

Navigating the Narrowing Monetary Policy Space

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**This presentation solely reflects the views of the presenter and does not necessarily reflect the views of Bank Negara Malaysia*

Bank Negara Malaysia's broader mandates

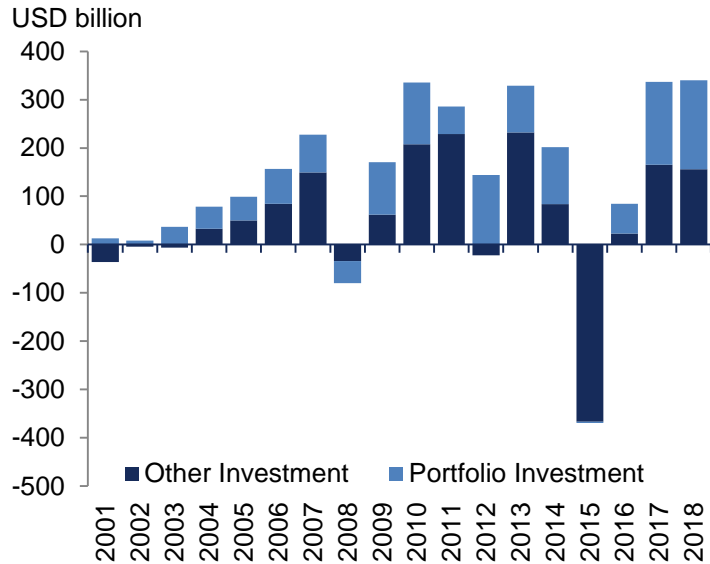
Malaysia: Principal Objects of the Bank (CBA Section 5(1))
Promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy



Changing operating environment has, however, added layers of complexity to the conduct of monetary policy in emerging market economies

Larger and more volatile capital flows and exchange rates

Non-resident Financial Flows of Selected Asian Economies*



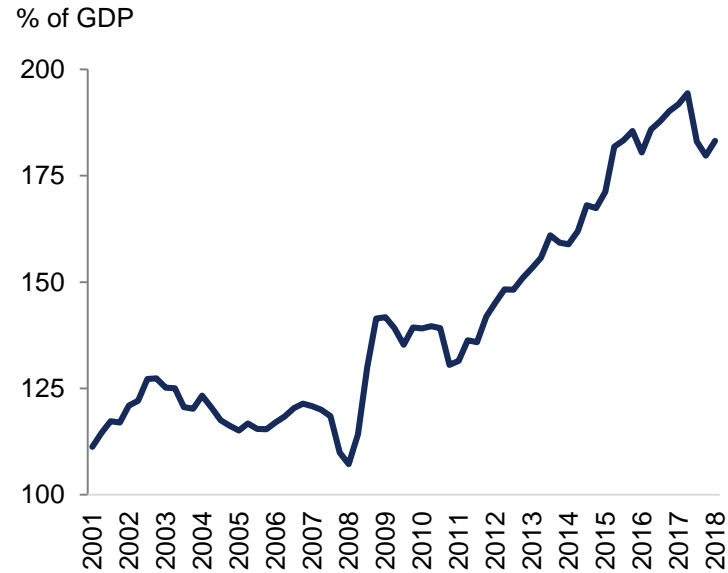
*Includes Malaysia, Thailand, Indonesia, and Philippines, China, and Korea

Source: Haver Analytics

Global capital flows driving domestic financial conditions, diluting the effectiveness of monetary policy

Higher levels of indebtedness, surpassing levels seen during GFC

Non-financial sector debt-to-GDP of EMEs



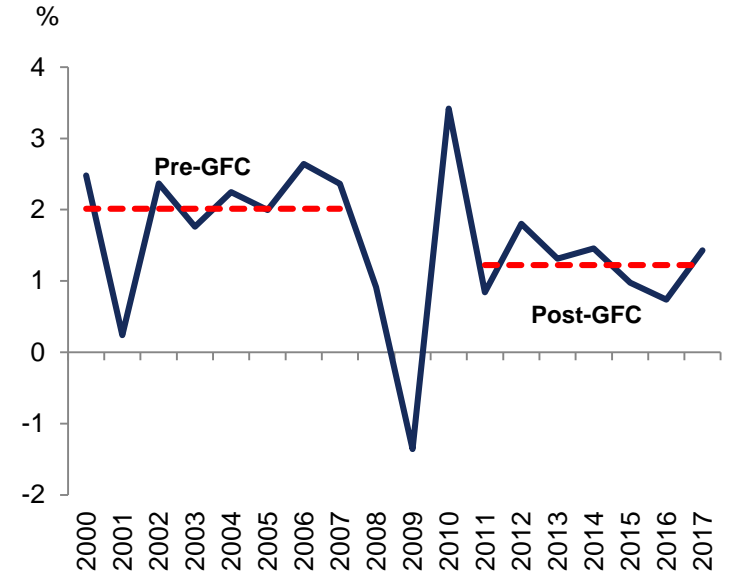
*Non-financial sector comprises the household and non-financial corporate sectors

Source: BIS

Policy easing in an environment of high indebtedness can exacerbate financial imbalances

Declining productivity growth

Average Growth in Total Factor Productivity of Selected Asian Economies*

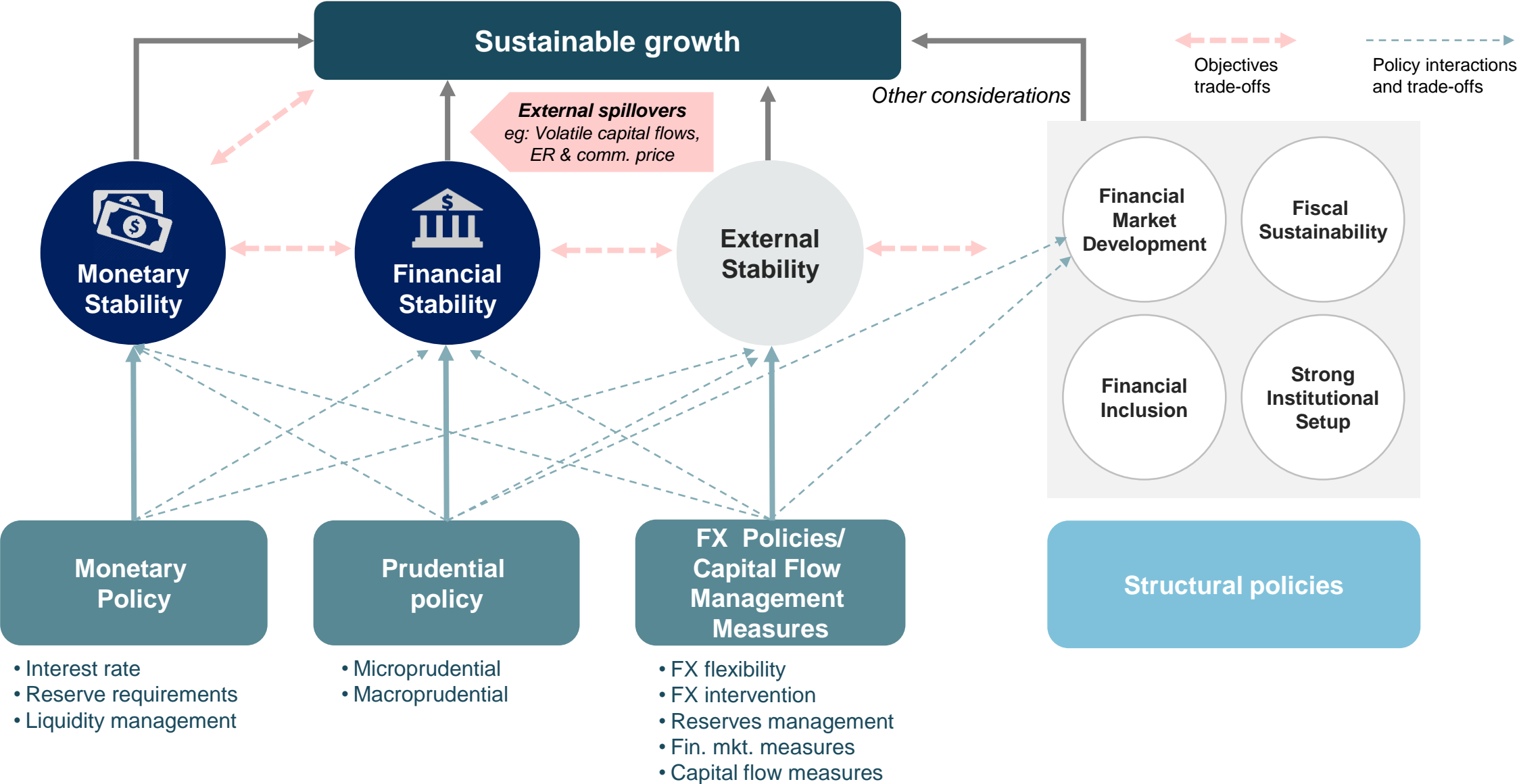


*Includes Malaysia, Thailand, Indonesia, and Philippines, China, and Korea

Source: Penn World Tables

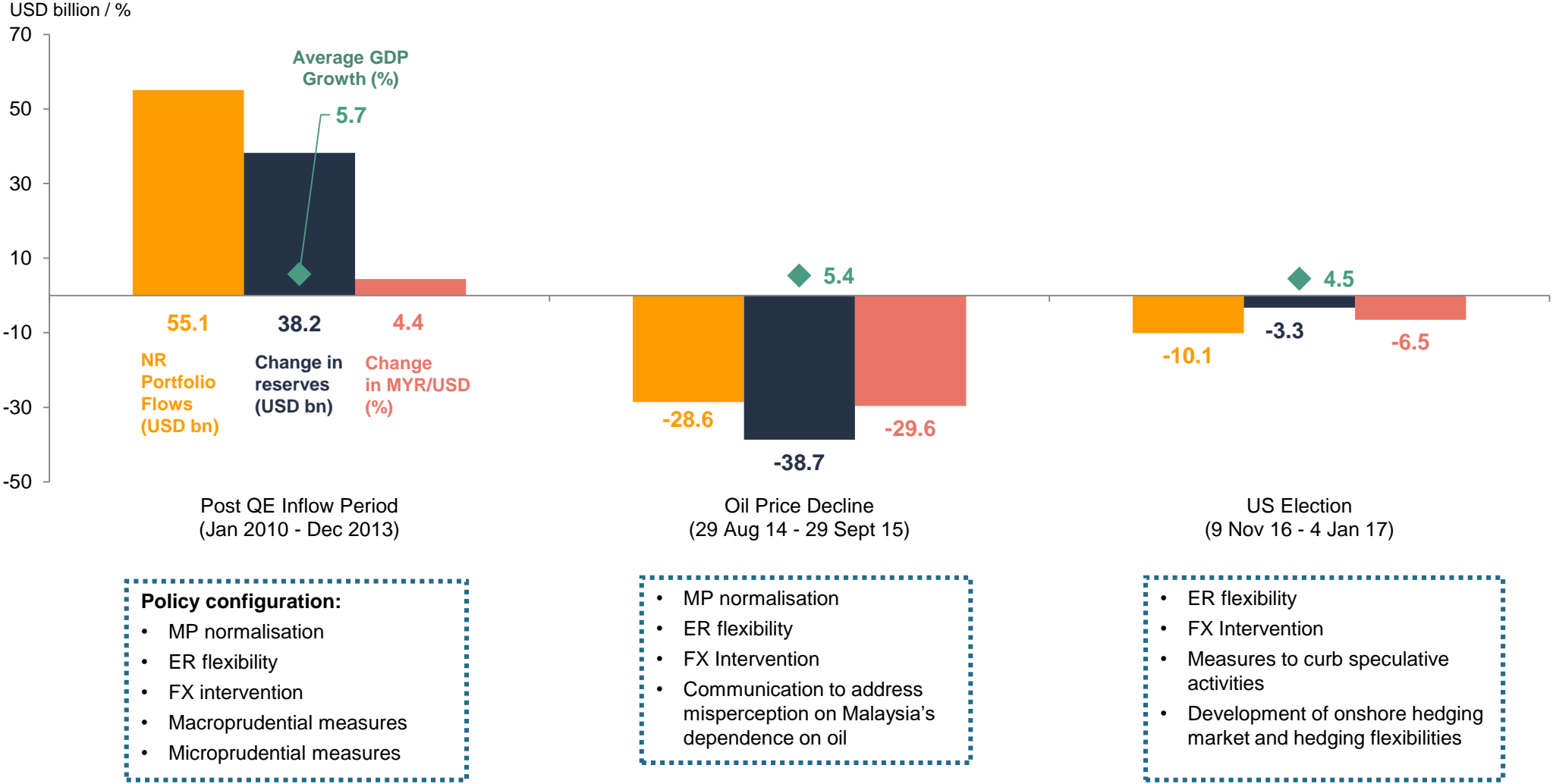
Weaker potential growth and lower neutral interest rate reduces policy space for monetary policy

Interaction between multiple objectives necessitates a broad set of policy instruments



Malaysia's flexible policy configuration has allowed us to cope with different challenges from external shocks

Non-Resident (NR) Portfolio Flows, International Reserves, Ringgit Performance and GDP Growth During Selected Capital Flow Periods



Source: Bank Negara Malaysia

Some final thoughts

1 **Monetary policy response alone will be insufficient**

As growth continues to moderate, expectations on monetary policy easing have intensified. Yet, central banks are confronted by narrowing policy space, while underlying factors causing the slowdown highlight the potent role of fiscal policy in supporting growth.

2 **Finding a right policy framework remains a work in progress**

A policy framework incorporating broader policy tools is required given multifaceted and interconnected risks affecting central bank mandates. In addition, flexibility in the selection and sequencing of policy tools is key, premised on initial conditions and risks being managed.

3 **Communication key in preserving policy space and maintaining credibility**

Clear communication that aligns public expectations with policy considerations and intended outcomes will serve to enhance credibility and reduce uncertainty on the central bank's policy framework.