

**Meeting of Central Banks and Monetary Authorities of the Organisation of
Islamic Cooperation (OIC) Member Countries**

Central Banking and Financial Sector Development

Welcoming Remarks

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Dear Governors and Distinguished Guests,

It is with great pleasure that I welcome Your Excellencies to this year's OIC Central Bank Governor's Meeting here in Kuala Lumpur. Bank Negara Malaysia is most honoured to host this meeting. Our meeting takes place during turbulent times as the global crisis enters its fifth year and as its repercussions continues to reverberate across the world. This has become the worst financial crisis recorded in modern history. The significant strains are emanating from the persistent and evolving weaknesses in the financial systems, public finances and economies, with issues on governance, discipline and integrity compounding the depth and severity of the crisis.

2. Meanwhile the momentum of the financial sector development in the emerging economies has continued to accelerate and our economies have continued to perform. Indeed, the development of our financial systems surpass that of size and growth – our financial systems are also integrating, facilitating financial flows between us that reinforce our trade and investment. Models of finance that originate from emerging economies are now pushing new frontiers globally – such as Islamic finance and those that promote greater financial inclusion. These developments can be expected to gain significance with the increasing importance of emerging economies in the world economy.

Ladies and Gentlemen,

3. Despite the rising concerns – and in some parts of the world, anger, hostility and resentment – on the financial sector, there needs to be recognition that the financial system, when functioning well, is an instrumental catalyst for creating prosperity and sustainable economic development. A growing body of empirical research has revealed remarkably consistent evidence that financial sector development has first order impact on: firstly, the rate of long-run economic growth – primarily through the efficient allocation of resources; secondly, the distribution of wealth, particularly through its impact on the earnings of low-income households; and thirdly, economic transformation, through innovations in financing that allow capital to be efficiently and effectively allocated towards frontier areas of growth.

4. Nevertheless, this Global Financial Crisis – and the hundreds of financial crises experienced in various parts of the world since the end of the Second World War – serves as a reminder that the financial system, when impaired, can also be a destructive force that hinders growth and curtails economic opportunities. This is especially the case due to three inter-related scenarios: first, when the incentive

structure and concentration of influence prevents the efficient allocation of capital; second, when there are failures of regulation and governance; and third, when the opacity of the financial system intensifies excesses and concentrates risks, instead of corrects and diversifies them.

Three Key Issues

5. The key challenge, therefore, is how can we ensure that the development of the financial system serves economic development – sustainably and inclusively? Conceptually, the **primary role and contribution of the financial system** in the economy, has been the provision of a payments system; and the channel for credit intermediation for the efficient allocation of resources. No economy can function without a payments system, and indeed, a key foundation of a modern progressive economy is a payments system that effectively facilitates economic transactions. Meanwhile, it is through efficient credit intermediation that the financial system generates the most value to economic development – by directing scarce resources towards activities that generate the greatest economic value. Whilst the value of the financial system is conceptually clear, in practice; this clarity is exacerbated by the increasing complexity of the environment. It is often difficult to identify the thresholds in which the financial system stops contributing positively to the economy; where it begins to become a risk to growth.

6. The second issue relates to **how the financial system should be structured, managed, and regulated**. This is particularly important for emerging economies, where issues concerning the optimal composition of the financial system, are critical to an economy that is undergoing structural change. This is compounded with the challenges of simultaneously ensuring that regulation of the financial system is commensurate with addressing the risks of the evolving financial system.

7. Finally, **the role of central banks in safeguarding financial stability and fostering financial sector development**. In addition, given the rising international dimension of the financial sector, our financial systems are integrating rapidly. Central banks not only have important roles in ensuring that the integration process will unlock the potentials of our respective economies but through effective cooperation ensure mutual reinforcing benefits and overall financial stability.

8. Our meeting today will be discussing several of these issues. With this, allow me to introduce our distinguished speaker for the keynote address this morning, His Excellency Mr. Shaukat Aziz, former Prime Minister of Pakistan. Serving from 2004 to 2007, he became the nation's first prime minister to complete a full term in office. During his tenure, Pakistan saw high economic growth, increased per capita income, a reduction in poverty, a surge in investments, and improved debt levels and economic indicators. Before serving as prime minister, he served five years as finance minister. His experience will undoubtedly provide valuable insights on the many issues before us today. Please join me in welcoming him.

Thank you.

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