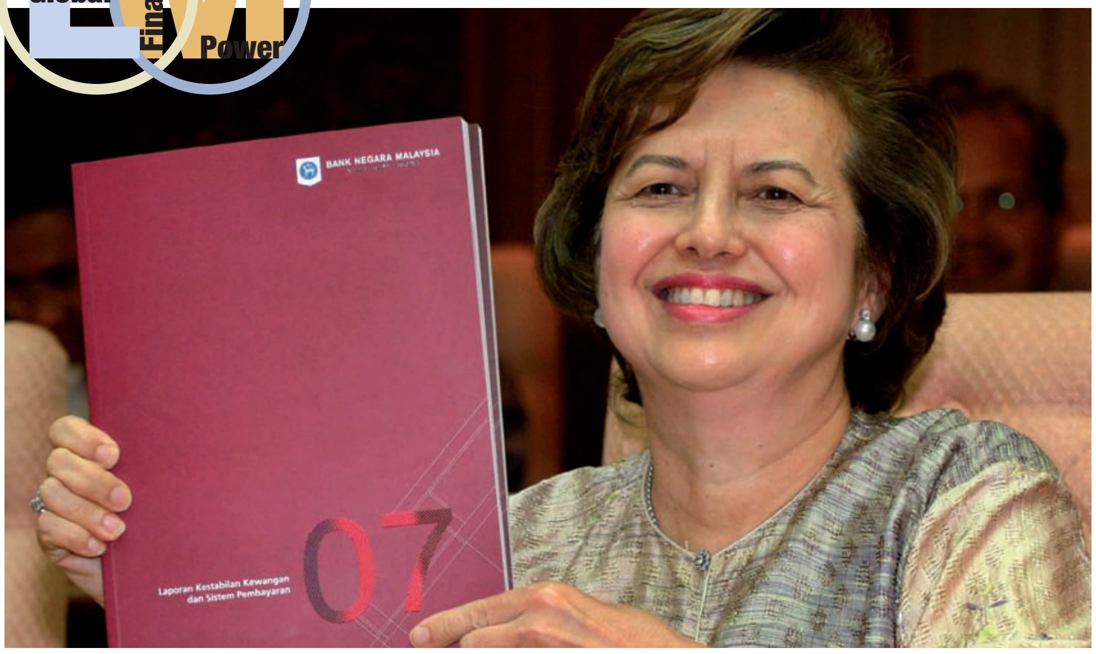

Zeti Akhtar Aziz

Governor, Bank Negara Malaysia

Malaysia, more than many of its emerging market peers, has staked its claim to being master of its own economic destiny. Monetary policy is a key part of that story

Zeti Akhtar Aziz, governor of Bank Negara Malaysia, the central bank, has lived through tumultuous times. During her time as assistant governor in 1995 and governor in 2000 she has witnessed the south-east Asian economic explosion, the regional financial crisis, food and commodity boom and busts, the global financial crisis and the dawning of political change in Malaysia.

Zeti, who has been at Bank Negara for more than half of Malaysia's history as a federal state, has been a part of two movements that are likely to be seen as key to Malaysia's long-term economic development.

The first is being a part of the country's we'll-do-it-our-way riposte to both financial crises a decade apart – a stance that is unlikely to change. Zeti was not the main architect of Malaysia's strident approach to the Asian financial crisis, the prime minister Mahathir bin Mohamad was, but she was influential in implementing the policy.

We didn't have a fragmented regulatory regime ...It all resided in the central bank

She looks back on that time with evident pride, apparently feeling that lessons could have been learned by bigger powers last year. "Leadership plays an important role in being decisive, and we didn't have a fragmented regulatory regime, which plays a very important role," she says in an interview with *Emerging Markets*. "It all resided in the central bank."

The central bank drove the launch of an asset management corporation to deal with the bad assets – "and we just called them that, bad assets" – an approach that, much doubted at the time, worked.

Malaysia's approach, and Zeti's, since then has been in keeping with this sense of a broader plan and an apparently healthy disdain for what the world thinks it should do.

Plenty is arguably wrong in Malaysia – competitiveness of its companies on a world stage, corruption in politics, the quality of the judiciary, and people will forever argue about whether the 1998 capital restrictions helped or hindered the country – but monetary policy has not been among the problems under Zeti's governorship.

Instead, Malaysia has gradually loosened its foreign exchange and other restrictions, liberalized its financial sector at its own pace, and continued to do its own thing in the face of international opinion.

Along the way a much more viable freestanding banking industry has grown, one that has survived the global financial crisis unscathed.

This year she has driven through a new Central Bank Act which enshrines her institution's independence, although she insists: "At no time in my entire career have we ever been instructed [by government]. During my tenure there have been six ministers of finance, and they have all made public announcements that the central bank decides interest rates and determines monetary policy."

For all her monetary savvy, though, history may remember Zeti most for her contribution to the development of Islamic finance. Malaysia has the most sophisticated legal and regulatory environment in the world for Shariah banking, takaful (insurance) and asset management.

Although this has been a tripartite drive by finance ministers, Securities Commission chiefs and the central bank, it is Zeti who has been going around the world spreading the word about both the financial discipline and Malaysia's role in it.

Having built a strong domestic industry, Zeti has been at the heart of the next step: to bring in international expertise and, ultimately, capital through the Malaysia International Islamic Financial Centre.

"We are evolving into becoming an international Islamic financial hub," she says. "It's a meeting place of those who need to raise funds or have surplus funds for investment from any part of the world."

The jury is still out on whether she and Malaysia can achieve this next step – the foreign institutions have come, but not yet the portfolio flows – but if she does make Malaysia a global home for Islamic capital, it may prove the most significant contribution of all. —*Chris Wright*

Mohammad Al Jasser

Governor, Saudi Arabian Monetary Agency

Saudi Arabia's central bank governor is setting out to transform the kingdom's financial sector to match the nation's global standing – with trademark prudence

SAMA, the Saudi Arabian Monetary Agency, has a well-respected and traditionally prudent monetary stance. The incoming governor, Muhammad Al-Jasser, who started this February, says that it will be business as usual under his command.

Al-Jasser has made it clear he is not about to ditch the conservative policies of the Saudi regulatory authority. As he said earlier this year: "While we have been accused of a lack of imagination, our basic strategy has been vindicated, and as such, our economy and monetary policy will continue."

SAMA's prudence, going back many years, has ensured that Saudi Arabian banks have not suffered the problems encountered by less rigorous monetary authorities elsewhere in the region.

With Al-Jasser, the prudence is married to a pragmatic approach that affords radical measures when needs must. "No risks are taken on the investment side, and on the monetary side SAMA is doing the right things to incentivize growth," says John Sfakianakis, chief economist at Banque al-Saudi al-Fransi.

This year SAMA has deployed a large slice of the foreign assets it had invested in over previous years to provide a stimulus to the economy. Net foreign assets reached $438 billion by end-2008, but have been depleted by $56 billion over the first seven months of 2009, as the government engaged in a massive spending programme designed to limit the impact of the downturn.

Saudi Arabia is an integral member of the G-20 group of economies. It is also poised to play a more prominent regional role. Six of the Gulf Cooperation Council (GCC) states are attempting to create a central bank for the region in a drive towards monetary union. The plan, so far, is that the central bank will be based in Riyadh. If this goes ahead, al-Jasser's brief will be greatly expanded.

Moves to create a financial centre in Riyadh around the central bank are inevitably difficult given the sensitivities and sensibilities of other GCC states. "SAMA does not want to impose itself on the region; it wants to help the GCC become more cohesive," says Sfakianakis.

There are other challenges facing the SAMA governor this year. One is the issue of corporate governance and transparency, highlighted by large debt defaults linked to two prominent Saudi business empires, the Algosaibi and Saad groups.

The revelation of debts worth an estimated $15.7 billion owed by the companies to at least 80 banks, has compounded Saudi lenders' risk aversion, at a time when the central bank is doing all it can to encourage them to increase lending. But Al-Jasser has made it clear that SAMA will not be buying up debts owed to local banks.

A bigger challenge ahead is how to enhance the role of the financial sector as a catalyst of Saudi economic growth. The kingdom's position as the world's leading oil exporter has endowed it with a massive influence on the global economy, and one that will increase over time as non-Opec (Organization of the Petroleum Exporting Countries) supply wanes.

"SAMA needs to make sure that Saudi Arabia's financial sector plays a role that matches its global standing. The role of banks is critical in that," says Jarmo Kotilaine, chief economist at NCB Capital. — *James Gavin*