

## Heng Swee Keat: New strategies for new economic realities

Remarks by Mr Heng Swee Keat, Managing Director of the Monetary Authority of Singapore, at the 16th Annual World Islamic Banking Conference, Bahrain, 7 December 2009.

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H.E. Governor Rasheed M. Al Maraj, Central Bank of Bahrain,  
H.E. Aset O. Issekeshov, Minister of Industry and Trade, Republic of Kazakhstan,  
Your Excellencies  
Distinguished guests  
Ladies and gentlemen

1. Good morning. I am honoured to speak at this plenary session of the 16th World Islamic Banking Conference.

### Global crisis and recovery

2. The theme of “New Strategies for New Economic Realities” is timely. Last year, the financial crisis that enveloped the world was unprecedented in scale, complexity and speed of transmission. Major financial institutions have failed and others continue to face significant challenges ahead.

3. The outlook seems better now than a year ago. Equity markets have rallied and credit spreads narrowed. Many Asian and GCC economies have recovered more quickly and strongly than expected with China and India leading the way. ASEAN-5 and GCC countries are expected to post small positive growth in 2009. Going into 2010, growth in ASEAN-5 and GCC is estimated to rebound sharply to 4% and 5.2% respectively.

4. However, sentiments remain volatile and investors react sharply to bad news, as recent events have shown. The global de-leveraging of financial institutions is still on-going. The IMF has highlighted that global banks and financial institutions have yet to recognize more than half of their total estimated write-downs of US\$3.4 trillion. So far, growth has been supported by the massive monetary and fiscal stimulus. Indeed, studies of past crises suggest that economic recoveries in the aftermath of financial crises tended to be protracted. Many analysts therefore expect global growth to be slower in the coming years.

5. Against this backdrop, what should be the growth strategies of emerging economies, and what is the role of financial institutions, especially Islamic financial institutions?

6. Even with slower global growth, emerging Asian and Middle Eastern economies are expected to grow at higher rates than advanced economies. There are many positives working in their favour – abundant natural resources and monetary reserves; young and dynamic populations, growing consumer demand, large infrastructural programmes underway in some areas like water, energy, transport, education and healthcare. Generally, balance sheets of corporates and households are in better shape than it was in earlier years.

7. With the growing importance of emerging economies, we will see changes in the patterns of trade and development. There will be stronger “south-south” trade. The old pattern of “flying geese” development in Asian newly-industrialised economies, where developed economies bring in investment and technologies, will give way to a more variegated pattern, where companies in the emerging markets will invest in other markets. We already see many corporates from emerging markets developing disruptive technologies and business models that address market needs in very competitive ways. It will be a more diverse and vibrant landscape in the future.

8. However, growth is not to be taken for granted. Many challenges remain. Let me suggest three areas where policy makers and financial practitioners in the Middle East and Asia can work together to contribute to growth and development.

9. First, at the recently-concluded APEC meetings in Singapore, it was recognised that sustainable global growth will require structural reforms and a new growth paradigm. We can no longer rely on export-led growth in developing countries and high consumption in the developed world driven by excessive leverage and asset appreciation. Big economies like China and India have greater scope to restructure their economies and raise domestic demand. Smaller economies such as Singapore and Bahrain have to re-orientate themselves and respond nimbly to new opportunities in global markets.

10. In both the GCC and Asian regions, the funding needs to support growth and development are large. For instance, the Asian Development Bank has projected that Asia requires US\$8 trillion of new infrastructure over the next decade. Such investments are important for economic growth, as well as for raising the quality of life by providing better access to education, health care and sanitation. Hence, as part of the structural reforms, governments need to put in place investment frameworks that promote and mitigate the risk of such long term investments.

11. Second, proper financing structure for such investment is crucial. Today, there is strong risk appetite for emerging market assets. National authorities are concerned with the risks of asset inflation and volatility of capital flows. But properly structured, these provide unique opportunities to channel the much-needed capital for growth and development. In this regard, Islamic finance which has its central emphasis on supporting real economic activities in trade, investment and the growth of productive capacities is especially relevant.

12. However, effective intermediation of capital requires focused attention on the management of risks. As I mentioned in my speech at the previous WIBC, many risks – including credit, market, liquidity, operational and reputational risks are common to both conventional and Islamic finance. Overly-optimistic projections of growth, or over-concentration in particular sectors, or mismatches in assets and liabilities can give rise to risks that can damage financial institutions. The crisis serves as a valuable pause from the frenzy of financial activities. This allows us to re-evaluate risk management practices in individual financial institutions, as well as the systemic linkages across institutions, instruments and markets.

13. Central banks and regulators need to cooperate closely so that risk assessments can be shared and common action taken where necessary. The Central Bank of Bahrain (CBB) and MAS have enjoyed very good relations, and have worked to promote Islamic Finance. The CBB is a highly-regarded central bank and integrated financial regulator. I am pleased that the MAS and CBB will be signing a Memorandum of Understanding later today to build on our existing strong relationship to enhance supervisory cooperation and information-sharing.

14. The third area relates to close interactions among industry practitioners and the development of ground knowledge. While there are many opportunities for trade and investment among emerging economies, the business linkages are only beginning to grow. Forums such as the WIBC provide a valuable platform for practitioners to build their knowledge of each region and the business leaders. At the same time, for large-scale and long-term investments such as in infrastructure, effective knowledge of partners and on-the-ground presence are important ways of mitigating risks.

### **Recent developments in Singapore**

15. Let me therefore take this opportunity to say a few words about developments in Singapore. As an international financial centre in Asia, Singapore seeks to develop Islamic finance by leveraging on our existing strengths in banking, insurance, asset management

and capital markets. Although relatively new, we have seen steady progress. MAS launched its Sukuk early this year. The Islamic Development Bank also issued a \$200m Singapore dollar-denominated trust certificate. In May, Olam International, a local trading firm tied up with the Islamic Bank of Asia to launch a Commodity Murabaha based on agricultural trade flows. Just last month, Singapore's Keppel T&T and Saudi Arabia's Al Rajhi Holding Group announced an agreement to establish a joint venture asset management company to manage the world's first Shariah-compliant data centre fund. Other Singapore companies and Real Estate Investment Trusts (REITs) are also using Shariah-compliant structures for their financing needs.

16. We were honoured to host the 5th Islamic Financial Services Board Annual Summit in May. At this Summit, MAS issued a consolidated set of guidelines to provide greater clarity and certainty on how our banking regulations apply to Islamic banking. Islamic finance was also featured when the Paris EUROPLACE International Financial Forum was held in Singapore in October. We will continue to work with fellow regulators and the private sector to fine-tune our regulatory approach and to develop the infrastructure and talent to facilitate the growth of Islamic Finance in Singapore.

17. As I mentioned earlier, bringing leaders in finance and business together to understand the developments in each region provides a valuable platform for collaboration. I am therefore pleased that MEGA Events has decided to bring the first Annual WIBC Asian Summit (Asia WIBC 2010) to Singapore. Islamic finance will provide an increasingly important bridge in the growing connectivity between the Middle East and Asia. Singapore is pleased to help catalyse deeper relations between these two high-growth regions. Asia WIBC will provide a unique platform for industry players from more established centres of Islamic finance to share their experiences. I look forward to welcoming all of you to the inaugural Asia WIBC in Singapore next June.

## **Conclusion**

18. In conclusion, the global economy is recovering gradually, though there remain many risks ahead. Emerging economies are expected to grow well, but we need to tackle the many structural challenges. Governments need to undertake structural reforms. The financial sector needs to facilitate the flow of funds into growth areas, and Islamic Finance will play an important role. By working closely to deepen risk management, and to enhance the ground knowledge in each region, we can contribute to sustainable growth. On this note, I wish you another very successful conference in Bahrain.