

Zeti Akhtar Aziz: Thoughts and visions on Islamic finance

Welcoming remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Malaysia Showcase Dinner, Manama, 3 May 2010.

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I have the distinct honour today to welcome distinguished guests to the Malaysia Showcase Dinner, organized in conjunction with the 7th Islamic Financial Services Board Summit. Let me first of all express our appreciation to H.E. Tun Dr. Mahathir Mohamad for accepting our invitation to speak at this event, sharing his thoughts and vision on Islamic finance moving forward. Tun Mahathir needs no introduction. During his twenty two years of leadership, Malaysia experienced modernization and economic prosperity. Malaysia is today a forward looking nation that continues to sustain its economic performance.

During the recent unprecedented international financial and economic crisis in 2008 and 2009, the Asian region has demonstrated remarkable resilience. The Asian economies have strong fundamentals with low public debt levels, providing flexibility to the governments in the region to implement large fiscal stimulus. In addition, strong and well capitalized financial institutions prevented disruption to credit flows to the private sector. In addition, the household and the corporate sectors in Asia are not over leveraged, thus are in a better position to sustain consumption and business activity. Asia is also not confronted by widespread unemployment.

Malaysia is very much part of this strong and vibrant region. For Malaysia, the economic recovery is expected to continue to gain further strength in 2010. In this environment, the focus of our policies has shifted towards building the foundations to transition into a high value-added, high income economy. The recently announced New Economic Model is intended to further accelerate Malaysia's development to realize these goals by 2020. The broad thrust of the strategies is to provide an enabling environment that will generate an economy that is characterised by high productivity, efficiency and innovation with the private sector that is the main driver of growth. Given Malaysia's proven record of economic flexibility for more than five decades, the strategy is also to transition to new areas of comparative advantage to sustain our growth momentum.

As a Central Bank, our attention has focused on ensuring the successful transformation of the Malaysian financial system that will facilitate our national economic development agenda. An important aspect of this transformation is the advancement of Islamic finance as an integral part of the overall financial system in Malaysia that is fast becoming an international Islamic financial centre.

Islamic finance has continued to demonstrate its resilience against the background of the current challenging international financial environment. The sustained and largely uninterrupted expansion of the global growth in Islamic finance has drawn significant international interest. The interest in Islamic finance is no longer just from Muslim nations but also from non Muslim communities. Financial centers such as London, France, Hong Kong and Singapore are increasing their efforts to enhance the development of Islamic Finance in their financial centers.

The internationalisation of Islamic finance has observed the strengthening of ties between Asia and the Middle East in trade and investments in the recent years. The early trade ties allowed the Old Silk Road to flourish. Today, Islamic finance involving financial flows between the two regions has revived and revitalized these economic ties that generate mutually reinforcing growth prospects for both regions. The emergence of new financial centres in Asia and the Middle East and their increased integration has strengthened the foundations for a New Silk Road. It has also opened up and extended this potential to

developed economies to forge stronger financial linkages with the growth regions of Asia and the Middle East.

Our ties with Bahrain have long been cemented with the signing of a Memorandum of Understanding between the Central Bank of Bahrain and the Central Bank of Malaysia in 2001 to jointly develop Islamic finance. There is a presence of institutions from Bahrain with interest in institutions in Malaysia and from Malaysia in Bahrain, since 2001. In Malaysia, they have become part of more than 150 entities that participate in our Islamic financial system that offers the spectrum of Islamic products and services.

While Islamic finance has demonstrated its resilience during the challenging period, continuous efforts are being taken to further strengthen its resilience and facilitate effective liquidity management across border. The Islamic Development Bank (IDB) in collaboration with the Islamic Financial Services Board (IFSB) has formed two taskforces – the Taskforce on Islamic Finance and Global Financial Stability and the High Level Taskforce on Liquidity Management. An important recommendation of the Task Force on Financial Stability that has been now operationalised in 2010 is the establishment of an Islamic Financial Stability Forum (IFSF) to be held twice a year following IFSB Council Meetings. It forms a strategic platform for productive dialogue to promote financial stability in the Islamic financial system. It also has the potential to interface with the Financial Stability Board in the conventional system to serve the common aim of achieving global financial stability.

Let me conclude my remarks. An important dimension of Islamic finance is not only its potential role and relevance in contributing to global financial stability but also its potential to support overall global economic growth. More importantly, it also represents an important channel for greater connectivity among emerging economies to not only enhance trade and investment flows but also international financial flows between nations and in so doing contribute towards an optimum allocation of resources across borders. These combined efforts will contribute to the stability of the international financial system and global economic prosperity.