been accorded to expedite applications by expatriates for long-term employment passes with multiple entry visas. The Foreign Investment Committee rules will also be relaxed further to allow 100 percent foreign equity ownership in these financial institutions. Moreover, the Islamic financial system will also adopt a conducive stance on Shariah interpretations and practices, consistent with its international dimensions. It will mutually recognise and accommodate the various juristic reasoning that has been approved by recognised Shariah advisers.

In conclusion, I wish the Malaysia Country showcase a success. I invite the business and financial communities from this region and the Malaysian delegation to capitalise on this event to arrange for business meetings on the sideline of this Summit.

Thank you.