

Adnan Zaylani Mohamad Zahid: Welcoming remarks - Islamic Development Bank-Malaysia's Islamic Financial Markets Subcommittee Roundtable Discussion 2024

Welcoming remarks by Mr Adnan Zaylani Mohamad Zahid, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Islamic Development Bank (IsDB) and Malaysia's Islamic Financial Markets Subcommittee (IFMC) Roundtable Discussion 2024, Kuala Lumpur, 27 May 2024.

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Assalamualaikum and a good day to all. It is my great pleasure to be part of this Roundtable Discussion between the Islamic Development Bank (IsDB) and Malaysia's Islamic Financial Markets Subcommittee (IFMC). This gathering offers an excellent platform to continue our ongoing conversations in harnessing our synergy for a bigger impact on the *ummah*.

Five decades of partnership, with Islamic finance as a propellant for bigger impact

Ladies and gentlemen,

Our partnership has come a long way. Malaysia was one of the founding members of the IsDB when it was founded in 1975. The establishment of the IsDB Regional Office in Kuala Lumpur in 1994, subsequently transformed into a Centre of Excellence in 2021, has served as a conduit for fostering exchanges in expertise, technology, and investment. The invaluable five decades of partnership between us have yielded mutual benefits, paving the way for continued collaboration.

Islamic finance has been the catalyst for the partnership against the backdrop of rapid global Islamic finance growth. The industry has grown more than twofold compared to a decade ago, with projected global Islamic finance assets estimated to reach USD6.7 trillion in 2027¹. At the heart of this development is the Islamic financial market, which plays an integral role in intermediate funds, effectively channelling liquidity in between industry surpluses and deficits, intermediating across financial institutions, different markets and borders. Part of the strong development that is most visible is the threefold increase in outstanding global sukuk over the last ten years, a testament to how Islamic financial markets have been able to intermediate long-term financing for sovereign and corporate sectors.

Islamic finance – A shared success story

Islamic finance has been our shared success story. Malaysia is home to the world's largest sukuk market, accounting for 40% of global sukuk outstanding². Islamic money market instruments maintain a significant share and have expanded steadily and correspondingly to support the growth of the Islamic banking sector, which now constitutes 46% of total financing³. We are also grateful that our Islamic Capital Market (ICM) experienced substantial growth and remains a key component of the Malaysian capital market, contributing 63% to its total size⁴.

IsDB, on the other hand, stands as a beacon of progress, embodying a commitment to fostering economic development and social progress in its 57 member countries and Muslims worldwide. A prominent issuer of high-quality sukuk with a broad investor base, IsDB deploys the proceeds of its sukuk to fund programmes that help shape the future of Islamic banking, benefiting a diverse portfolio of development projects and enriching markets. In Malaysia, the IsDB has made significant strides, leaving a positive and lasting footprint. In fact, Bank Negara Malaysia (BNM) has long been an investor in the IsDB public sukuk issuances and remains a major investor today.

One particular success story is also the International Islamic Liquidity Management Corporation (IILM), in which both BNM and IsDB played key foundational roles during its establishment alongside several other central banks. IILM facilitates cross-border liquidity management among global financial institutions through the issuance of high-quality, short-term USD sukuk. Today, IILM has successfully established a track record and has issued a cumulative over USD100 billion short-term tradable USD sukuk⁵. It is now looking at its next development phase, scaling up to meet the ever-growing demand for short-term paper in the Islamic financial market.

Three critical impetuses to further unlock Malaysia-IsDB potential synergy in Islamic finance

In light of the success stories that we share, Malaysia looks forward to further bolstering our partnership potential in Islamic finance. I would like to propose three critical impetuses for this:

First, strategic alignment is driven by aims to advance the *ummah*. Identifying common priorities for the IsDB and Malaysia will enable us to channel resources and focus efforts more effectively. The signing of the Murabahah Master Agreements today marks another milestone in achieving this, building upon a Memorandum of Understanding in 2021 between the Government of Malaysia and IsDB to cultivate cooperation on Islamic finance and related domains. It is instrumental in facilitating a deeper understanding of each other's investment preferences and risk appetites, paving the way for mutually beneficial investment linkages.

Another shared priority is our respective focus on green finance and sustainability agenda. The IsDB's Strategic Realignment 2023-2025, specifically on "Driving Green Economic Growth", aligns well with our Value-based Intermediation Framework and is empowered further by our national economic masterplans, the National Energy Transition Roadmap (NETR). We would also like to welcome greater engagement from multilateral development banks such as the IsDB to participate in providing financing and critical expertise in the area of sustainable development in Malaysia, particularly in green finance and sustainability. On that note, I am pleased to share that BNM is now providing regulatory flexibility for multilateral development banks to issue ringgit-denominated sukuk and to provide ringgit financing to resident entities in Malaysia without the need for prior approval from BNM. These foreign exchange policy flexibilities, as a package, are expected to reduce the concern of foreign exchange mismatch for both the lender and the borrower.

Second, innovation and conducive market access at the core of partnership.

Through innovative pilot projects such as a blended financing programme tailored for halal market players, our partnership could further capitalise on emerging global opportunities and evolving market needs. Potential collaborations could open the doors for competitive cross-border halal businesses in the OIC market. At the same time, it provides opportunities for cross-border trade facilitation for Islamic banks across jurisdictions, supported by diverse Shariah contracts available to cater for niche funding needs. The opportunities are bountiful.

Of equal importance, conducive market access should also be pursued to enable better investment flows and economic integration. This could be made possible by proactively addressing cross-border barriers and harmonisation of practices, aiming to drive sustainable development in Malaysia and the broader Islamic world.

Third, capacity building to future-proof talents in Islamic finance. Investment in human capital development is a pivotal strategy for fostering long-term growth in Islamic finance. In Malaysia, we have a robust capacity-building ecosystem such as professional qualification and certification programmes – to name a few; we have the Chartered Professional in Islamic Finance (CPIF), Certified Shariah Advisor (CSA) and Certified Shariah Practitioner (CSP). Even for financial markets, part of the modules for the Financial Market Certification, essentially the license to become a money market dealer, includes an Islamic money market module. While some of these cater to the Malaysian financial system, many are universally relevant. Malaysia is hopeful to play a supportive role in the continued growth of talent in the global Islamic financial sector.

Today's roundtable is highly timely. For us, the Islamic Financial Market Sub-Committee (IFMC), set up in 2022, is to address market challenges and drive solutions to deepen the domestic Islamic financial market. One of the IFMC's remarkable strides is in the area of Islamic derivatives, which has led to a groundbreaking Shariah Advisory Council ruling on the permissibility of anticipatory hedging. Building from this progress, the IFMC has also been entrusted to explore strategies to enhance foreign investors' participation in the domestic market and activate the market for sustainability-linked instruments. I hope that today's session will continue to build on that and generate more ideas that could also span the international and cross-border markets.

Indeed, allow me to offer a thought – drawing inspiration from Malaysia's experience, could the global Islamic finance realm benefit from the formation of a "Global" Islamic Financial Market Committee? Akin to the coalition of central banks and private sectors in the Global Foreign Exchange Committee (GFXC) established in 2017 for the global FX market, such a forum would magnify multi-jurisdictional efforts with a strategic vision to propel the global Islamic financial market, expand all our intermediation frontiers, and nurture resilient cross-border liquidity management.

Conclusion

In harnessing our partnership, let us be guided by the wisdom of the Quran verse:

"Cooperate with one another in goodness and righteousness, and do not cooperate in sin and transgression" [Al-Maidah: verse 2].

May this dialogue provide momentum for continued collaboration between us. Together, we can achieve even greater heights in Islamic finance. On this note, let the Islamic Development Bank and Islamic Financial Markets Subcommittee Roundtable Discussion begin – I wish you all a productive discourse ahead.

Thank you.

¹ Source: ICD-LSEG Islamic Finance Development Report 2023

² IIFM Sukuk Report 2023

³ Bank Negara Malaysia

⁴ Securities Commission; Statistics for Islamic Capital Market in Malaysia

⁵ Source: IILM website