

Muhammad bin Ibrahim: Local currency trade settlement between Indonesia, Malaysia and Thailand

Opening remarks by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Launching of Local Currency Trade Settlement between Bank Indonesia and Bank Negara Malaysia and Bank Indonesia and the Bank of Thailand, Jakarta, 11 December 2017.

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I am pleased to join Governor Agus and Governor Veerathai at this momentous occasion to mark the launching of the Bank Indonesia – Bank Negara Malaysia and Bank Indonesia – Bank of Thailand Local Currency Trade Settlement Frameworks (Framework) and expansion of the Bank Negara Malaysia – Bank of Thailand Framework, here in Jakarta.

This is an important point of our collaboration as we operationalise the Memorandum of Understanding signed between Bank Negara Malaysia with Bank of Thailand in 2015 and Bank Indonesia in 2016 – a testament of mutual cooperation and trust to further promote cross-border settlement for bilateral trade and direct investments.

Intra-ASEAN partnership is critical for regional integration in support of our economies and financial systems. Having celebrated ASEAN's golden jubilee in August 2017, we have certainly come a long way as a collective to achieve greater regional closeness and attainment of mutual benefits.

Today, we have reached a new pinnacle of regional initiatives where cross-border settlements using local currencies to settle trade and direct investments had taken shape. We expect this to be strengthened further, supported by the strong growth of intra-ASEAN trade. The data look very promising. In 2016 intra-regional trade contributed **USD521** billion or **23.5%** of total trade. Intra-ASEAN investments rose to a record level of **USD24** billion in 2016 and accounted for **25%** of total FDI flows into the region.

Within the region, Indonesia and Thailand are important partners to Malaysia both in trade and direct investments where there is continuous growth propelled by inter-company linkages and cross-border investments. In 2016, Malaysia shared a bilateral trade volume of **USD13.8** billion with Indonesia and **USD13** billion with Thailand. However, only **5.8%** and **11.4%** of our trade with Indonesia and Thailand, respectively were settled in local currencies. This is an enormous business opportunity for the financial sector, which has yet to be realised.

Similarly, on the investment front, Malaysia has invested **USD13** billion and **USD2** billion of direct investments into Indonesia and Thailand, as at second quarter of 2017. Indeed, the completion and enhancement of the Frameworks is an important step towards the use of local currencies to support cross-border settlements for trade and direct investments among the three countries. It is an opportunity to mitigate the impact of volatilities in major trading currencies on regional trade and investment activities.

We can recall the Global Financial Crisis, where the tightening of global US dollar liquidity was a contributor to the **19%** contraction of total trade and **11.5%** contraction of total inward FDI into the region. Moreover, an enabling environment for the effective use of local currencies will bring about greater cost efficiency and stability for businesses and increase demand for local currency financial products. That will, in turn, be the impetus to strengthen regional financial markets' development.

I am pleased that the event today is made possible by all three central banks, mutually agreeing to grant regulatory flexibilities to the appointed banks under these Frameworks, enabling them to provide a wider range of financial services under their respective jurisdictions.

Taking this opportunity, I wish to introduce the appointed banks in Malaysia for these Frameworks, namely, Maybank Berhad, CIMB Berhad, RHB Berhad, Public Bank Berhad, Hong Leong Bank Berhad, Bangkok Bank Berhad, United Overseas Bank (UOB) Berhad and Bank of Tokyo-Mitsubishi (BTMU) Berhad.

The implementation of these Frameworks will complement our existing close partnership and cooperation as neighbors, with common objectives and shared aspirations. On this note, I look forward to witness the growth in the use Indonesian rupiah, Thai baht and Malaysian ringgit for cross-border settlement of trade between Indonesia and Malaysia, and Thailand and Malaysia, respectively.