Statement of H.E. Dr. Savaş Alpay, Director General of SESRIC

at

The Meeting of the Central Banks and Monetary Authorities of the OIC Member States

16 November 2011, Kuala Lumpur, Malaysia

Excellencies, Governors of the Central Banks of the OIC Member States,
Distinguished delegates,

Assalamu Alaykum we Rahmatullahi we Barakatuhu

It is a great pleasure for me to address this august gathering and distinguished audience on the occasion of the Meeting of the Central Banks and Monetary Authorities of the OIC Member States, which we have the honour, at SESRIC, to organise it jointly with the Central Bank of Malaysia (Bank Negara Malaysia). At the outset, I would like to express my deep thanks and gratitude to you all for designating this day from your valuable time to participate in this important meeting. I would like also to extend my thanks and appreciations to Bank Negara Malaysia for hosting the meeting and for the excellent arrangements and preparations they made to ensure the success of the meeting.

Your meeting in September last year in Istanbul took place when the world economy started to show signs of slow recovery following the severe recession due to the negative impacts of the global financial crisis. However, while the current recovery in the world economy is expected to gain strength in this year and in 2012, many developed and advanced economies are still under great economic and financial stress. On the one hand, while most of these countries are still struggling to reduce the burden of unemployment on their economies, on the other hand, some of them, particularly the euro zone economies, are currently suffering the negative impacts of emerging sovereign debt crisis.

As you may recall, many of these countries were forced, during the crisis, to recapitalize banks, take over a large part of the debts of failing financial institutions and introduce large stimulus packages to revive demand. As a result, there was an explosion of their public debt which exposed them to the challenge of debt sustainability and resulting sovereign default risk. Today, the majority of these economies are suffering huge public debts, which has been recently projected by the IMF to reach to over 100% of GDP in the group of the advanced economies in this year and in 2012 (104% and 107%, respectively). For the G7 group, this ratio is even project at 119% and 123% for 2011 and 2012, respectively.

The current sovereign debt and financial sector troubles in many developed countries, particularly in the euro area, associated with high levels of unemployment, could undermine the current recovery in the world economy and extend the crisis to another phase. Today, the sovereign debt crisis and financial sector troubles in the euro zone economies constitute a noticeable downside risk that requires urgent and strong response to avoid contagion. High oil prices and the weak demand in the United States are other factors that may also debilitate the health of the world economy. The large capital inflows to the developing and emerging economies may also pose risks to global growth, especially if currency values rise suddenly or if asset bubbles emerge.

In this context, according to the latest IMF estimations, the average world real GDP growth rate was recorded at 5.1% in 2010 and projected at 4% for both 2011 and 2012. Most of this improvement is contributed by the group of the developing and emerging economies which are expected to grow by 6.4% in this year and by 6.1% in the next year.

As a substantial part of the developing countries, the OIC member countries recorded an average real GDP growth rate of 5.3% in 2010 and this rate is projected at 4.8% for this year and at 4.9% for the next year. Although these rates are slightly higher than the world average, they are still lower than the average of the non-OIC developing countries. However, it should be mentioned that the economic performance of non-OIC developing countries has been highly influenced by the high pace of growth in the two leading Asian economies: China and India. Indeed, the average real GDP growth rates of the non-OIC developing countries, excluding China and India, were almost the same as those of the OIC countries before and during the crisis. The outlook for 2011-2012 shows that the predicted growth rates for the OIC group are even higher than those predicted for the non-OIC developing countries, excluding China and India.

However, although, in terms of current USD and based on PPP, the average GDP per capita of the OIC countries has been growing steadily during the last five years, it was still less than half of that of the world average and significantly lower than the average of the non-OIC developing countries. It reached 5,182 USD in 2010 compared to the world average of USD 10,886 and the average of the non-OIC developing countries of USD 6,437. In fact, with almost 23% of the world total population in 2010, the 57 OIC member countries produced only 10.8% of the world total GDP and accounted for only 11.2% of the world total merchandise exports. On the other hand, although the average inflation rate of the OIC countries, as a group, declined from a 2-digit level of 11.9% in 2008 to 7.2% in 2010, this rate remained higher than that of the non-OIC developing countries (6%) and significantly higher than the world average (3.7%) and the average of the developed countries (1.6%).

Moreover, the total external debt stock of the OIC countries showed an increasing trend during the last five-year period, for which the data are available, reaching to 903 billion USD in 2009. Nevertheless, the average Debt-to-GDP ratio of the OIC countries and their share in the total debt of the developing countries witnessed a declining trend in the same period. Average Debt-to-GDP ratio of the OIC countries decreased from 35.3% in 2005 to 28.9% in 2009. Their share in total external debt stock of the developing countries also decreased from 28.3% in 2005 to 25.5% in 2009.

On another front, FDI inflows to the OIC countries during the period 2006-2010 were generally low in absolute value. Nevertheless, there was a notable improvement in these flows as they increased up to 173 billion USD in 2008. Yet, in line with the global trends, FDI flows to OIC countries declined to 131 billion USD in 2009 showing almost the same rate of decline in the FDI inflows to other developing countries. In 2010, FDI flows to OIC countries increased only slightly to 132 billion USD, corresponding to 20.5% of the total FDI flows to developing countries and 10.6% of world total FDI flows.

As a major observation, it is worth mentioning that the overall performance of the group of the OIC countries is still highly influenced by the performance of a few member countries. For example, in 2010, only 10 member countries produced or generated 71.3% of the total OIC countries output (GDP). These countries are: Indonesia, Turkey, Iran, Saudi Arabia, Egypt, Pakistan, Malaysia, Nigeria, Bangladesh and Algeria. Almost the same 10 countries accounted for 74.5% of the total merchandise exports, and, similarly, only 10 member countries accounted for 73.3% of the total FDI inflows to all OIC countries in the same year.

This situation has been reflected into a high level of income divergence and a huge gap between the rich and the poor OIC countries, where the GDP per capita in the richest member country was 17 times higher than the average GDP per capita of the group; a situation which constitutes one of the major factors that hinder intra-OIC economic cooperation, particularly intra-OIC trade and investment.

In this context, it worth mentioning that after witnessing an increasing trend over the years before the crisis, intra-OIC merchandise trade (exports and imports) declined to 411 billion USD in 2009 compared to 547 billion USD in 2008, corresponding to a contraction by 25%. However, in parallel with the improvement in trade all over the world, intra-OIC trade rebounded to 533 billion USD in 2010. However, although the share of intra-OIC trade in total merchandise trade of the OIC countries continued to increase reaching

16.8% in 2010, there is still a need for more efforts of cooperation among the member countries to enhance intra-OIC trade and to increase it to a level which could facilitate more economic integration among them and, thus, enhancing their competitiveness both at the regional and international levels.

In fact, as a group, the OIC countries have a significant potential for achieving that level. Having a young population, possessing a significant portion of the world's crude oil and natural gas reserves, accumulating increasing international reserves and being among the top producers of agricultural commodities are major strengths of the OIC countries, as a group. On the other hand, the increasing trends in FDI and intra-OIC trade together with the declining trend in external debt burden are opportunities for them that should be transformed into higher economic growth and development levels.

However, high unemployment rate and weak participation in labour force, inadequate agricultural mechanization and inefficient use of water in agriculture, and lack of adequate funding for scientific development are examples on the weaknesses that should be overcome. Moreover, water scarcity, low agricultural productivity, high trade deficit in food and the inadequate infrastructure of information and communication technology (ICT) are examples on the threats that are likely to impose serious challenges and, thus, necessitate urgent countermeasures.

Distinguished delegates,
Esteemed participants,

In fact, the recent developments in the world economy, particularly in the aftermath of the global financial crisis, indicates the appropriate timing and importance of your meeting today as representatives of the institutions which play the most important role in achieving the economic and financial stability in the economies of our member countries. Today, you came together to deliberate and exchange your views on one of the most important issues related to economic growth, which is "central banking and financial sector development".

As we all know, it is widely argued both theoretically and empirically that the adequate and well-functioning financial system/sector has a crucial role in growth and development of the economy. It facilitates the generating of high levels of savings, promoting efficient allocation of investments, and smoothening economic fluctuations stemming from non-financial causes.

In this context, the recent economic crisis has triggered vigorous and wide-ranging debate on the role and responsibilities of the central banks and monetary authorities. One of the implications of the crisis for the central banks is that price stability does not necessarily ensure financial stability, and that the mandate of the central banks should extend beyond pure inflation targeting to include bank regulation and supervision, financial stability, and preventing asset price bubbles.

Responsibility for financial stability must be, however, shared by the government, the central bank, and other financial regulators. Especially in countries where bank regulation and supervision entrusted to another agency, a lack of coordination and communication between the central banks and supervisors was considered as one of the causes of the crisis. Better monitoring and regulation facilitate achieving the anticipated gains from a proper functioning financial system.

Central banks in developing countries, including our member countries, should, therefore, play a wider role beyond the traditional monetary and financial stability mandate. The fluctuations and instability in the international financial markets and the rapid consequence spillover impacts of the external financial shocks and crisis necessitate the need for the continuous enhancing of the capacities and modernisation of the central banks in our member countries.

In this connection, you affirmed, in your meeting last year, the high level of importance that should be given to capacity building initiatives and the need for further cooperation in this important area given the significance of know-how and information sharing on various central banking technical issues.

Distinguished delegates,
Esteemed participants,

As you may recall, SESRIC has initiated the Central Banks Capacity Building Programme in 2008 with the aim of contributing to the efforts of the Central Banks of our member countries towards enhancing their technical capacities. Within the framework of the implementation of this programme, our Centre organises training courses on various technical aspects of central banking by matching the needs and capacities of the Central Banks of the member countries. The matching is made based on the responses of these institutions to the related questionnaire of the programme which has been so far circulated twice and also available at the website of the Centre in the three official languages of the OIC (English, Arabic and French). The training programmes are provided by experts from the Central Banks of the member countries who have the capacity to provide the technical training on the specific needed subjects in the Central Banks of other member countries.

In this connection, I am very pleased to inform you that we have so far organised three Central Banks Capacity Building Training Programmes. The first was on payments system at the Central Bank of Qatar; the second was on inflation targeting at the National Bank of Tajikistan; and the third was again on payments system at the National Bank of the Kyrgyzstan. We are still waiting other responses to our questionnaire in order to organize more of such capacity building training courses in the central banks of other member countries.

Also in your meeting last year you recommended that a knowledge-sharing platform on payment systems of OIC member states should be established to facilitate future cooperation in this area, and that SESRIC will facilitate the establishment and maintenance of this platform.

In this connection, I would like to inform you that we have already prepared, in collaboration with the Central Bank of the Republic of Turkey, a questionnaire and a comprehensive methodology document for collecting the necessary relevant data on the payment systems in our member countries. The questionnaire together with the methodology document has been circulated in July this year to the Central Banks and Monetary Authorities of the member countries. So far, 7 Central Banks have responded to the questionnaire, either fully or partially and the received data have been uploaded into the website of SESRIC. The questionnaire is also available at the website of the Centre in the three official languages of the OIC.

On another front, as you may recall, there was almost international consensus, during the early days of the crisis, on the need to work out measures for restructuring the international financial architecture where many voices called for rethinking of other alternative financial systems. A financial system based on Islamic principles was among these alternatives, and it was widely argued that such a system could avoid the fundamental problems and shortcomings of the conventional financial system that led the world into the crisis. However, so far, no strong action has been taken towards reforming the global financial system. Without any doubt, leaving the system as is, will lead to repetition of the crisis in the future, and it seems that we would be talking more about "sustainable crisis" instead of sustainable development.

Given this state of affairs, we, at SESRIC, have been given a special importance in our agenda to the issues related to promoting Islamic economics and finance in our member countries. In this connection, I have the honour to inform you that we are organizing the 8th International Conference on Islamic Economics and Finance, which will be held in Doha, Qatar, on 19-21 December 2011, jointly with the Qatar Foundation's Faculty of Islamic Studies (QFIS) through its Islamic Economics and Finance Centre, the Islamic Development Bank Group through its Islamic Research and Training Institute (IRTI) and the International Association for Islamic Economics (IAIE).

The Conference will provide a distinct opportunity for researchers, practitioners and policymakers in the field of Islamic economics and finance in the member countries and elsewhere to deliberate, among many other important issues, on how we can develop a framework for facilitating the Islamic financial system to take its deserved place in the global financial arena. I believe that the outcome of this Conference will be crucial and instrumental in enriching the literature and practice of the Islamic economics and finance.

Distinguished delegates,
Esteemed participants,

Before concluding, I would like to make use of this opportunity to express our readiness at SESRIC to strengthen our cooperation with the Central Banks and Monetary Authorities of our member countries and I am confident that only with your support and encouragement we can extend and enrich our activities for more benefits to our member countries in this important area.

I wish you a great success in your meeting and pray God Almighty to help all of us and guide our steps to achieve the prosperity and welfare of the Islamic Ummah.

Wassalamu Alaykum we Rahmatullahi we Barakatuhu