



**Meeting of the Central Banks and Monetary Authorities  
of the Member Countries of the Organization of the Islamic  
Conference (OIC)**

**“Impacts of the Current Crisis on OIC Member Countries”**

**3 October 2009, Istanbul, Republic of Turkey**

***FINAL REPORT***



## Meeting of the Central Banks and Monetary Authorities of the Member Countries of the Organization of the Islamic Conference (OIC)

### “Impacts of the Current Crisis on OIC Member Countries”

3 October 2009, Istanbul, Republic of Turkey

### *FINAL REPORT*

1. The Meeting of the Central Banks and Monetary Authorities of the OIC Member Countries was held in Istanbul, Republic of Turkey, on 3<sup>rd</sup> October 2009 on “Impacts of the Current Crisis on OIC Member Countries”. The Meeting was organized jointly by the Central Bank of the Republic of Turkey and the Statistical Economic and Social Research and Training Centre for Islamic Countries (SESRIC) on the occasion of the 40<sup>th</sup> anniversary of the Organization of the Islamic Conference and the 25<sup>th</sup> anniversary of the OIC Standing Committee for Economic and Commercial Cooperation (COMCEC).
2. The Meeting was attended by Governors of Central Banks and Monetary Authorities of OIC Member Countries, the OIC General Secretariat, COMCEC Coordination Office and the SESRIC.
3. At the opening session, Mr. Ahmet Yaman, Deputy Undersecretary of the State Planning Organization of the Republic of Turkey, read the Message of H.E. Abdullah Gül, President of the Republic of Turkey and Chairman of the COMCEC. In his Message, President Gül expressed his pleasure that the Governors of the Central Banks of friendly and brotherly OIC Member Countries are gathered in Istanbul to discuss and exchange their precious experiences on current economic and financial developments.
4. In his Message, President Gül also expressed his strong believe that this initiative will provide opportunities for OIC Member Countries to further strengthen cooperation and collaboration among their Central Banks and Monetary Authorities. President Gül concluded his Message by expressing his wishes for the full success of the Meeting and by extending his congratulations for all participants and organizers of such an important initiative.
5. In his statement at the opening session, Dr. Savaş Alpay, Director General of SESRIC, dwelled briefly on the current global financial crisis and its negative impacts on the world economy in terms of continuous slowdown of economic growth and high unemployment rates in many countries around the world. Dr. Alpay said that many developed and developing countries are still struggling to curb the adverse impacts of the global recession and, in particular, to reduce

the burden of unemployment on their economies. In this context, he mentioned that the biggest and real cost of the crisis is still the opportunities lost for restructuring the current international financial system and that leaving this system as is will, undoubtedly, lead to repetition of financial crisis in the future. In this context, Dr. Alpay said that the current financial crisis has raised many voices which call for rethinking of other alternative financial systems. Among these alternatives, he mentioned that a financial system based on Islamic principles, (such as equity-based financing and real activity-based transactions) has attracted the attention of many.

6. Dr. Alpay said that the conventional financial instruments such as collateral debt obligations (CDOs) and credit default swaps (CDSs), which stand at the heart of the current crisis, are either not allowed or regulated very tightly in a financial system based on Islamic principles, and, thus, many researchers come to argue that the current global financial crisis could have been avoided if such a system had been in place. In this connection, Dr. Alpay mentioned that the OIC Community can make a significant contribution to the international community by presenting the financial system based on Islamic principles that would function as an effective intermediary for real sector and thus, undue financial crisis can be avoided in the future.

7. Dr. Alpay concluded his statement by expressing his wishes for a great success of the Meeting, which he believes that it will be the first instrumental step towards improving and enhancing the level of cooperation and coordination among the Central Banks of the OIC Member States, the institutions which play the most important role in achieving the macroeconomic stability in the economies of the member countries.

8. In his statement at the opening session, Mr. Durmuş Yılmaz, Governor of the Central Bank of the Republic of Turkey, welcomed the participants and expressed his pleasure to host this event and such distinguished participants in Istanbul. He highlighted the negative impacts of the global financial crisis since the last quarter of 2008. Mr. Yılmaz mentioned that the unprecedented policy reactions, which have been so far taken by the governments and central banks worldwide, have very recently managed to stabilize the financial conditions of banks, reduce funding pressures, decrease liquidity risks and ease the tension in international markets. Yet, he said that although emerging market equities have rapidly gained ground, bond spreads have narrowed and volatility in exchange rates came down, the fragility in the financial sector and reluctance in consumption and investment is likely to continue in the near future.

9. Mr. Yılmaz mentioned that global problems require global solutions where coordination is especially needed in terms of better regulation and supervision of financial market instruments. In this context, he emphasized that the success of the OIC member countries depends on the formation of measures to increase trust and establishment of a close cooperation in economic and commercial areas. He underlined the importance of sharing the experiences on financial policies and central banking in the member countries and mentioned that annual meetings of the Governors of the Central Banks of the member countries will be very important in terms of catching up with the world's agenda and following up the recent global developments as well as enhancing the functioning of the active mechanisms of communication in international platforms.

10. Mr. Yılmaz concluded his statement by thanking the staff of the SESRIC and the Central Bank of Turkey for their efforts during the preparation of the meeting. He also thanked all the participants who have contributed to the meeting with their scientific works and valuable experiences.

11. The Meeting, then, proceeded with a panel discussion session on the theme “Impacts of the Current Crisis on Member Countries: The Precautions and Outcomes”. The session was chaired by Mr. Durmuş Yılmaz, Governor of the Central Bank of the Republic of Turkey. Dr. Muhammad Al-Jasser, Governor, Saudi Arabian Monetary Agency, and Dr. Zeti Akhtar Aziz, Governor, Central bank of Malaysia, participated in the session as panelists.

12. Mr. Durmuş Yılmaz, Governor of the Central Bank of the Republic of Turkey started the session by making a presentation titled “The Impacts of the Current Crisis on OIC Member Countries”. In his presentation, Mr. Yılmaz highlighted the impacts of the global financial crisis on world economies, particularly starting in the last quarter of 2008, in terms of the slowdown in global GDP growth and growth of selected countries. He mentioned that the global turmoil led to a significant slowdown in economic activity in developing countries, and Turkey was no exception. In this context, he showed the trends in GDP growth and exports and imports of the Turkish economy during the period of the crisis as well as some projections for 2009 and 2010. He pointed out that despite the recent gradual recovery, particularly in industrial production in the second quarter of 2009, significant acceleration in aggregate demand is not expected in the foreseeable future, where investment and employment will still critical.

13. Mr. Yılmaz, then, presented some indicators on the financial developments and stability in Turkey. Concerning the monetary policy stance of Turkey, Mr. Yılmaz mentioned that the tightness in financial conditions has come down, but it still persists to some degree despite policy rate cuts since November 2008. He showed that due to recent rate cuts and fiscal measures of the Central Bank, Turkey will start to record positive growth rate figures from the last quarter of 2009 onwards. Mr. Yılmaz pointed out that one of the major factors determining the effectiveness of monetary policy in this period is developments in fiscal policy. In this context, he emphasized that short-term fiscal expansion should be backed by a credible medium term fiscal framework that would ensure fiscal discipline and debt sustainability.

14. Following the presentation made by Mr. Durmuş Yılmaz, Governor of the Central Bank of the Republic of Turkey, Dr. Muhammad Al-Jasser, Governor, Saudi Arabian Monetary Agency, made a presentation on the impacts of the current financial crisis on the economy of Saudi Arabia. Dr. Al-Jasser, first, dwelled briefly on the causes and the impacts of the global financial crisis on the world economies. He highlighted some useful lessons that could be learned from this crisis by the Central Banks and the Monetary Authorities and the policy actions that could be taken.

15. Dr. Al-Jasser, then, made a detailed presentation on the impacts of the crisis on the Saudi economy and the policy measures that have been taken by the Saudi Arabian Monetary Agency to mitigate the negative impacts of the crisis on the economy. He concluded his presentation by expressing his confidence that the world economy will overcome the crisis and start recovery. He also emphasized the need for enhancing cooperation and coordination among the Central Banks

and Monetary Authorities of the member countries with the aim of sharing different experiences and views for the benefit of all partners.

16. The panel discussion session on the theme “Impacts of the Current Crisis on Member Countries: The Precautions and Outcomes” was ended by a presentation made by Dr. Zeti Akhtar Aziz, Governor, Central Bank of Malaysia. Dr. Aziz emphasized the importance of sharing views and experiences on central banking and financial policies and systems in the OIC member countries. She underlined the urgent need for forming a common vision and playing an active role of the OIC member countries in the process of restructuring the international financial system.

17. Dr. Zeti Akhtar Aziz, Governor, Central bank of Malaysia, made a brief presentation on the negative impacts of the current financial crisis on the economy of Malaysia, particularly on the real sector, and the policy measures that have been taken to mitigate these impacts. In this context, she highlighted the importance of financial reforms and the role of Islamic financial and banking systems. Dr. Aziz briefed the meeting on the size and potential of Islamic banking sector in Malaysia. She concluded her presentation by expressing her appreciation and thanks for the Central Bank of Turkey and SESRIC for organizing the meeting which is a very good initiative for enhancing cooperation among the Central Banks of the OIC member countries.

18. The panel discussion session on the theme “Impacts of the Current Crisis on Member Countries: The Precautions and Outcomes” was followed by a keynote address by H.E. Mr. Ali Babacan, State Minister and Deputy Prime Minister of the Republic of Turkey.

19. H.E. Mr. Babacan started his address by welcoming the participants and thanking the organizers of the meeting. He, then, briefed the meeting on the crisis and the various measures taken worldwide to overcome it. He mentioned that the crisis was rooted in the developed countries and that none of the developing countries could be blamed on the causes of the crisis. Talking about how the crisis should be overcome, Minister Babacan emphasized the importance of cooperation among all countries worldwide and the need for the developing countries to participate in the international efforts towards finding the solutions to the crisis.

20. Minister Babacan said that there should be a global exit strategy for the crisis and that the involvement of emerging and developing countries in the efforts towards this exit is very important. In this context, he briefed the meeting on the efforts which have been taken within the framework of the G20 and mentioned that Turkey is willing to represent the views of the member countries who are not involved in the G20 and ready to promote and support their interests in this fora.

21. Minister Babacan also briefed the meeting on the impacts of the crisis on the Turkish economy and the various policy measures taken to ease these impacts. In particular, he talked about the reform programmes which the government have been taking since the 2001 crisis. Minister Babacan concluded his address by emphasising the importance of such meetings among the Central banks and Monetary Authorities of the member countries and mentioned that the regular meetings of these important institutions would undoubtedly come up with very fruitful ideas of cooperation among the member countries in this vital area.

22. Following the keynote address by H.E. Mr. Ali Babacan, State Minister and Deputy Prime Minister of the Republic of Turkey, the meeting proceeded with another panel discussion session chaired by Mr. Durmuş Yılmaz, Governor of the Central Bank of the Republic of Turkey. In this session, presentations were made by Dr. Darmin Nasution, Acting Governor, Bank Indonesia, Mr. Grigoriy Aleksandrovich Marchenko, Governor, National Bank of Kazakhstan, Mr. Sultan Bin Nasser Al Suwaidi, Governor, Central Bank of the UAE, and Mr. Philippe-Henri Dacoury-Tabley, Governor, Central bank of West African States.

23. In his presentation, Dr. Darmin Nasution, Acting Governor, Bank Indonesia, briefed the meeting on some salient facts on the situation in the Indonesian economy despite the global crisis. He presented a background on the structure of Indonesian financial system and the policies taken to prevent the negative effects of the crisis. He mentioned that they established a monetary framework in a dual financial system, in which the monetary policy is made to provide clear signals to the market by using conventional as well as sharia compliant instruments. Concerning the fiscal policy, he said that the government can also participate in the development of Islamic finance by a regular issuance of Islamic government securities or sukuk locally and internationally. Dr. Nasution concluded his presentation by highlighting the Indonesian policy framework for Islamic banking development and emphasizing the potential of the Islamic financial system as an alternative system to the conventional one.

24. Mr. Grigoriy Aleksandrovich Marchenko, Governor, National Bank of Kazakhstan (NBK), made a presentation in which he briefly highlighted the major macroeconomic developments in Kazakhstan in terms of real GDP, per capita GDP growth rates and annual inflation rates in the period 2007-2009 as well as projections for 2010. Mr. Marchenko also briefed the meeting on the banking system development in Kazakhstan in terms of banks assets, external debt of banks and its service and total external debt of Kazakhstan. He highlighted the monetary policy and the primary objective of the National Bank of Kazakhstan. In particular, he made a brief on maintenance of price stability, functioning of the payment systems, implementation of currency regulation and currency control, contributing to financial stability, liquidity provided by NBK to banks and minimum reserve requirements. Mr. Marchenko also presented in brief the main instruments of NBK under the standing facilities such as deposits and credits, the open market operations on foreign exchange market and the operations on secondary securities market, short-term notes, minimal reserve requirements, money supply and exchange rate.

25. In his presentation, Mr. Sultan Bin Nasser Al Suwaidi, Governor, Central Bank of the UAE, briefed the meeting on the policy actions which have been taken by the Central Bank of the UAE to mitigate the impact of the crisis on the economy. He highlighted the Islamic banking system in the UAE and emphasised the potential of this system in preventing the negative effects of any future global financial crises. In particular, Mr. Al Suwaidi emphasised the issue of the appropriate managing of the Islamic money market and the obstacles facing the tradability of Islamic banking instruments such as Sukuks and others. In this context, he emphasised the importance of cooperation among the Central Banks of the OIC countries, particularly in technical aspects related to the promotion and the effective use of Islamic banking instruments.

26. In his presentation, Mr. Philippe-Henri Dacoury-Tabley, Governor, Central bank of West African States, briefed the meeting on the Central bank of West African States, which comprises in its membership the Central banks of 8 countries, namely Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. He also highlighted the record of economic cooperation and integration among these countries, particularly the establishment of the African Monetary Union in 1962 with a common currency. Mr. Dacoury-Tabley, then, briefed the meeting on the negative impact of the financial crisis on the economies of these countries in terms of the slowdown in real growth, increasing unemployment rates and decreasing foreign investment. He also talked about the measures taken to mitigate these impacts. Mr. Dacoury-Tabley concluded his presentation by saying that since the crisis is a global one, the response of the member countries should be through enhancing their cooperation and coordination, particularly in central banking. He also emphasised the need for more cooperation and support to the West African OIC member countries in this important area.

27. The meeting was ended by a general debate on all the presentations and the keynote addresses made during the meeting, where the participants exchanged their views on various related issues of concern. Inspired by the agreements they reached, the Governors of the Central Banks and the Heads of Delegations adopted the Final Communiqué in which they decided to convene the Meeting of the Central Banks and Monetary Authorities of the OIC Member Countries on an annual basis and to establish a Troika system operating at the level of Governors and Monetary Authorities of the OIC Member Countries to perform the secretariat of the Meeting. They also decided that the next Meeting of the Central Banks and Monetary Authorities of the OIC Member Countries shall be held in Turkey in September 2010.

-----