

Rasheed Mohammed Al Maraj: Financial and regulatory developments in Bahrain

Address by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the Middle East Financial Services Summit, Manama, 5 May 2008.

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Good morning Ladies and Gentlemen,

I am delighted to be here today at the Middle East Financial Services Summit, which is being held in Bahrain for the second consecutive year. It is indeed my pleasure to welcome you all here. I would also like to thank the organizers, FT Global Events, for their efforts in holding this event in Bahrain and for inviting me to address this distinguished audience.

Ladies & Gentlemen, much has changed since we last gathered here for this conference. At the time, the economic boom in the GCC region, with oil trading around US\$64, was the main headline news.

Today, as you all know, oil has scaled new heights at over \$115 a barrel on most days, the US subprime crisis has unleashed a global credit crunch and the world stands on the threshold of a food crisis due to the soaring prices of basic commodities.

Here, in the GCC, we are indeed fortunate on many fronts. Although we have no desire to destabilize international financial markets, the high oil prices have enabled us to embark on a new program to further modernize our economies, in order to secure prosperity for the long term.

However, the rising price of oil, while very welcome, has not come without its own challenges. Along with the rest of the world, we, too, are facing inflationary pressures, which need to be carefully managed without compromising the momentum of economic growth.

The central banks of the GCC, individually and collectively, are giving due attention to the issue of inflation and several new measures, such as rent caps and credit controls on banks, have been announced to support long-standing programmes of food subsidies and government housing for nationals.

In Bahrain, we have been particularly fortunate that inflationary levels have, so far, been more modest in comparison with our neighbors and that our financial services industry, which is a major component of the Bahraini economy, is enjoying good health.

As the regulator of the financial services industry, the Central Bank of Bahrain is pleased by the continued growth of Bahrain's financial services sector.

While the effects of the US subprime crisis and resulting credit crunch have affected a few Bahrain banks, as Steve points out in his latest article "Good Show Of Profits" in The Banker, Bahrain's banking industry has turned in record earnings of US\$3.3 billion for 2007 and revenue momentum is expected to remain strong for the foreseeable future. Unlike in the West, economies in this region have ample liquidity at hand so we are not as likely to suffer from credit worries.

However, despite all the good news, the CBB is not taking a rest from its regulatory and supervisory role. We continue to take a proactive approach in developing new regulations or updating/revising existing ones, as appropriate, in line with our long-standing policy of implementing international standards.

A key recent highlight has been the implementation, from the start of this year, of the Basel II regulatory framework, which will significantly enhance the risk management practices of Bahrain's banks. And, given the importance of Islamic banking in Bahrain, the CBB has

become the first financial services regulator to adopt a comprehensive Basel II compliant framework which provides for appropriate capital treatment of Islamic financial products.

The CBB is also currently developing new rules to limit banks' exposure to the real estate market. Although regulators cannot possibly micro manage the investment portfolios of their licensees, we do have a role to play in encouraging financial institutions to maintain more balanced portfolios.

I would like to take this opportunity to stress that the CBB has an established policy of consulting with industry prior to implementing new or any upgrades to existing regulations. The CBB strives to be an even-handed, transparent regulator and we are open to suggestions from the industry.

Maintaining a regulatory environment that is, at once, business-friendly and adheres to international best practice is, undoubtedly, one of the success factors in Bahrain's development as an international financial centre of repute over the past 35 years.

Today, Bahrain hosts the Middle East region's largest critical mass of financial institutions, which represent a good mix of international, regional and local players offering a very wide variety of services.

Within the financial services industry, the CBB sees significant growth in Islamic finance, both banking and insurance, as well as private banking and the funds industry.

In each case, the CBB has moved quickly to provide an enabling regulatory environment for the sound and stable development of that segment of the industry.

Ladies & Gentlemen, I have no doubt that Bahrain, as the Middle East's most mature financial centre, will remain at the forefront of financial developments in the Middle East region. Our core model remains strong and we have a clear vision for how we want to go forward.

Thank you for your attention and I look forward to welcoming you again in Bahrain soon.