

**BNM Economics Research Workshop 2014**  
***The Structural Challenges of Achieving Sustained and Inclusive Growth***

1 December 2014, Sasana Kijang, Bank Negara Malaysia

**Opening Remarks by Encik Fraziali Ismail, Director, Economics Department**

Distinguished Guests

Ladies and gentlemen

A very good morning and welcome to Sasana Kijang. It is my great pleasure to welcome all of you to Bank Negara Malaysia for the 2014 Economics Research Workshop. This event has gathered participants from a diverse variety of backgrounds – from government agencies, central banks, think tanks, the private sector and academia. This makes for a crowd that I think is conducive for an active exchange of views and experiences, so I am looking forward to the programme in store for today. I am especially heartened by the high level of interest and participation in the audience. This is the second time we are holding this workshop, and this reception gives us an impetus to start organising this more frequently.

**Bank Negara Malaysia's Research Agenda**

2. Let me first mention a few words about Bank Negara Malaysia's research agenda. Research has always been integral in helping the central bank to form views about the macroeconomic outlook, to assess potential

risks and, finally, to give guidance on its policy options. Our staff have always been active in conducting research and are always pushed to be the subject matter experts in their respective fields. But we think there is room for improvement, as there always is. This workshop reflects part of the Bank's current efforts to advance our research agenda, which is guided by three inter-linked principles: (i) *transparency*, (ii) *collaboration*, and (iii) *capacity building*.

3. The first principle, *transparency*, refers to more sharing of our research with the public and to create platforms to facilitate dialog with other researchers. In view of this, the Central Bank began publishing our working papers last December through the newly created Bank Negara Malaysia Working Paper Series. Four working papers have since been published on the bank's website. I encourage everybody to visit our webpage to see if the papers interest you, hopefully some do, and to periodically lookout for new working papers. These publications are intended to help disseminate the central bank's views on certain topical issues.

4. Importantly, they are a platform for the respective authors to obtain feedback from other researchers. Therefore, the second guiding principle of our research agenda is *collaboration*. Collaboration with other subject matter experts increases the potential to yield more robust research

outcomes, so there is always scope for more collaboration. The BNM Working Paper Series is again a platform to facilitate more collaboration. We also have another platform to conduct joint research with external researchers in areas of mutual interest, called the Visiting Research Fellow Programme. Please feel free to speak to the event organisers about this programme if you are interested.

5. The third guiding principal, *capacity building*, refers to our goal to continuously improve our staff's research capabilities and to stimulate more research externally. As I mentioned earlier, research is an integral element in guiding the central bank's policy considerations. Through more dialog and collaboration with you researchers, our staff will build their own capacities by learning different methodologies from the other subject matter experts. At the same time, the public gains a better understanding of our research priorities and hopefully start to independently undertake studies in these areas as well. Therefore, we believe that this approach to advancing the research agenda is one that is mutually beneficial, both for our staff as well as other fellow researchers and practitioners.

## **The Theme – The Structural Challenges of Achieving Sustained and Inclusive Growth**

6. Going back to today's research workshop, we have chosen the theme "The Structural Challenges of Achieving Sustained and Inclusive Growth". This may come as a surprise because many would regard the central bank's main policy mandate as promoting price stability, financial stability and smoothing business cycle fluctuations. Why then should a central bank be concerned about structural and inclusive issues? The first reason is that Malaysia, as with many other Asian economies, operate in an ever increasingly integrated global environment. There has been a sustained rise in cross-border activities along most dimensions such as trade, investment and financial flows. The central bank therefore must keep ourselves updated on these linkages to adequately assess the transmission of external shocks, which touches a lot on the structural aspects of the economy. For example, the composition of our industries, the market structure and where our companies are positioned in the global supply chain all determine the nature of transmission of external demand disturbances.

7. The second reason for our chosen theme is that the central bank does not conduct policy in a vacuum. Many government policies are motivated by longer-term structural concerns, but may also have immediate macroeconomic consequences. For example, the implementation of the

minimum wage policy and social protection programs such as BR1M affected the Malaysian economy with different long- and short-term horizons. It is therefore necessary for us to be fully cognisant of the broader policy thrusts of the government to ensure that there is policy coordination to ensure long-term growth is sustained with minimal short-term disruptions.

8. Finally, a growth path is only sustainable if it is inclusive. There has recently been more public awareness globally on the importance for growth to be inclusive. This is not least because of the recent and very important work by Thomas Piketty on wealth and income inequality. While ongoing research continues to shed more light on the exact causes of inequality and the forces that link rising inequality to slower growth, one certainty is that increasing inequality is neither socially desirable nor stable. The “occupy Wall Street” movement in the United States and the “Arab spring” in the middle-east are powerful examples of social discontent arising from the acute absence of economic inclusiveness. There is therefore a need to ensure that growth is inclusive for both growth and social stability reasons. Here at Bank Negara Malaysia, we have long recognised the importance of inclusive growth. This is reflected in the Bank’s agenda to advance financial inclusion especially to areas that lack basic financial services, such as insurance against adverse income shocks and credit lines to facilitate investment activities. The school savings program designed to inculcate thrift among the youngsters began as early as 1995.

## **The Sessions Today**

9. The 4 sessions that we have in store today will only touch on a subset of the issues that I have mentioned. It is meant to serve as a starting point for further conversations, dialogue and research. The first session, entitled “Global Production Networks and Value Added”, assesses how the interactions and linkages at the sectoral and company levels drive overall economic activity. The second session, entitled “Structural Change Amidst Economic Development”, showcases individual countries’ growth experiences while undergoing structural change and how the countries coped during this period of transition. The final session, entitled “The Role of Monetary Policy for Inclusive Growth?”, will present studies that are perhaps closer to the central bank’s monetary policy considerations. The first paper will provide an understanding of the non-linear dynamics between growth and inflation, while the second paper examines the labour market effects of monetary policy. The final session will feature a panel discussion on the topic of structural policies to achieve sustained and inclusive growth.

## **Concluding Remarks**

10. Finally, I would like to thank everybody involved today – the paper presenters, discussants, panellists, moderators and, finally, the audience. To our guests, if it is your first visit to Sasana Kijang, I would encourage you to explore the wonderful galleries that we have here. Do make it a priority to

visit our Economics Gallery, of which some of our staff had a direct hand on. Without further delay, I will pass the floor to our first moderator, Dr. Mahender Singh to steer the first session.

Thank you.

Jabatan Ekonomi  
28 November 2014