

Zeti Akhtar Aziz: Collaboration and challenges of the central bank community

Dinner address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Bank for International Settlements Closing Dinner, Shanghai, 29 February 2016.

* * *

It is my honour to be invited to speak tonight at this distinguished gathering of Governors. In my 35 years as a career Central Banker, it has been my privilege to have been associated with the BIS for 20 of those years. The BIS had in the mid-1990s initiated a move to have a greater interface with the emerging world. This translated into an expansion of the membership of the BIS in 1996 and then again in 1999 and 2003, when several Central Banks in emerging Asia became members of the BIS. Today, almost half the membership of the BIS is from the emerging world.

This initiative by the BIS under the leadership of the late Sir Andrew Crockett has proven to be highly prescient given the growth of the emerging world in significance and influence in the global economy. The BIS has evolved to become an international organisation that is truly global. The BIS has not only focussed on the important issues on financial stability emanating from financial systems of the developed world but has also surfaced the issues that are important to the emerging world. Most important is the engagement and the opportunity provided for the emerging world to have a voice on the issues that have fundamental implications on us and on the broader global community. Jamie Caruana and the Board of the BIS, thank you for this.

It was in 1995 when I was first invited to participate in a BIS roundtable meeting and the topic then was on capital flows. Today, twenty years hence, this is still a hot topic and remains an unresolved issue as the world continues to witness massive shifts in funds across borders. Indeed, such financial flows are having serious repercussions on financial markets, notably on the money and foreign exchange markets, the capital markets and other asset markets across the world. In addressing such challenges and the many others that confront Central Banks, we have benefitted immensely from the work by the BIS. Not only has the BIS always flagged the issues important to Central Banks through its many excellent reports, research works, background notes which have always been of the highest quality and of great benefit to the Central Bank community but the BIS has also had a pivotal role in providing a platform that facilitates and strengthens engagement and cooperation among Central Banks. My own development has benefitted from the experience with the BIS including its highly prolific Asian office. It was also my privilege to be perhaps the longest serving member of the governance group at the BIS. The knowledge gained from this certainly benefitted the series of organisational transformation we undertook at Bank Negara Malaysia to enhance our organisational effectiveness.

As this BIS meeting is taking place in Asia, allow me to take the opportunity to say something about our region. While Asia has not been immune to the turbulence and the upheavals taking place in the different parts of the world, the region has been able to rise to the challenge and each time has demonstrated the ability to experience a swift rebound. Factors that have contributed to this resilience is not so much what we have done in response to the developments but it is what we have done previously that prepared us to weather these developments. These factors in varying degrees have included undertaking rebalancing and structural adjustments of our economies, economic and financial reforms, the development of our financial systems, pursuing greater fiscal discipline, building a more extensive policy tool kits, building buffers during the good times and advancing regional integration and cooperation.

For most of the region, following these efforts, our more diversified economies have become less vulnerable to economic shocks, our more diversified and developed financial systems have been better able to absorb and intermediate the financial turmoil and turbulence, while the financial reforms have also increased our flexibility and produced better price and exchange rate adjustments. Those with sound macroeconomic fundamentals including more sustainable fiscal positions also had the policy space to manage the implications of these challenging developments. Thus, despite our vulnerability to setbacks, these factors prepared the ground for Asia to be positioned for a rebound to a more sustainable growth.

Allow me to take this opportunity to also say something about China, the host country for our meetings. Let me first of all thank the PBC and in particular, Governor Zhou for the very warm hospitality that has been extended to us. China has always recognised its important role in the region. With its ascension to the WTO in 2001, the increase in intra-regional trade has been an important catalyst in driving growth in the Asian region. For many of us, China has become our largest trading partner. This trend is reinforced by the two-way foreign direct investment flows in the region. The use of the Renminbi to settle these trade and investment flows is a further factor that facilitates and strengthens these trade and investment flows.

In the area of Central Bank cooperation, the PBC has actively participated in all our regional groupings including that for the ASEAN economies. For Malaysia, this cooperation has manifested itself in many ways. The one event that I will always vividly remember is the one on 21st July 2005 at 7 o'clock in the evening when both China and Malaysia transitioned to a flexible exchange rate regime. For Malaysia, we had seven years earlier fixed our exchange rate during the height of the Asian financial crisis. Our transition into the flexible regime with China allowed for us to achieve it without being destabilised by the financial markets. Bank Negara Malaysia also became one of the first Asian Central Bank to be accorded the QFII status in 2009 as we took steps to diversify our reserves into Chinese and other Asian denominated papers. While China in the current environment is being confronted with challenges as it addresses its areas of vulnerabilities and as it takes steps to rebalance and reform its economy and financial system, it is these very actions that will provide the ground for a more sustainable China that will in turn become a source of stability for the region and for the global economy.

Looking ahead, there is much to be done by all of us. I have said that the business of Central Banking is an unfinished business. In view of the highly dynamic environment, there will always be new challenges on the horizon. For Asia, it is the future challenges that we now need to be concerned with. And it is what we do now that will prepare the ground for us for the future. There has been too much focus on the present. In Asia, while we have successfully prepared ourselves for the current environment, we now need to prepare ourselves for the future. Among the future challenges that are likely to confront Asia is whether our prevailing growth model is sustainable given the consequences from erosion of our demographic advantage, the rising indebtedness, the rising cost of living in an apparent period of low inflation, the need to meet the massive infrastructure requirements and the need to address the rising income disparities and the environmental challenges.

What then are the ways economic management can prepare us for the future? This will involve policies and reforms that will reduce leverage that will address the widening income disparities, that will effectively manage infrastructure development and urbanisation, that will accord environmental sustainability and finally that will accord importance to governance, accountability and integrity in the implementation and execution of the many endeavours to achieve a sustainable advancement.

For most Central Banks in the emerging world, our mandate is broader. Most certainly we are expected to have a role in contributing to addressing many of these challenges both directly and indirectly. Most of all, not only do we have a voice but we also provide support to addressing many of these issues, whether it is on financial inclusion, financing of infrastructure or putting in place financial and social safety nets or on environmental

sustainability. As much of these efforts will involve interface with other parts of the public sector, it has been my experience that the participation of the Central Bank in many of these agendas will require careful boundary management and a signing off when it is completed so that it does not remain permanently with the Central Bank. Of great importance in this process is also to carefully safeguard the independence of the Central Bank.

In conclusion, let me express my deep gratitude and appreciation to my fellow governors for all the cooperation and support that has been extended to me and to Bank Negara Malaysia. For the friendship and for the collaboration, it has truly been enriching for me. And to the BIS, thank you for this privilege to be part of the Central Bank community.