

Zeti Akhtar Aziz: Opening of Bank Negara Malaysia Beijing Representative Office and initiatives to promote bilateral trade and investment

Remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the opening of the BNM Beijing Representative Office, Beijing, 18 November 2013.

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It is my great pleasure to welcome you to this official opening of Bank Negara Malaysia's Beijing Representative Office. The opening of this representative office today is an occasion of unprecedented significance for us. This Beijing office is Bank Negara Malaysia's very first presence in Asia. This is a reflection of the growing importance of China in the global economy and the international financial system and the very significant and longstanding financial and economic ties between Malaysia and China. This momentous occasion also marks the dawn of a new chapter as our bilateral relations transition and evolves reflecting the significant changes taking place in our respective economies and financial systems.

For many decades now, the foundation underpinning the strength and dynamism of our relationship is our ability to continually harness the complementarities that exists between our economies. While bilateral trade has consistently been expanding at double digit growth rates over the recent two decades, the breadth and depth of our relations have also evolved and expanded into greater financial linkages. In parallel to our growing economic ties, our financial institutions have also ventured into each financial systems, further strengthening our financial and economic connectivity. Currently, two of China's biggest banks, namely Bank of China and ICBC have operations in Malaysia while Malaysia's two largest banks, Maybank and CIMB have established their presence in China.

Our Beijing Representative Office, being inaugurated today, also signifies an important milestone in the cooperation between the People's Bank of China and Bank Negara Malaysia. Our two central banks have long cooperated in many areas of common interest in particular in the area of financial cooperation. In July of 2005, our currencies transitioned into a more flexible exchange rate regime at the very same moment. This enabled Malaysia to transition to this new regime effectively and efficiently. Bank Negara Malaysia has for more than a decade also participated in the fixed income market in China. We were among the first central banks in the world to be awarded the Qualified Foreign Institutional Investor (QFII) license to invest in China's fixed income onshore financial markets and to be granted access to the China Interbank Bond Market. Our close central bank cooperation is also reinforced through the various regional platforms, including ASEAN+3, EMEAP and SEACEN.

More recently, a series of measures have been undertaken to encourage the use of renminbi in the settlement of our bilateral trade and investment. In 2009, Bank Negara Malaysia entered into a Currency Swap Agreement (CSA) with the People's Bank of China, which was renewed in 2012 with an expanded amount of RMB180 billion, with the objective to ensure a ready supply of renminbi in the domestic financial markets to meet the demand by businesses. Efforts were also made to enhance the transparency in the exchange rate between renminbi and ringgit transactions. In 2010, a direct market quote of renminbi against the ringgit was initiated in the Kuala Lumpur interbank market as well as in the interbank foreign exchange market on the China Foreign Exchange Trade System (CFETS). With these developments there is now a direct renminbi/ringgit quotation in the spot market and a renminbi/ringgit forward exchange rate for the Malaysian market. To further facilitate transactions, the real time gross settlement (RTGS) payment system in Malaysia has also been expanded since 2012 to include settlement services in renminbi.

The size of renminbi trade settlement in Malaysia is expanding progressively reflecting the shift among both Malaysian and Chinese companies across the commodity, manufacturing and services sectors. There are also now 19 financial institutions that facilitate renminbi trade

settlement, double the number in 2009. There is also a growing interest in raising financing in renminbi in the Malaysian bond market. In 2011, Khazanah Nasional Berhad successfully issued the world's first offshore renminbi sukuk in 2011 and subsequently Axiata Group Berhad issued the world's first rated renminbi sukuk in 2012.

Today, in conjunction with the opening of the Beijing office, Bank Negara Malaysia wishes to announce further measures to reinforce the progress that has been made, and as part of the efforts to promote bilateral trade and investment.

- i. To facilitate more effective renminbi liquidity management by our financial institutions in Malaysia, Bank Negara Malaysia is introducing of a Renminbi Liquidity Facility (RLF) to licensed onshore banks. This facility aims to enhance renminbi liquidity in the domestic market by providing an additional avenue for the licensed onshore banks to obtain or invest RMB with the Bank. The Bank, through its own access to the interbank market in China, will offer these liquidity facilities via the renminbi/ringgit foreign exchange market, and the renminbi money and repurchase markets in the Malaysian interbank market;
- ii. Second, non-resident financial institutions that meet the prudential requirements will be permitted to offer ringgit trade financing, in collaboration with resident financial institutions. In this regard banks in China will also be allowed to provide ringgit trade financing in China; and
- iii. Finally, in recognition of the growing significance of regionally active financial institutions and the increased financial inter-linkages between our two economies as well as in mutual recognition and acceptance of each others' securities, Bank Negara Malaysia and the People's Bank of China has today signed a Memorandum of Understanding to establish a cross-border collateral arrangement that will enable financial institutions access to the central bank's liquidity facilities.

Let me now conclude my remarks. The most pressuring challenge for the world economy is to achieve a sustained and inclusive economic growth. Beyond the short-term volatility in the international financial markets, the prospects of the Asian region are well anchored on solid fundamentals, and underpinned by our economic and policy flexibility and years of reforms. Collectively, the Asian region will be an important growth center in the world economy contributing to global stability. China in particular has been successful in rebalancing its economy amidst structural adjustments and reforms that brings its economy to a sustainable growth trajectory. With the progressive move by China towards the internationalisation of their financial system in the years to come, there will be increased interconnectedness of the Chinese financial system with the rest of the region and the world and consequently, a wider role of the renminbi as it continues to grow in importance in international trade and financing activity. It would be inevitable that the renminbi will become an important reserve currency in the international financial system.

Against this development, the opening of the Bank Negara Malaysia's Beijing Representative Office builds on the deep ties that has already been forged and signifies our confidence and commitment to this future. The Beijing office will also serve as a key point for the Chinese financial community to engage Malaysia and understand the opportunities available in our countries. Finally, I would like to express our great appreciation to the People's Bank of China for their approval and support for the Bank's representative office.