Governor's Keynote Address at the Management Association of the Philippines (MAP) Luncheon Seminar: "Why Asia? Asia's Prospects and How Emerging Markets Shall Shape the Region's Future" Manila, 2 May 2012

Keynote Address by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
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It is my great pleasure to be here in Manila to give this luncheon address. Let me thank the Management Association of the Philippines for the invitation to speak here today on Asia's future prospects; why Asia and how will emerging Asia shape the region.

Opportunities in Asia are now boundless. Key in generating these opportunities are the economic flexibility of the region, the diverse nature of the region that has generated the potential to leverage on regional complementarities, and the demographic advantages of the region. These opportunities are also being enhanced by the significant payoffs gained from a decade of reforms, and the intensification of regional economic and financial integration that is now taking place and resulting in a more connected and cohesive region. Despite being at different stages of development and operating in different economic systems, the benefits are also increasingly being more widely shared. Finally, the region has also benefited immensely from the resilience built, and more recently, from having the policy flexibility to minimise to the effects of the recent global financial crisis.

Let me elaborate on these prevailing trends that are shaping emerging Asia's future. Asia's growth prospect is very much underpinned by the transformative momentum that has, for a number of decades, brought emerging Asia to its current growth trajectory. The economic flexibility of emerging Asia has enabled most of the economies in the region to adjust to the changing conditions and to shift resources to new areas of comparative advantage. Emerging Asia has demonstrated that it has not been weighed down by structural rigidities and impediments. Capital and labour mobility has been strengthened by the economic and financial reforms that have resulted in the shift towards greater market orientation and liberalisation. Changing economic structures and transformation within specific sectors, including the participation in cross border production chains, have been gaining significance. Emerging Asia has also been able to leverage on technology to push beyond prevailing frontiers. Firms in emerging Asia are also increasingly innovating and allocating resources to research and development, and becoming leading players in their various respective industries.

An equally important economic shift that is taking place in Asia is the rebalancing of the economies from being export-dependent to domestic demand becoming an important source of growth. Rising incomes, stable labour market conditions and resilient financial systems have supported private consumption and investment activity. Asia is, therefore, transitioning from being just global producers to being global consumers. Asia also has the policy space to support and strengthen domestic demand. Asia is becoming a huge cumulative market in the global economy.

Reinforcing the economic flexibility of Asia is the diversity of the region. Asia is one of the most diverse regions in the world in terms of size, stage of development, resources, economic structure, degree of openness and market orientation. In harnessing each other's comparative advantage and leveraging on the regional complementarities, for Asia as a region, the whole has become significantly greater than the sum of its individual economies. Over the recent decade, this has generated a significant expansion in intra-regional trade, investment and financial flows. This trend is expected to intensify significantly

going forward. The diversity of emerging Asia also presents immense opportunities in terms of the growing markets across the entire spectrum of products and services.

The third key trend that is shaping the future of the region is its demographic advantages. Asia is by far the most populous region of the world, accounting for 60 per cent of the world's population. A vast, growing and young middle class population, with increasing affluence, will be a key defining characteristic, and an underlying growth driver of Asia. By 2030, it is projected that the current 500 million Asian middle class will grow by more than six-fold, to be more than 3 billion. This will have significant implications on global consumption and trade patterns, and on urbanisation and infrastructure development. The scale is immense. The Asian Development Bank has also projected that over this decade, Asia will require an investment of over 8 trillion US dollars in infrastructure development. It has been projected that every year, 44 million Asians are expected be added to the urban population.

The opportunities generated by these trends are being further enhanced by greater regional economic and financial integration. The intensification in regional integration will not only contribute towards accelerating Asia's growth momentum, but also further strengthen the resilience and stability of the region. The increased intra-regional trade and investment linkages within Asia over this recent decade have strengthened Asia's economic resilience to external shocks. Indeed, the changing patterns of trade have allowed Asia to better withstand and emerge with an earlier recovery from this recent global financial crisis. It has also enabled Asia to be less susceptible to the ongoing deleveraging in the advanced economies. The more recent efforts have focused on strengthening regional financial integration - not only to sustain regional financial stability, but also to promote more efficient intermediation of funds in Asia to support the region's growth prospects. It will allow for the effective rechannelling of Asia's sizeable surplus funds towards productive investments in the region. Going forward, the intensification of regional integration will mutually reinforce the strengthening of domestic demand in Asia, thereby enhancing the region's economic growth prospects.

While regional economic and financial integration will intensify going forward, driven by the opportunities it presents and the conscious policies for a more cohesive region, Asia will continue to be integrated with the global economy and the international financial system. The external environment for Asia has, however, changed significantly. The protracted weakness in global demand can be expected to persist over the medium term, given the structural nature of the problems confronting several of the major economies. Any setback in the recovery process, or any severe economic contraction in any of these economies, would affect Asia through the trade channel.

In addition, the Asian region is also affected by the significant and continuous global policy spillovers. This includes the effects of the implementation by several of the major economies, the fiscal austerity measures, the unprecedented quantitative easing, the unintended consequences of the regulatory reform, the effects from deleveraging arising from the efforts by both the public and financial sectors to reduce their levels of indebtedness, and the effects of resolution of stressed financial institutions. These global policy spillovers are affecting international trade and financial flows.

How has Asia managed these fundamentals forces affecting our region? It is the wide ranging actions that have been taken by Asia during the decades before that has well positioned Asia to absorb and manage the effects of these global developments. The strengthening of domestic demand, building resilient financial systems, and facilitating regional financial and economic integration that has been reinforced by growth supporting policies, have contributed to particularly mitigate the effects of slower trade on the regional economies.

Similarly, the development of the domestic financial system particularly the domestic financial markets, the strengthening of the surveillance system and the legal, regulatory and supervisory frameworks, have increased

the capacity and capability to manage consequences on access to cross border financing, and from quantitative easing, deleveraging activities, and financial sector resolution in the major economies. In addition, this has been reinforced by the building of buffers during the good times. Financial intermediaries remain well capitalised with strong buffers, while the international reserves remain sufficient to deal with surges and reversals in capital flows.

A more recent development in this decade is greater regional collaboration and cooperation. Asia is well ahead in the areas of surveillance arrangements, financial safety nets, and crisis management. These frameworks and arrangements have been built up during the good times. Information sharing and the establishment of regional arrangements and platforms, including the building of regional financial infrastructures and markets, are not only to facilitate the efficient intermediation of financial resources, but also to safeguard financial stability in the region. This trend paves the way for coordinated policy actions to manage and mitigate the risks and vulnerabilities to the region.

Conclusion

The global economic and financial environment remains highly dynamic and uncertain. While emerging Asia is unmistakably contributing to reshaping the configuration of the global economy and the international financial system, the fundamental underlying factors driving this global transformation needs to be continually reinforced. It will require our own continuous economic and financial transformation. Most important will be to ensure the continued economic flexibility of the region to adjust to the rapidly changing global and regional conditions, the strengthening of the connectivity among the emerging economies in general and within the Asian region, and to boost further the resilience of the region to withstand any destabilising developments.

The ASEAN economies have a distinct advantage. In terms of their economic flexibility, their size and stage of development provides the prospects of having greater agility to adjust to the rapidly changing conditions. In terms of the connectivity, the ASEAN region is a highly cohesive region. Historically, it goes a long way back to the 1950s. Cooperation and collaboration are evident in most areas of economic activity and in the financial sector, in both the public and private sectors. Policy-makers participate in several regional agreements and arrangements. The large economies have the opportunity to leverage on the potential synergies from a greater interface with the ASEAN grouping.

To realise the Asian potential, continuing the transformative momentum and enhancing the cohesiveness of the region would not be complete without ensuring that the benefits of development is widely shared. Experience has shown, even in the advanced economies, that when inequality is high and significant, instability follows. Greater inclusiveness within economies and across the region is important to ensure the sustainability of our growth and development. An important part of this transformative momentum and greater inclusion will be the transformation involving education, health care and the social security system. Addressing these challenges will ensure Asia has a high potential to remain on its growth and development trajectory.

Governor's Keynote Address at the IBBM-APABI Conference: "Global Challenges and Local Opportunities" Kuala Lumpur, 8 May 2012

Keynote Address by

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It is my honour to officiate this Asian-Pacific Association of Banking Institutes (APABI) Conference hosted here in Kuala Lumpur by the Institute of Bankers Malaysia (IBBM). This Association has an important role in bringing together financial industry training institutes that share a common goal to equip financial institutions with the capacity to deal with the transformational developments that are shaping the financial sector - by supporting the continued renewal of its most valuable asset, human capital.

The global financial industry is experiencing a period of profound change. In the advanced economies, decades of exceptional growth are giving way to contracting financial and economic conditions, greater regulation and significant government intervention, while in the emerging world however, financial and economic growth have continued. In addition, the intensification of policies and reforms to address structural issues in several of the major advanced economies will also have a significant bearing on the future growth prospects for many financial institutions and businesses. This is reinforced by the implementation of new prudential standards, both at the national and global levels, which are also set to substantially redefine the expected norms and the boundaries of modern finance.

As emerging Asia aspires towards achieving higher levels of income and living standards, a different path from that which led the way for many advanced economies will need to be considered. The global financial crisis and the Asian financial crisis have provided us with many important lessons that should form the underpinnings for the development of a sound economic and financial policy framework. Such a framework must effectively combine strong regulation and market discipline to reinforce financial stability. The recent crisis has shown that markets cannot be exclusively relied on to rein in excesses. A broader perspective of regulation that looks beyond individual institutions is also essential to identify the build-up of system-wide risks. Equally, financial institutions need to consider how to meaningfully include such system-wide perspectives in their approach to managing risks in their respective institutions.

Public policy also has a crucial role in promoting economic development that benefits society at large, and that addresses the disproportionate social welfare effects of a financial crisis on the most vulnerable groups of society, including low-income households, retail consumers and small businesses. Specifically, policies that protect the core savings of these groups, promote financial inclusion and contain excessive leverage should also form an integral component of the resolution and reform agenda. Given the high costs of financial crises there is now a better appreciation of the need for such policies to co-exist with free markets, working to efficiently allocate economic capital to achieve more sustainable outcomes.

While significant challenges continue to confront several of the advanced economies as they seek to address the structural problems that remain unresolved, Asia must chart its own path in formulating strategies to develop our economies and financial systems. Following the Asian financial crisis, most emerging economies in Asia have strengthened their economic and financial fundamentals, improved their fiscal and external debt positions, and reformed their banking sectors. This has supported our economies through the recent global financial turmoil. With a significantly stronger foundation, Asia has now every potential to meet its growth and development goals in a manner that avoids the pitfalls that will undermine our future prospects. This morning, I would like to focus my

remarks on five factors that I believe will serve to anchor sustainable growth and stability in Asia going forward.

Supporting sustainable growth and stability in Asia

First is that the growth of the financial sector in Asia remains largely anchored in productive, real economic activity. In contrast to developments in recent years, financial innovation in Asia has mostly served to support the legitimate financing, investment and risk management needs of businesses and households. The growth of the financial sector has not significantly outstripped economic growth and new innovations in financial products and services have not taken on the degree of complexity and high leverage observed in the economies that were affected by the crisis. Financial institutions in Asia also had limited exposure to highly leveraged activities, such as complex derivatives and structured credit instruments. Consistent with the more traditional banking models in Asia, there are now calls for a return to basic banking and its clear separation from higher risk-taking activities. The growth of Islamic finance, with its emphasis on the close link between financial transactions and real economic activity and which embraces universal values such as transparency and fairness, further supports this trend.

The emphasis on productive financial innovation has also been reinforced by a long standing focus in Asia on promoting effective consumer protection arrangements. In the recent period, this has received renewed attention by authorities given the experience of the recent crisis which has underscored how market conduct failures that led to widespread mis-selling and predatory lending, was not only detrimental to consumers, but also a source of systemic risk. An emphasis on product transparency and disclosure, responsible sales and marketing practices as well as investment in financial education have served to better align the interests of financial institutions and consumers, thus reducing the potential for harmful practices. Asian economies have also taken steps to strengthen the financial safety net including deposit insurance, while putting in place institutional arrangements for debt counselling and restructuring. These measures can contribute towards pre-empting widespread defaults particularly during periods of stress.

Second is the continued commitment and sustained progress in the development of strong regulatory and supervisory systems for the financial sector. Significant progress has been achieved in Asia in this recent decade to strengthen the institutional arrangements and the capacity to safeguard financial stability. This includes putting in place more comprehensive regulatory frameworks, improving supervisory approaches and having clear mandates for central banks and supervisory authorities to deal with system-wide risks. While these measures have yielded tremendous pay offs, efforts have continued to be made to strengthen further the resilience of the financial system. New initiatives are being pursued to enhance surveillance and crisis management tools to enable swift responses to emerging risks and vulnerabilities in the financial system, including those within the traditionally unregulated segments of the financial system. Authorities in Asia are also continuing to refine and sharpen the efficacy of “macroprudential” instruments to manage excesses and imbalances in the financial system. Asia already has considerable experience with these instruments during periods of escalating asset prices and excessive financial market volatility. They therefore already represent an important part of the broader toolkit for managing risks to financial stability.

The effort to implement global regulatory reforms is also now underway in Asia, with many jurisdictions making significant progress in detailing out rules to implement the Basel III standards. The international reform package aims to significantly raise the resilience of the global banking system and to promote sound risk-taking. The standards will see banks holding larger amounts of capital, including buffers which can be drawn down as losses occur, thus ensuring their continued ability to support lending to the economy even during times of crisis. At the same time, the standards will also require banks to significantly strengthen their liquidity and funding positions in order to support orderly credit intermediation processes. Concerns have however been raised about the unintended consequences that may arise from the implementation of these standards

- including potential ramifications on the real economy - and therefore the need for the reforms to be implemented cautiously. This underscores the importance of conducting impact and behavioural studies during the transition period, and the need to consider how the national implementation of the global standards should reflect domestic experiences and circumstances.

Third is the high priority placed on the pursuit of a balanced and equitable growth through the financial inclusion agenda as a key component of Asia's overall strategy for sustaining medium and long-term economic progress. At its core, the financial inclusion agenda seeks to empower all individuals, irrespective of income level, economic activity or geography, to have the means and opportunity to undertake financial transactions, generate income, accumulate assets and to financially protect themselves against unexpected adverse events.

Countries in this region have been active in pioneering sustainable financial inclusion tools and models. Due in large part to a strong public policy focus on promoting an inclusive financial sector, the financial industry in Asia is also more attuned to financial inclusion objectives in their business outlook. This can be seen from recent evidence of financial institutions in the region that have successfully adopted "double bottom line" strategies that combine enhanced financial access goals with profitability, thus enabling the financial inclusion agenda to be achieved in a responsible and sustainable manner. Institutions in several parts of Asia have been effective in utilising innovative means of outreach to overcome geographical and cost barriers in delivering essential financial services such as microcredit, affordable insurance, avenues for savings, and accessible payments and remittance services. Governments in the region continue with measures to bridge the gap with the necessary financial infrastructure, developing rules for orderly and responsible business conduct, and catalysing the volume of financial transactions by channelling social transfers, wages or pensions through the formal financial system.

Such advancements by the region in financial inclusion contribute towards eradicating poverty and uplifting living standards. As growth in the region continues, it will become even more important to ensure that such growth does not further widen the social divide and disenfranchise those who remain excluded from its benefits. An inclusive growth process in the region, which draws marginalised segments into the formal financial system and that empowers small businesses and consumers already within the financial system to better utilise financial services, will enhance the contribution of this segment of the population to the economic growth process.

Fourth, is the greater regional economic and financial integration in Asia which has been supported by strengthened institutional frameworks for safeguarding regional financial stability and a deepening of regional cooperation. With greater cross-regional participation in the respective domestic financial systems, efforts have intensified to build a strong foundation that will promote regional stability alongside the measures implemented to strengthen domestic frameworks. These include wide ranging measures to develop regional financial markets, to improve liquidity management across borders, to strengthen cooperation networks for the supervision of regionally-active financial institutions and to establish regional infrastructure to enhance the efficiency and lower the risks associated with cross-border payments and settlements.

Regional arrangements between central banks and supervisory authorities have also been significantly strengthened to actively share information on emerging risks to regional stability and where necessary to coordinate regional responses. An important part of this includes the ongoing work to enhance the frameworks for crisis management including the orderly resolution of financial institutions with significant cross-border operations. Within the ASEAN region, measures are currently being pursued to promote greater consistency in the adoption of regulatory and supervisory standards in anticipation of a larger role for ASEAN banks in driving regional integration as part of the broader agenda to realise an ASEAN Economic Community by 2015. Collectively, these arrangements aim to ensure that the expansion of cross-border financial linkages takes place

within a framework and process that adequately mitigates systemic risk across borders.
Fifth, central banks and regulatory authorities in most emerging economies in Asia have the broader mandate that includes a focus on the development of the financial sector as a means not only to enhance the growth and development potential, but also to reinforce a strong foundation for financial stability.
In Malaysia, the development and reform of the financial sector in the decade that followed the Asian financial crisis has not only developed the financial sector to better serve the Malaysian economy, but it has also better positioned financial institutions to withstand the destabilising episodes emanating from external shocks. This has included strengthening financial intermediaries, not only in terms of scale but also in their financial positions, risk management and governance practices. This has contributed to more efficient financial intermediation while improving access to financing, particularly for small and medium scale businesses. Efforts to develop a vibrant capital market have meanwhile opened up alternative channels for financing, while mitigating concentration risk in the financial system and enhancing its ability to absorb large and volatile cross-border capital flows.

These factors will place Asia on a firm foundation to achieve its growth and development goals. While public policy clearly has an important role, it is as important for the financial industry to align itself with the desired outcomes of sustainable growth within a longer term horizon. This will involve a number of important considerations for financial institutions, including the rethinking of business models in the light of a re-assessment of risk and return expectations, a reflection on fundamental value systems that ultimately shape individual actions, with greater premium placed on responsible and ethical behaviour, and the regulatory changes taking place.

New imperatives for talent development in the financial sector

Having the required talent will be a key pillar in managing the challenges confronting the Asian financial sector moving forward. The increased demand and competition for highly-skilled financial professionals in the financial sector continues to be fierce. In Malaysia, demand is expected to be particularly pronounced for specialised skills in risk management and high growth and niche areas.

At the same time, the new financial landscape also raises critical leadership and organisational challenges, particularly as banks in Asia become larger and more complex with increasingly diverse geographical and product markets. This underscores the need for financial institutions to be helmed by world-class leaders, with critical strategic and leadership capabilities to build institutions that are dynamic, resilient and agile in the face of a more challenging operating environment. In line with the increasing regional character of the financial sector, there will also be a greater emphasis on talent that better appreciates national and cultural differences. Meanwhile, boards of directors are also be expected to have a more effective role in providing independent oversight and strategic guidance that promotes the long-term resilience and continued viability of financial institutions.
These imperatives translate into significant demands on human capital development. New talent development strategies are needed, as well as a critical re-assessment of the existing content and approach to training for the financial industry workforce to ensure their continued relevance, within a broader regional context. This represents a significant challenge and an important priority for Asia. In order to bring talent development to the next level, there is scope to pursue meaningful strategic partnerships in financial sector education and training. With growing cross-border linkages of the region's financial systems, there are significant benefits to be gained from improving the quality and consistency of standards in financial sector training in the region.

On collaboration in financial industry training

This conference represents a unique collaborative opportunity to discuss current issues and trends in human capital development in the banking sector across different financial systems within the Asia Pacific region. The efforts of APABI in providing

this platform should therefore be well leveraged by its member institutes. Given the varying levels of financial sector development across the region, there will be tremendous benefit in the sharing of ideas and methodology on human capital development especially in newly introduced areas in banking and finance.

In Malaysia, our approach to human capital talent development is also founded on the collaborative approach. With the establishment of the Asian Institute of Finance (AIF) in 2009, talent development in the financial sector is given a strategic priority and is coordinated in a holistic manner, across the spectrum of the financial services industry. This is important as many of the initiatives supporting these human capital development strategies are multi-disciplinary and multi-layered. Under this arrangement individual training institutes comprising banking, insurance, Islamic finance and the capital markets sector have now converged onto a single platform to formulate a unified approach in strategic direction. The ultimate goal for this is to develop financial sector talent with world class capabilities to drive a sustainable growth and development of the financial sector.

Conclusion

Notwithstanding a more challenging period ahead, the financial industry in Asia is well-positioned to benefit from continued favourable growth prospects, supported by strengthened fundamentals that underpin the financial sector. The financial industry has an important role in reinforcing these fundamentals through the business strategies that are pursued, alignment of incentives and developmental priorities, including the development of human capital. Conferences such as this can contribute towards developing a broader understanding of the important issues to the industry, and to direct the focus of cooperative opportunities to build a stronger foundation for sustainable growth. On that note, I wish you a productive and engaging Conference.

Governor's Keynote Address at the Wharton Global Alumni Forum: "Asia in the World: Sustaining the Region's Transformative Momentum" Jakarta, 22 June 2012

Keynote Adress by

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The global economy is experiencing a period of profound change. Asia is very much at the centre of this global change. Asia's changing role in the global economy has not only been in terms of its growing size, but also in terms of its influence in global economic and financial developments. The issue before us is whether Asia will continue its transformative momentum over the medium to longer term, to become an increasingly important source of global growth and stability.

It is my very great honour and pleasure to be here in Jakarta to speak at this Wharton Global Alumni Forum. Exactly a decade ago, I was actually invited to speak on the same subject on the state and future of Asia at the Wharton School in Philadelphia. Then, having just emerged from the Asian financial crisis, the region was again being challenged by a series of economic and financial shocks, in particular, the bursting of the dot com bubble in the United States in the year 2000. Observers had questioned the sustainability of the region's medium and longer term growth prospects. Now, five years into the global financial crisis, Asia is faced with an even more challenging and uncertain global environment, as significant spillovers originating from Europe and the United States are being felt by the region. Again, questions on the sustainability of the region's economic growth prospects are being raised. My remarks today will focus on the new challenges that are confronting Asia, and whether its resilience built in this decade will now enable Asia to rise to these greater and more complex challenges.

Challenges Arising from Global Spillovers

Given the degree of openness of most of the Asian economies, Asia is highly integrated with the global economy. While Asia benefited from this openness, it also resulted in the region being more vulnerable to global financial and economic developments. Many previous episodes of economic recession and crisis were triggered by external shocks, which at times exacerbated and amplified domestic vulnerabilities. These include the commodity price shocks in the 1970s and '80s, the large swings of destabilising capital flows in the 1990s, the bursting of the tech bubbles and the SARs epidemic in the early 2000s, and finally the global recession which saw an unprecedented decline in global trade.

The ongoing global financial and economic crisis is resulting in turbulence in the international financial markets. In part, this is emanating from the global policy spillovers arising from the unprecedented monetary easing, which has resulted in surges of capital inflows in search of higher returns in a low interest rate environment. This is followed by reversals arising from the deleveraging efforts to reduce public and private indebtedness. These volatile capital flows in the international financial markets have increased the volatility in exchange rates and asset markets. The low international interest rate environment has also been a factor that has increased the prospect for the financialisation of commodity markets.

Finally, there is the impact of the potential unintended consequences of the global financial regulatory reforms. The effort to implement the new global regulatory reforms is already underway in Asia, with many jurisdictions making significant progress. These reforms are aimed to significantly enhance financial institutional soundness and safeguard financial stability. Concerns have, however, been raised on the unintended consequences that may arise in the emerging economies, including its potential ramifications on the real economy. This underscores the importance to implement

these reforms cautiously, including the need to conduct impact and behavioural studies, and to consider how the national implementation of these global standards should reflect the respective domestic experiences and circumstances.

Factors Underlying the Transformation of Asia

Asia's rapid growth trajectory over several decades has been underpinned by a number of fundamental characteristics. These same characteristics are still present and will continue to support the ongoing transformation that is currently taking place. More recently, distinct strategies have been implemented to strengthen further the macroeconomic fundamentals and financial system soundness in the region. These stronger foundations, of steady growth, low unemployment, relatively low inflation, and strong and more developed financial systems, have strengthened Asia's resilience and its ability to manage external vulnerabilities. They have placed Asia today in a stronger position to secure and sustain its future growth and stability, compared to a decade ago

Three prominent characteristics that are common to most countries in the region have contributed to Asia's economic success. First and most important is the economic flexibility of Asia – the ability to adjust to changing conditions without being weighed down by structural impediments and policy rigidities. The significant investment in productivity enhancements and technology is complemented by the high degree of capital and labour mobility. Financial reforms for deregulation and greater market orientation and liberalisation have also facilitated the region to continually shift resources to new areas of comparative advantage. These have not only enhanced Asia's competitiveness, but also yielded a more diversified economic structure. More recently, the policy strategy has been to strengthen domestic demand as an important driver of growth. This will serve to anchor Asia's growth prospects. As domestic demand strengthens, Asia is transitioning from being global producers to becoming global consumers. This trend will also contribute towards more balanced global growth.

Asia is one of the most diverse regions in the world – in terms of market size, stage of development, resource endowment, economic structure, financial sector development, and market systems. Asia has leveraged on the complementarities arising from this diversity. This is reflected in the increased cross-border production networks in Asia, where substantial gains have been experienced from the region being involved in the entire supply chain for a wide range of products and services. Increased intra-regional trade and investment over the recent decade has also resulted in a more diversified export structure – in terms of markets and products. Going forward, this diversity will continue to present significant opportunities in the form of large and growing markets across a wide spectrum of goods and services

Accounting for 60 percent of the world's population, Asia is by far the most populous region of the world. This demographic advantage is a key economic asset for the region. In this current decade, a young middle class population has emerged, and it is growing both in number and in affluence. Asia's current middle class of 500 million people is projected to increase by more than six-fold, to exceed 3 billion people, by 2030. This tremendous increase in scale will significantly raise Asia's potential to be important consumers in the global economy. In parallel, urbanisation and infrastructure development will reinforce this trend. This increase in consumption and the greater need for investment will anchor the growing importance of domestic demand in Asia.

These fundamentals have been reinforced by the implementation of distinct strategies that have been undertaken in this recent decade following the Asian financial crisis, to strengthen the region's ability to manage external shocks. The effectiveness of these reforms was put to test during the recent global crisis. While affected by the crisis, the effects on the domestic economies and financial systems have been relatively contained. Importantly, financial intermediation has not been disrupted, and the financial systems have continued the supply of credit to support the real economy.

Following the Asian financial crisis, wide-ranging financial reforms were undertaken to strengthen the financial systems of the region. The building of sufficient capital and liquidity buffers during good times provided the ability to support the continued credit intermediation process. Improved regulatory and supervisory approaches, underpinned by enhanced governance and risk management practices, have enhanced financial stability in the region. Enhanced surveillance arrangements and a wider range of policy tools have placed policymakers in better state of readiness to deal with problems in the financial system pre-emptively. Macroprudential policies have also been extensively relied upon to mitigate the risks from excesses and imbalances in the financial system. Continued efforts were also made to further advance financial sector development in the region. In particular, the development of the domestic bond market has served to reinforce the foundations for financial stability in Asia. Financial activities have also remained generally anchored by productive real economic activities. In addition to the region's strong external position, high international reserves and more flexible exchange rates have also enabled Asia to absorb and adjust to changing external conditions.

The increasing cohesiveness of Asia is also a core strength and source of stability for the region. Steps have been intensified during this recent decade for greater financial integration. The motivation for greater financial integration is not only to unlock the growth potential of the region, but to achieve more effective and efficient intermediation of funds in the region, particularly by channelling the large surplus funds in the region to productive investments in the region. This would also support regional economic integration. While Asia's trade with economies outside the region has doubled since 2000, intra-Asia trade has tripled. Now, more than fifty five percent of Asia's total export is within the region. Intra-regional investment activity has also increased significantly during this decade.

It is important to recognise that the approach to a more integrated Asia is different from that adopted by Europe. In the early 2000s, a study undertaken by the ASEAN ten economies concluded that the region did not have the preconditions for a single currency. A different route would therefore be taken to achieve greater integration. For the ASEAN region, it would involve a sequenced liberalisation of the financial sector and capital account, and the development of regional financial markets and financial infrastructure including the regional payments and settlement system. This arrangement also allows for a gradual pace of integration to ensure domestic readiness and the flexibility to take into account the prevailing conditions and stage of development of the participating financial system. Regional collaborative efforts also have been significantly enhanced in the area of crisis management. The region is now well ahead in the areas of regional surveillance and supervisory arrangement, and in crisis prevention, management and resolution. Regional support mechanisms have also been established. There are also regional institutional arrangements in place for the active sharing of information on the emerging risks to regional stability and on building domestic capacities and to coordinate regional responses in the event of eminent risks to the region. These efforts will be further strengthened into the future.

Islamic Finance as a Growth Area in Asia

The rapid integration of Islamic finance into the international financial system is a growing feature in the financial landscape of Asia. Developments in several emerging economies in Asia have seen the rapid expansion of Islamic finance. Global Islamic financial assets are now estimated to be more than 1 trillion US dollars. While more than 60 percent of the world's Muslim population is in Asia, the interest in Islamic finance transcends to beyond this community. The inherent principle of Islamic finance, which requires financial transactions to be accompanied by underlying economic activity, ensures the close link between the expansion in financial assets with the real economy. It also increases its potential in fostering sustainable growth. This has positioned Islamic finance to be well-anchored to serve the real economy, and enhances its potential as a sustainable and stable form of financial intermediation.

With the intensification of the internationalisation of Islamic finance, it has an increasing role in bridging economies through the mobilisation and channelling of funds to productive investment activities across borders. More than 600 Islamic financial institutions operate in more than 75 countries. The sukuk market is fast becoming an important platform for international fund raising and investment activities that are generating increased cross-border flows. From an outstanding amount of 33 billion US dollars in 2006, the sukuk market has expanded to 180 billion US dollars by the end of 2011, of which 66 percent originated from Asia. There has also been a growing trend for multi-currency sukuk issuances in Asia, attracting global investors to participate in this market.

In reinforcing the internationalisation of Islamic finance, global initiatives have been taken to strengthen its institutional and international infrastructure, with emphasis in ensuring financial stability. International prudential standards and best practices have been issued by the Islamic Financial Services Board, which was established in 2002. The industry is also guided by international accounting standards that have been issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, which was established in 1990. The International Islamic Liquidity Management Corporation (IILM), established in 2010, is a further global collaborative effort to enhance liquidity management in the Islamic financial system.

Conclusion

To fully realise the Asian potential, continuing the transformative momentum of the region will not be complete without ensuring that the benefits of development are widely shared. Experience has shown, even in the advanced economies, that when inequality is high and a significant proportion of the population is excluded from the opportunity to participate meaningfully in income and wealth generation, instability follows. To ensure that rapid economic growth and transformation does not further widen the social divide and disenfranchise those who remain excluded from its benefits, access to high-quality, healthcare, social security and financial inclusion is now an important focus of the region.

The contour of the global economy is fundamentally changing amidst mounting challenges and continued uncertainties. In this environment, Asia has become an important source of stability. While the region is affected by the ongoing economic and financial crisis originating from Europe and the United States, the Asian region continues to remain on a growth trajectory, although at a more modest level. Greater regional cohesiveness and cooperation, however, has enhanced Asia's potential to address these new challenges that are confronting the region. The success of the region is not only in the interest of the Asian economies, but the world.

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2 May 2012

In her keynote address at the Management Association of the Philippines Luncheon Seminar in Manila entitled "Why Asia? Asia's Prospects and How Emerging Markets Shall Shape the Region's Future", Governor Dr. Zeti highlighted that opportunities in Asia are now boundless and key in generating these opportunities are the region's economic flexibility, high diversity and demographic advantages. She noted that while the global economic and financial environment remains highly dynamic and uncertain, emerging Asia would continue to contribute in reshaping the configuration of the global economy and international financial system. She further noted that the fundamental underlying factors driving this change would require Asian countries' continuous economic and financial transformation to ensure economic flexibility to adjust to the rapidly changing global and regional conditions.

3 May 2012

The Bank was named the winner of the Bank Regulator of the Year Award in the Asia Pacific Region and Best Conduct of Business Regulator Award for 2012 by the Asian Banker. In announcing the results, the Asian Banker mentioned that the Bank has demonstrated exemplary supervision and rigorous conduct, successfully steering Malaysia's financial system to emerge mostly unscathed through the global financial crisis. The Bank has also strategically positioned Malaysia as the leading Islamic financial hub in Asia, at the forefront of the international market in Islamic finance. The awards programme was held in conjunction with the Asian Banker Summit 2012, Asia's most important annual risk event, featuring leading practitioners from a cross-section of banks and global regulators.

8 May 2012

In her keynote address at the Asian-Pacific Association of Banking Institutes Conference, hosted by Institute of Bankers Malaysia in Kuala Lumpur, entitled "Global Challenges and Local Opportunities", Governor highlighted that the financial industry in Asia is well-positioned to benefit from continued favourable growth prospects, supported by strengthened fundamentals that underpin the region's financial sector. She added that Asian economies have also taken steps to strengthen the financial safety net including deposit insurance, while putting in place institutional arrangements for debt counselling and restructuring which can contribute towards pre-empting widespread defaults, particularly, during periods of stress. She further noted that the regional arrangements between central banks and supervisory authorities have also been significantly strengthened to actively share information on emerging risks to regional stability and where necessary to coordinate regional responses.

11 May 2012

At its third meeting for 2012, the Bank's Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.00%. The MPC stated that while the global economy continues to recover, recent developments namely rising concerns over the sovereign debt crisis and policy uncertainties in Europe and uncertainty in the pace of economic recovery in North America have increased the risks to global growth. Growth momentum in Asia was also affected by the slowdown in international trade activity. While the Malaysian economy is affected by the global developments, domestic demand has continued to support growth, driven by firm consumption and investment activity. In the MPC's assessment, there remain continued uncertainties emanating from the global economic and financial environment. The MPC will continue to carefully assess these evolving conditions and their implications on the overall outlook for inflation and growth of the Malaysian economy.

14 May 2012

The Bank hosted the second meeting of the Financial Stability Board (FSB) Regional Consultative Group for Asia in Kuala Lumpur. The meeting discussed issues relating to vulnerabilities and regional financial stability, particularly the implications on the macroeconomy, markets and funding liquidity arising from the deleveraging of European financial institutions. In this context, members of the group discussed about policy options to address the impact and negative consequences of external and domestic developments. In addition, they also discussed the consequences of the global financial reforms on emerging markets and developing economies. The group also reviewed the FSB's activities and initiatives since it last met and discussed implementation challenges facing the region.

17 May 2012

The Bank and the Central Bank of the Republic of Turkey signed a Memorandum of Understanding (MoU) in Istanbul, Turkey. The MoU aims to foster strategic cooperation towards promoting bilateral investment and liquidity arrangements, to support the development of the financial services sector and to enhance economic and financial linkages between the two countries through bilateral trade and investment. This will also include building the required financial infrastructure, payments and settlements arrangements to facilitate bilateral trade in the respective local currencies of the two countries. The implementation of this MoU would pave the way for greater collaboration in enhancing inter-linkages between both nations.

23 May 2012

The Bank announced that Malaysia has sustained its economic growth momentum in the first quarter of 2012 by registering a growth of 4.7%, despite the challenging external environment. Domestic demand remained firm, supported by both private and public sector economic activity. On the supply side, growth of the construction sector strengthened further and the mining sector turned around to record a marginal growth while other sectors, namely, services, manufacturing and agriculture moderated. The headline inflation rate moderated to 2.3% in the first quarter, attributed mainly to moderation in food prices and transportation costs.

29 May 2012

The Bank issued two types of commemorative coin in conjunction with The 100th Anniversary of World Association of Girl Guides and Girl Scouts. The commemorative coins were launched by Her Majesty The Raja Permaisuri Agong Tuanku Hajah Haminah in Ipoh, Perak. The coins were issued as Silver Proof and Nordic Gold Brilliant Uncirculated with a face value of RM10 and RM1 respectively.

30 May 2012

The Bank announced the introduction of a new Islamic monetary instrument, the Collateralised Murabahah. The Collateralised Murabahah is a new low credit-risk financial instrument that enables collateralised interbank transactions in the Islamic Money Market in Malaysia. It adds diversity to the existing liquidity management tools and further promotes greater liquidity in the Islamic financial market. This monetary instrument can be used by Islamic financial institutions to obtain liquidity from the Bank under the standing facility and it will also be expanded to facilitate daily Islamic money market operations in the interbank market.

21 June 2012

The Bank announced that it will host the third Global Islamic Finance Forum (GIFF) 2012 in Sasana Kijang, Kuala Lumpur from 18 - 20 September 2012, themed "Internationalisation of Islamic Finance: Bridging Economies" in recognition of the tremendous international prospects of the thriving Islamic Finance industry. Considered as one of the key international events in the calendar of Islamic finance, the GIFF 2012 is a high-level multi-track forum that brings together regulators, scholars and financial industry players who are key drivers in shaping Islamic finance globally.

22 June 2012

In her keynote address at the Wharton Global Alumni Forum in Jakarta, Indonesia entitled "Asia in the World: Sustaining the Region's Transformative Momentum", Governor highlighted that Asia is in a better state of readiness to deal with global financial shocks as a result of the wide-ranging financial reforms undertaken in the aftermath of the Asian financial crisis. She noted that the effectiveness of these reforms was put to test during the recent global crisis. While affected by the crisis, the effects on the Asian domestic economies and financial systems have been relatively contained whereby financial intermediation has not been disrupted, and the financial systems have continued the supply of credit to support the real economy. She further noted that improved regulatory and supervisory approaches, underpinned by enhanced governance and risk management practices, have also enhanced financial stability in the region.

On the same day, the Bank issued three types of commemorative coin in conjunction with the Installation of His Majesty Seri Paduka Baginda Yang di-Pertuan Agong XIV Almu'tasimu Billahi Muhibbuddin Tuanku Alhaj Abdul Halim Mu'adzam Shah ibni AlMarhum Sultan Badlishah. The commemorative coins were presented to His Majesty at Istana Negara, Kuala Lumpur. The coins were issued as Gold Proof, Silver Proof and Nordic Gold Brilliant Uncirculated with a face value of RM100, RM10 and RM1 respectively.

26 June 2012

The Bank updated on the status of Islamic Mega Bank licence applications, informing that entities applying for such licences are required to meet all the existing rules and regulations set forth by the Bank with the applications being market driven and private sector led. A full licence will only be awarded once all legal and regulatory requirements are met. The issuance of such licences in Malaysia will increase the internationalisation of Islamic Finance in the Malaysian financial system thus enhancing the country's global financial and economic inter-linkages.