

FIFTH MEETING OF THE OIC–COMCEC CENTRAL BANKS FORUM

25 September 2023, İstanbul, Türkiye

COMMUNIQUÉ

1. We, the Governors of the Central Banks and the Heads of Delegations, met on 24-25 September 2023 to discuss the global economic and financial developments, to exchange views on central bank digital currencies (CBDCs) and explore the use of local currencies in international trade within the framework of the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) financial cooperation agenda.
2. Global economic growth remains below its long-run average and has lost some momentum. Growth diverges across countries and sectors. Global manufacturing Purchasing Managers' Index (PMI) is at the contractionary territory, while global services PMI, supported by the lifting of worldwide COVID-19 containment measures, is in expansionary territory, albeit growing at a slower pace. The risks around the global economic and financial outlook remain high, including tight global financial conditions, volatile commodity prices and geopolitical tensions.
3. Global headline inflation has decelerated, although it remains above central banks' targets in many countries. This slowdown has been primarily driven by abating supply chain pressures as well as falling energy and commodity prices. However, recent increases in commodity prices could pose risks to the disinflation in progress. Services inflation, on the other hand, has remained high in many countries, which may be due to tight labor markets. Core inflation has fallen more gradually, with variations among nations reflecting in part the prominence of services. The strength of labor markets keeps wage pressures brisk, and high core inflation and inflation expectations imply that

monetary policies may remain tight for some time, while paying due attention to financial stability. It is important to have close coordination between monetary, fiscal, and macroprudential policies, and equally important are structural policies and reform. While improving risk sentiment has supported capital flows to emerging and developing economies lately, these countries still face challenges such as higher debt servicing costs and volatile, albeit recently suppressed, global financial conditions that could lead to adverse spillovers. Therefore, bilateral and multilateral cooperation between countries is needed to expand markets and enhance access to technology and resources necessary for sustainable economic growth.

4. We discussed the recent developments and role of cooperation in the design and use of CBDCs. We also explored the potential macro-financial implications of CBDCs, particularly on cross-border payments and the international monetary and financial system. Some of the central banks are exploring the advantages and disadvantages of CBDCs through pilot testing. A wholesale or retail CBDC both comes with a range of potential benefits and drawbacks. We highlighted that CBDCs may promote inclusion by providing easier and safer access to financial services for unbanked and underbanked populations, make cross-border payments cheaper and faster, and enhance the resilience of payment systems. However, design choices are crucial to realizing the potential of CBDCs. If not adequately designed, CBDCs could lead to financial instability risks, in particular, outflow of liquidity during periods of crisis, privacy concerns, legal challenges, and central bank operational risks. Particularly, we considered operational risks such as cyber-attacks and the deficiencies of new technologies in the implementation stage, especially in emerging and developing countries. Moreover, easy access to foreign CBDCs may pose risk of currency substitution and capital flow volatility. However, in terms of cross-border payments, CBDCs could reshape monetary policy frameworks, enhance financial stability, and foster financial inclusion. International cooperation is key to reaping the benefits of CBDCs while avoiding unintended consequences. The forum will continue to identify and

promote new areas of mutual cooperation among member countries in experimenting, knowledge sharing and capacity building in the area of CBDC.

5. We welcomed the discussions on trade in local currencies, given its potential to promote cooperation among OIC countries. In this context, we highly value the importance of enhancing cooperation among OIC countries in reducing transaction and exchange rate risks, improving trade efficiency, as well as strengthening economic and financial cooperation. However, for successful implementation of trade in local currency, challenges such as improving financial infrastructure, ensuring convertibility of local currencies on the global market, developing deep and liquid foreign exchange markets, and improving regulatory frameworks must be addressed. Moreover, we took note that the pros and cons of trading in local currencies should be evaluated according to the country-specific circumstances. Besides, close coordination among central banks is necessary to facilitate the other issues related to the settlement of bilateral trade transactions and direct investments involving Local Currency Transactions.
6. We acknowledged the importance of the training and capacity development activities of the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) through its Central Banks Capacity Building Programme and call upon the Central Banks and Monetary Authorities of the OIC countries to cooperate with SESRIC in the implementation of this important programme. In this regard, we reiterated our active commitment to safeguard cooperation and collaboration among the Central Banks and Monetary Authorities of the OIC countries and boosting capacity building and expert sharing programs in order to strengthen our institutional capacities.
7. Finally, we welcomed the efforts under the COMCEC Financial Cooperation Working Group towards the implementation of the COMCEC Strategy.