

Zeti Akhtar Aziz: Comparing financial crises

Special address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Tun Ismail Ali Chair in Monetary and Financial Economies: Lecture on Comparison of the Financial Crises: "Japan and Asia in 1997-1998 vs. US 2008-2009", Kuala Lumpur, 10 July 2009.

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This year Bank Negara Malaysia celebrates 50 years of Central Banking. While a number of special events are taking place during the course of this year, perhaps the most significant one has taken place yesterday. It is most meaningful that I inform you on this occasion of the Public Lecture organised in honour of the first Malaysian Governor of Bank Negara Malaysia, Tun Ismail Mohamed Ali that yesterday the new Central Banking Act for Bank Negara Malaysia was passed by the Parliament. This new Act represents the culmination of more than two years' work to address many of the issues and challenges that are confronting Central Banks in the 21st century. The Act provides greater clarity of the mandate for which the Central Bank is accountable for, ensures adequate powers to undertake these mandates, and ensures autonomy in achieving these mandates thus providing for the integrity and credibility of the decisions made by the Bank. This is further reinforced by legislating the checks and balances in the Bank and a higher level of transparency to the Government, the legislature, the market and the public. Most importantly, this Act also addresses financial stability issues that have surfaced in this current international financial crisis.

It is my great pleasure to welcome you to the 2009 Tun Ismail Ali Public Lecture. This Public Lecture is now organised in conjunction with the Tun Ismail Ali Chair in Monetary and Financial Economics at the University of Malaya that was established by Bank Negara Malaysia in August of 2000 in honour of the late Tun Ismail Mohamed Ali. It is our hope that this Chair will contribute towards the advancement of knowledge in the area of monetary and financial economics.

This Public Lecture takes place at a time of a financial crisis that is continues to unfold in the advanced economies and that now is having unprecedented consequences on the global economy. For some parts of the world, such as Asia , the financial sector has largely not been affected, but the impact has been on the real sector, following the massive contraction in world trade. While this crisis started in early 2007, Malaysia has seen the full impact of this crisis on our economy in the first half of this year.

Today, we are very privileged to have with us Professor Dr. Takatoshi Ito, professor at the University of Tokyo and this year's holder of the Tun Ismail Ali Chair, to speak to us on the "*Comparison of the Financial Crises: Japan and Asia in 1997-1998 vs. US 2008-2009*".

The subject of this lecture is important as a greater understanding of the origins, the dynamics of financial crisis and the options for resolution is essential not only for its effective management but also for the lessons that can be drawn to prevent such future crisis. Given the severity and far reaching consequences of the current crisis, there has been a greater sense of urgency for the international community to come together to work towards a new international financial architecture that would allow for the more efficient functioning of not only financial intermediation within national economies but also across borders.

History has shown that there have been more than 100 distinct banking crises within the span of the recent two decades. While the trigger factors for such financial crisis may be different, for most it involved disruptions in the financial intermediation process, the downward spiral of asset prices and a general loss in confidence. Varying responses at different stages of the crisis have shown wide ranging degrees of success. The objective to be achieved is the restoration of stability in the financial markets, the resumption of credit

flows and the return of confidence. This would provide the beginning of the recovery of economic activity.

Malaysia 's own experience in managing the financial crisis in our part of the world over 1997-1998 was that a decisive and comprehensive response at an early stage of the crisis not only produced an early recovery but it also reduced the cost of the crisis on the financial system and the economy. The crisis was a defining moment for Bank Negara Malaysia . The Bank's efforts to sustain stability did not end when the Asian financial crisis abated, and when economic recovery was firmly in place. The key lesson was that foundations for resilience are built during the good times.

Once stability was restored, the Bank therefore embarked on a comprehensive restructuring and reform of the financial sector. This included the aggressive development of the domestic financial markets and the strengthening of the regulatory and supervisory oversight. This has been reinforced by a higher level of regional cooperation and collaboration. Therefore, it is not what we are currently doing to cope with this international financial crisis but the efforts that have been undertaken over several years that have ensured the resilience of our financial system during these most challenging of times.

Over the course of these recent months, we have witnessed the introduction of massive fiscal stimulus packages, sweeping proposals for regulatory reforms and various unorthodox policy measures being introduced to stabilise and restore market confidence in the financial system. Whilst these measures were necessary and have contributed towards some stabilisation in global financial markets, more importantly is the long-term sustainability of this trend. With the urgency for immediate measures receding, it is hoped that it will give way to consensus on finding fundamental solutions that involve regulatory and institutional reforms both at the national and international levels.

Conclusion

Today, we have the opportunity to listen to Professor Ito's lecture on the similarities and differences between the Asian Financial Crisis and the Japanese crisis of 1997-1998, and the US financial crisis of 2008-2009 and the valuable lessons that can be drawn in a global environment that is more complex and interconnected. Professor Ito has written extensively on financial policy and has been a policy advisor to the Government of Japan. We look forward to benefiting from your experience and wisdom on this subject.