Abdul Rasheed Ghaffour: Transforming banking and advancing sustainability

Special luncheon address by Mr Abdul Rasheed Ghaffour, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 2025 ASEAN Banking and Finance Summit, Kuala Lumpur, 25 February 2025.

* * *

Since its inception 58 years ago, ASEAN has evolved to become a significant force in global trade, investment and diplomacy. ASEAN now stands as the world's fourth-largest economic bloc, with an estimated GDP of USD4.13 trillion.[1] Looking ahead to 2025, ASEAN is poised for another strong year. GDP is expected to grow by 4.7%,[2] significantly outperforming the global average. Much has been said about ASEAN's pivotal role in global supply chains, our geopolitical neutrality and our strategic location for global trade. However, ASEAN's driver for sustainable economic growth also comes from within: robust domestic consumption from a youthful demographic, strong growth of individual member states and increasing regional integration. In 2023, for example, intra-ASEAN trade accounted for 21.5% of the region's total trade in goods.

Let me touch briefly on Malaysia's growth outlook. After a strong performance last year, Malaysia is expected to record steady growth going into 2025 despite the challenging global environment. The diversified export structure will help cushion against external demand shocks. But, more importantly, key factors within the economy, particularly the robust expansion in investment activity and resilient household spending, will be important to drive growth this year. Exports are also expected to continue expanding with support from tech upcycle and forthcoming tourist arrivals. We acknowledge that the growth outlook is highly subject to risks from trade and investment restrictions. However, growth could potentially be higher from greater spillovers from the tech upcycle, more robust tourism activities and faster implementation of investment projects in the country.

The financial sector lies at the core of ASEAN's progress over the years. The sector acts as the central engine to our economy, facilitating financial flows within ASEAN. Indeed, over the last few decades, we have made progress in facilitating regional capital flows, connecting our payment infrastructure and introducing a framework to support the integration of our banking system through the ASEAN Banking Integration Framework (ABIF). However, the potential for intra-ASEAN investments remains untapped, and there is still much to be done to achieve regional regulatory coherence. My vision is for the financial sector to become the critical enabler for the next phase of economic integration under the ASEAN Economic Community (AEC) 2045. This would require the sector to strategically harness the three driving forces: funding, technology and talent.

Mobilising funds to unlock new growth sectors, bridge financing gap and drive sustainable growth for ASEAN

Let's start with funding, which is a crucial driver of ASEAN economic growth. ASEAN is facing significant funding gaps that demand our urgent attention. Let me share a few examples. The Asian Development Bank reports that ASEAN economies will need infrastructure investments of at least USD2.8 trillion from 2023 to 2030 to sustain economic growth, reduce poverty and respond to climate change. Key projects in the region that require large financing include the ASEAN Power Grid, which is pivotal to advancing the region's climate and energy security agenda, and various ASEAN highway and railway projects, such as the Asian Highway Network, which are cornerstones of regional economic development and integration. Our micro, small, and medium enterprises (MSMEs) also face a daunting financing gap, exceeding USD300 billion annually.[3]

These figures underscore the urgent need for strategic investments and collaborative efforts to secure a resilient and sustainable future for ASEAN. This need is even more pressing in a region where over 90% of all social infrastructure development has traditionally relied on public resources,[4] and public funding faces increasing constraints. How, then, can the financial sector step in as a catalyst to crowd in diverse sources of funding and facilitate long-term investments to ensure sustainable economic expansion and build more resilient supply chains and communities?

This is where blended finance, the strategic use of public, private, and philanthropic finance sources and development finance, can be a critical tool to mobilise additional private capital flows toward sustainable development in ASEAN. The financial sector is pivotal in advancing blended finance to meet funding gaps in ASEAN, by enabling acceptable risk-taking levels based on various funding sources. This approach leverages the willingness of development finance and philanthropic funders, including sovereign funds within ASEAN to assume greater risk exposure, utilising tools like partial credit guarantees to attract additional investors. Multilateral development banks and development finance institutions play a critical role by offering concessional financing and technical assistance, which supports local companies in accessing capital markets and structuring deals, thereby encouraging participation by private financial institutions through co-funding arrangements.

I also believe that this is an opportunity for Islamic finance to demonstrate its unique role and impact. In recent years, Islamic finance has gained momentum within the ASEAN region. It offers alternative solutions to conventional financial structures through the use of risk sharing and social finance instruments that can be mobilised towards the development of productive economic sectors such as healthcare, transportation and green sectors. Notably, the deployment of blended capital using instruments such as waqf and zakat in Malaysia and a few neighbouring countries such as Indonesia and Brunei have significantly contributed to financial inclusion for the underserved and strengthened support for the MSMEs. An example of this is Malaysia's iTEKAD initiative, a social blended finance programme for low-income microentrepreneurs that provides social and commercial funding, which comes together with training and mentorship to empower them in generating sustainable income. In the capital market structure, Islamic finance has also been mobilised for infrastructure, climate and green projects. In Malaysia, for example, a total of USD56 billion of sukuk was issued in 2023 to fund real economic sectors with a high concentration in renewable energy and green real estate.

Embracing innovative financing structures will involve navigating various complexities that demand careful consideration, collaboration and adaptation. Hence, advancing capacity building within the financial sector is very crucial. In Malaysia, the Joint Committee on Climate Change (JC3) continues to serve as a key focal point in supporting the financial preparedness for climate change. As part of Malaysia's ASEAN Chairmanship in 2025, Bank Negara Malaysia is committed to supporting the region's transition efforts. During the ASEAN Finance Ministers and Governors Meeting week from 7 to 10 April this year in Kuala Lumpur, we will host several side events to advance these discussions. These events include a closed-door investor roundtable focused on innovative financing solutions for sizeable ASEAN green and transition projects, as well as pitching sessions on sustainable ASEAN Projects. We invite the financial industry to contribute and participate in these events.

Responsible deployment of technology in financial services is key to maximise its potential while minimising risk

Ladies and gentlemen,

There is an immense potential for ASEAN to also leverage technology. This is the second point. With a median age of about 30 and a substantial portion under 35,[5] ASEAN's population is digitally proficient. Indeed, the adoption of digital financial services can be a game-changer in addressing challenges within the region, which include to better serve the needs of large unbanked and underbanked populations in our region.

The outlook for digital financial services in ASEAN is very bright. Through innovations such as mobile wallets, digital payments and micro-lending, digital finance is expanding access to financial services for individuals who previously had limited options. These services are not just filling gaps – they are creating new pathways to financial inclusion, thereby allowing individuals to save, invest and access credit with unprecedented ease.

While digital financial services hold tremendous promise, it comes with its own set of risks. Today's technological advances are progressing at an unprecedented pace, making our response to these developments very crucial. For financial institutions, deployment of technology must be done thoughtfully and responsibly with holistic consideration of the impacts and value to the broader environment and community. This unwavering commitment to enhance financial services and preserve consumer confidence includes addressing cybersecurity risks, strengthening climate resilience, promoting financial literacy and ensuring that digital financial services are secure and accessible to all segments of society.

As regulators, our commitment is for our policies to strike a balance between embracing technological innovation and, at the same time, preserving financial stability. Our Regulatory Sandbox allows for experimentation and contributes to the recalibration of regulatory policies such as eKYC. We also adapt our regulations to welcome new players into the market, those that have strong value propositions on inclusion, as demonstrated by the issuance of our licensing and regulatory framework for digital banks and digital insurers and takaful operators.

Investing in talent strategies that not only creates a more agile and adaptive workforce, but also paves the way for regional talent mobility

Let me move on to the third point. At the heart of economic growth and development lies talent. ASEAN is blessed with a vibrant, young and dynamic workforce. To capitalise on this potential, the financial sector will need to create an environment that nurtures the next generation of leaders and innovators in finance who carry a unique ASEAN identity – one that is not only tech-savvy, but also adept at navigating the complexities of regional regulations and global economic shifts while championing social equity and environmental sustainability.

I would like to also take this opportunity to share Malaysia's efforts in developing talent in our financial sector. In July last year, the industry launched the Financial Sector Future Skills Framework, and this is to empower individuals to take charge of their professional development, while creating new talent pipelines and succession pools. I reiterate the call I made during the launch of the framework for the industry to work closely with training institutes, professional bodies and industry associations to ensure that training programmes meet the established quality assurance standards and set high standards in new skill areas.

Complementing this is a dynamic talent development hub, offering tailored learning programmes and certifications. For example, the Financial Sector Talent Enrichment Programme (FSTEP) targets fresh graduates interested in launching their career in financial services, while globally recognised financial certifications are available for seasoned professionals.

Malaysia is also home to regional research and learning hubs such as the SEACEN Centre and is recognised globally as a leader in Islamic finance. With a multitude of well-established talent development institutions and capacity-building providers in Islamic finance, we offer a fertile ground for nurturing specialised skills and thought leadership in this field.

To truly capitalise on the large working-age population in ASEAN, we need to go beyond domestic efforts. Financial institutions across the region should pursue collaborative initiatives that enhance talent mobility, such as through mutual recognition of qualifications and expertise sharing. ABIF can also be leveraged to intensify efforts to promote greater regulatory coherence through capacity-building initiatives. By doing so, we can improve connectivity across ASEAN markets, paving the way for a more integrated and resilient future for the region.

In closing, today's discourse reaffirms the financial sector's commitment to turning AEC 2045 into a reality. The challenge lies in ensuring that the ASEAN financial sector has the capacity to do so by mobilising funds, leveraging technology, and developing regional talent.

As I conclude my speech, I leave you with a thought from Peter Drucker: 'The best way to predict the future is to create it.' Together, let's create a future where the financial sector empowers ASEAN's growth and integration. On that note, I wish you all productive discussions during the rest of the Summit.

---

[1] ASEAN in the Global Economy: A Half-Century Journey

[2] ASEAN Outlook 2025

[3] MSMEs In ASEAN: Addressing The Financing Gap – OpEd – Eurasia Review

[4] Q&A: Innovative Financing Can Help Bridge Southeast Asia's Infrastructure Financing Gap | Asian Development Bank

[5] WEF ASEAN Youth Survey 2020 Report