



Permanent Mission of
Malaysia
to the United Nations

STATEMENT BY MR. RAJA NUSHIRWAN ZAINAL ABIDIN, REPRESENTATIVE OF MALAYSIA ON AGENDA ITEM 51: 'MACROECONOMIC POLICY QUESTIONS' AT THE SECOND COMMITTEE OF THE 64th SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY, NEW YORK 13th OCTOBER 2009

Mr. Chairman,

I would like to first associate my delegation with the statement delivered by Sudan on behalf of the G77 and China and Indonesia on behalf of ASEAN.

Mr. Chairman,

2. No one can deny that the present crisis is the severest in our lifetime. But let us situate it in a broader historical context. History has shown that there have been more than 100 distinct banking crises within the span of the past three decades. While their causes may be different, in the main they involved three factors:

2.1 Firstly, disruptions in the financial intermediation process;

2.2 Secondly, a downward spiral of asset prices; and

2.3 Thirdly, a general loss in confidence.

3. Consequently, measures to address these crises were aimed at the restoration of stability in the financial markets, the resumption of credit flows and the return of confidence. This would provide the beginning of the recovery of economic activity. Varying responses at different stages of the crisis have shown wide ranging degrees of success.

4. Malaysia's own experience in managing the Asian Financial Crisis demonstrated that a decisive and comprehensive response at an early stage of the crisis is critical in not only producing an early recovery but also in reducing the impact of the crisis on the financial system and the economy.

5. Our experience also shows that efforts to sustain financial stability do not end when crisis abates, and when economic recovery is firmly in place. Rather, these efforts must continue and continue further.

6. Once stability was restored, Malaysia embarked on a comprehensive restructuring and reform of the financial sector. This included the aggressive development of the domestic financial markets and the strengthening of the regulatory and supervisory oversight. This has

been reinforced by a higher level of regional cooperation and collaboration. Therefore, it is not what we are currently doing to cope with this international financial crisis but the efforts that have been undertaken over several years that have ensured the resilience of our financial system during these most challenging of times.

7. The key lesson was that foundations for resilience are built during the good times.

8. Over the past year, we have witnessed the introduction of massive fiscal stimulus packages, sweeping proposals for regulatory reforms and various unorthodox policy measures being introduced to stabilise and restore market confidence in the financial system. These measures were necessary and have contributed towards some stabilization in global financial markets.

9. With the urgency for immediate measures receding, it is now critical that we find a consensus on fundamental solutions that involve regulatory and institutional reforms both at the national and international levels.

10. These efforts must now continue and continue further so as to prevent the recurrence of this crisis.

Mr. Chairman,

11. To ensure that we avoid the recurrence of this crisis, it is critical that we look beyond the obvious causes of this crisis, which include indiscriminate lending, excessive risk-taking and overzealous financial innovation.

12. At a more fundamental level, this crisis is the result of the mismatch that exists between the financial sector and the real sector, where true productive activity resides. We therefore need to look at solutions that will address this mismatch.

13. Islamic finance, with its emphasis on a strong linkage to productive economic activity, its inbuilt check and balances and its high level of disclosure and transparency offers this prospect. Indeed, inherent in Islamic finance is the explicit elements that address several of the issues that have surfaced in the conventional financial system during the current crisis.

14. Indeed, the resilience of the Islamic financial institutions during this crisis epitomises the intrinsic strengths embedded in Islamic finance that are underpinned by forces of the Shariah principles. This arises from two essential requirements of Islamic finance:

14.1 Firstly, as financial transactions must be accompanied by an underlying productive economic activity that will generate legitimate income and wealth, a close link is established between the financial transactions and productive flows. Thus, in the Islamic finance business model, financing or equity participation can only be extended to activities in the real sector that have economic values. Hence, Islamic financial assets are expected to grow in tandem with the growth of underlying economic activities; and

14.2 Secondly, as Islamic finance is based on profit sharing in which there is a mutual risk sharing, Islamic financial institutions are compelled to undertake the appropriate due diligence on the viability of business proposals and by enforcing the requirement for transparency and disclosure. These in-built dimensions of governance and risk management contribute to safeguarding Islamic finance from the potential risks of financial stress arising from excessive leverage or speculative activities.

15. Despite the difficulties of the present environment, the global Islamic financial services industry has continued to grow. This is reflected in the increased range of financial products and services and the establishment of new Islamic financial service providers from different parts of the world including from the non-Muslim world. I would like to also highlight the following:

15.1 One, assets managed by Islamic lenders are set to reach US\$1 trillion by next year; and

15.2 Two, the market for Islamic insurance is forecast to hit US\$7.7 billion by 2010.

16. We note that the greater integration of Islamic finance with the international financial system increases the risk of the contagion effects from other markets and jurisdictions. In addition, Islamic finance will also be affected by the second round effects arising from slower economic growth and the reduction in global liquidity. An essential infrastructure in this environment is a well functioning liquidity management infrastructure to enhance the capacity of Islamic financial institutions to effectively manage their liquidity positions.

17. Looking forward, the present crisis shows that there is also a need to have institutional arrangements for resolving the problems of troubled international Islamic financial institutions. In Malaysia, we have also in place a mandated resolution mechanism to provide for expedient, effective and cost efficient resolution of troubled Islamic financial institutions.

18. At the same time, the current crisis has highlighted the need for a mechanism for cooperation between regulators for containing potential systemic risks beyond national boundaries. To promote global financial stability in the Islamic financial system, the Taskforce on "Islamic Finance and Global Financial Stability" was established in 2008 by the Islamic Development Bank (IDB) in collaboration with the Islamic Financial Services Board (IFSB).

19. The internationalization of Islamic finance also requires it to progress into the next stage of international acceptance, namely, mutual recognition of financial standards and products across jurisdictions. Indeed in the area of Shariah, there has already been progressive convergence of Shariah views and rulings, and the mutual recognition of financial standards and products across jurisdictions.

20. The announcements following the recent G20 Summit and the associated announcements of the Financial Stability Board reflect the desire to strengthen the international regulatory standards.

21. These will form the basis by which assessments are to be made by multilateral agencies such as the IMF. It is therefore important for there to be engagement between Islamic finance and the prudential standard setting entities, in order to ascertain whether the new standards being introduced can be applied to Islamic finance and if not, what modifications are needed.

22. Equally important is for there to be international recognition of the standards that have been issued for Islamic finance specifically by the IFSB.

Mr. Chairman,

23. Allow me to conclude by stressing my belief that for us to resolve the present crisis and prevent its recurrence, we need to have the strength to implement the lessons from the past. We also need the courage to embrace the future, of which the Islamic financial system is a part of.

Thank you.