

Broadening Economic Surveillance through Bank Negara Malaysia's Regional Offices

Economic surveillance by the Bank has in the recent years been strengthened by broadening the surveillance to the regional level through the Bank's Regional Offices. Regional economic surveillance entails the gathering and synthesising of quantitative and qualitative information on current economic and financial conditions at the regional level. The approach involves direct engagement with various economic agents in the different regions of the country. The regional surveillance complements the macro-level assessment of the economy by providing a perspective on the extent to which the regional conditions differ from, or reflect, the national outlook. It also provides information about how economic and financial conditions vary across regions and industries.

Strengthening economic analysis through regional economic surveillance

The geographic concentration of economic activity in Malaysia has become wider and more dispersed over the years. This trend has been further accentuated by the acceleration of growth in the regional economic corridors. Thus, surveillance undertaken at the regional level allows for a closer and deeper monitoring of the pulse of economic activity and emerging trends (refer to fact box on 'Re-export Activity Providing Growing Support to Malaysia's Trade' in Chapter 4). Direct and frequent engagements with businesses, industry associations, consumer groups and lead agencies provide a rich source of information for timely analysis of economic and financial conditions. Often, key insights are obtained well ahead of the release of macro-level statistics, giving a greater lead time for analysis and policy response. Direct engagements with the relevant stakeholders also provide an opportunity for the Bank to communicate and obtain their feedback on policy issues.

Experience of policymakers in other economies

Central banks around the world have expanded their surveillance framework to include regional economic surveillance, through a network of regional offices (Chart 1). The Bank of England's twelve regional offices (known as Agencies) are tasked to assess and provide lead assessments on economic conditions to the Monetary Policy Committee. Similarly, the Reserve Bank of Australia, through its four state offices, extensively monitors and analyses regional economic developments throughout Australia. In the ASEAN region, central banks such as the Bank of Thailand periodically report on domestic economic and monetary conditions from a regional perspective. The importance of expanding surveillance has also been recognised by multilateral agencies such as the International Monetary Fund, particularly when such surveillance incorporates a more active engagement with stakeholders to help promote an effective and timely policy response to emerging policy challenges and risks¹.

Chart 1

Selected Central Banks with Regional Economic Surveillance



Source: Central Bank websites

Note: The branches and regional offices excludes overseas representative offices

¹ Source: International Monetary Fund (2012), 'The IMF's Financial Surveillance Strategy'.

Expanding the role of BNM's Regional Offices

Prior to 2009, direct engagements with companies were conducted on a periodic basis, and supplemented by quarterly and annual surveys of businesses. Since 2009, the Bank has adopted a more systematic approach with wider coverage of companies in terms of economic activity and size. The engagements were designed to gauge real-time business conditions and projections on key variables such as revenue, production, sales, prices, investments and labour market conditions. In 2011, the Bank undertook a major initiative in expanding the role of the Bank's branches in Pulau Pinang and Johor towards becoming Regional Offices (ROs) with the objective of strengthening the Bank's outreach and presence at the regional level². The two ROs monitor the developments in the northern and southern regions of Peninsular Malaysia, which together account for about 28% of Malaysia's GDP in 2012³. This wide outreach is reflected in the increase in the total number of engagements conducted in the northern, central and southern region over the last three years (Chart 2).

Chart 2

Total Number of Engagements from 2011 to 2013



Source: Bank Negara Malaysia

The value of economic surveillance at the regional level can be assessed through its important role in complementing the Bank's overall surveillance. For example, when Thailand was struck by heavy floods in July 2011, surveillance by the ROs revealed a temporary relocation of production from Thailand to Malaysia, which subsequently resulted in a higher production of electronic and electrical (E&E) products, and food and beverages in Malaysia. This information provided an early assessment on the growth in the manufacturing sector in the second half of 2011, much earlier than the release of the official statistics. In 2013, engagements by the ROs deepened the Bank's understanding on the impact of the minimum wage implementation on inflation and growth. Furthermore, the role also enhanced the assessment on financing conditions across the various industries in the region. In recent months, the engagements have enabled better inferences on businesses' behaviour in reaction to policy measures such as the subsidy rationalisation and macroprudential measures targeting the property sector.

A key challenge in broadening the surveillance is in building trust and maintaining credible relationships with the private sector and relevant agencies. The Bank practises a strict confidentiality policy to preserve the sensitivity of the information disclosed by stakeholders. Discerning the value of information received from businesses is also a challenge. This requires striking a balance between synthesising information that merely represents firm-specific experience with other information, which best reflects the overall industry conditions.

The way forward

The expanded role of the ROs reflects the importance of broadening and deepening the surveillance process to complement the macroeconomic surveillance of the Bank. Moving forward, the planned expansion of the Bank's branches in Kuching and Kota Kinabalu to become ROs in 2014, is expected to further strengthen the Bank's overall macroeconomic and financial surveillance.

² In addition to the previous role of the branches in ensuring efficient cash management, the role of the ROs were expanded to include consumer financial redress and advisory services, undertaking economic and financial surveillance and driving greater financial inclusion agenda.

³ Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates.