

Governor's Statement



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

While the world economy experienced the worst effects of the global financial crisis in the first half of 2009, most economies experienced a recovery in the second half of the year. The swift and concerted policy actions implemented across the world were instrumental in avoiding a deep, fundamental depression of the global economy.

As a highly open economy, the Malaysian economy was significantly affected by the collapse in world trade which started in the second half of 2008. The deterioration in the external sector had by early 2009 spilled-over to deeply affect domestic demand. The significant and swift domestic policy responses, had together with Malaysia's strong economic fundamentals, brought about an economic recovery in the second half of the year. The robust financial sector also provided crucial support for the domestic economy. Overall, the Malaysian economy in 2009 contracted by 1.7%, performing significantly better than expected.

While downside risks to growth remain in the advanced economies, emerging economies in general, and Asia in particular, have shown a higher degree of resilience and have better prospects for a sustained recovery. Asia is expected to continue to lead the global recovery as the sources of growth become more broad-based. Domestic demand is expected to strengthen with better employment conditions and uninterrupted credit flows. Investment is expected to rebound with the planned investment in infrastructure and the recovery in external demand. Of importance is the growth in intra-regional trade through the sustained expansion in domestic demand within the region. This trend will not only mutually reinforce growth in the region but will also contribute towards the rebalancing of global growth.

The positive growth of 4.5% for the Malaysian economy in the fourth quarter of 2009 is expected to improve further in 2010. The Malaysian economy is projected to expand by 4.5-5.5% in 2010, underpinned by strengthening domestic demand and supported by the improving external environment. Growth is expected to be increasingly driven by private sector activity. Private consumption will benefit from further improvements in the labour market, rising disposable incomes and improved consumer confidence. Additionally, private investment is expected to recover in 2010, in line with the strengthening of global trade and increasing domestic demand. While inflation is expected to rise with the recovery in global economic activity, the upward trend in global commodity prices, and some revisions in administered prices by the Government, inflation is nevertheless expected to remain at modest levels during the year.

With clear signs of an economic recovery, steps have been taken to normalise interest rates. The extraordinary conditions under which the interest rates were reduced, now no longer prevail. Maintaining an extremely low interest rate environment for an extended period of time could result in disintermediation, financial imbalances and the underpricing of risks. Such developments would undermine the recovery in the economy. Despite the move to normalise interest rates, the overall stance of monetary policy will continue to remain accommodative to provide support to domestic economic activity.

Over the medium term, the more competitive global environment creates urgency for Malaysia to transition to a high value-added, high-income economy. Given that private sector-led economic activity is the main driver of growth in such an economy, Malaysia is putting in place wide ranging strategies in its ongoing transformation process to provide an enabling environment in which high productivity, competitiveness and innovation are key elements in the e-economy. The economy can no longer rely on the accumulation of factors of production to remain competitive. Three key areas of priority are to have a high quality workforce, to develop competition-driven markets and to strengthen further our existing institutional and physical infrastructure. Through the development of an enabling and competitive economic environment, Malaysia will be well positioned to benefit from the new opportunities and to deal with the potential challenges in this post crisis era.

In a highly uncertain environment, regional cooperation has continued to serve as a vital anchor in maintaining regional macroeconomic and financial stability, developing regional financial infrastructure and promoting regional integration. The year 2009 marked a key milestone with the multilateralisation of the Chiang Mai Initiative (CMI) liquidity support mechanism to allow for the effective pooling and drawdown of liquidity support among member countries. Concerted steps were also taken to further enhance the integrated crisis management and resolution mechanism put in place by the Monetary and Financial Stability Committee of the Executives' Meeting of East Asia-Pacific (EMEAP) Central Banks grouping. In addition, efforts to further develop the regional bond markets and to accelerate the pace of financial integration to support economic development in the region will continue to be a focal component of regional cooperation.

Regional collaboration with other central banks and supervisory agencies of emerging economies was also expanded and strengthened during the year. This collaboration covered a wide range of areas, including organisational development and capacity building to increase Central Bank effectiveness. It also included programmes that were organised to share knowledge and information with other regulators in the area of financial inclusion, microfinance and Islamic Finance. Several of the programmes have also been conducted in collaboration with international development agencies including the Islamic Development Bank, the Consultative Group to Assist the Poor and the International Finance Corporation. The Bank's international technical cooperation has focussed on the sharing of knowledge on central banking practices and building collaborative relationships with other central bankers from emerging economies.

Amid the changing global financial landscape and continued transformation of the Malaysian economy, the Central Bank of Malaysia Act 2009, which came into force on 25 November 2009, places the Bank on a new legal foundation. The Act is the culmination of a 2-year review by the Bank of central banking legislation, taking into account the complexities of the economic and financial environment in Malaysia as well as global trends. It mandates the Bank to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy, and institutionalises the policy autonomy enjoyed by the Bank during the 50 years of its existence. With greater clarity and focus in the mandates of the Bank and the powers necessary to achieve these mandates, the accountability framework and governance structure have been considerably enhanced. This has been achieved by institutionalising the best practices that had been adopted for some years now by the Bank.

As part of the organisational transformation to become more strategy-focused and performance-driven, the Bank commenced the implementation of the 3-year Business Plan that has been developed in 2009. This is supported by the increased organisation-wide clarity of the strategic results and enhanced cross-functional collaboration required to deliver these results. Rigorous strategy reviews continue to be conducted to evaluate the overall performance and raise the effectiveness of the Bank in performing its mandates. In addition, in ensuring that the Bank has access to the best technical and analytical skills, significant investment has been allocated towards building a high performance workforce that includes enhanced formal training and changes to work practices. Leadership development was also accorded emphasis to ensure a continuous strengthening of the leadership pipeline. In addition, more emphasis was given to project based and collaborative work processes, which have also broadened and improved the skills and competencies of staff in core areas of the Bank's work. A structured and robust talent assessment process has also been put in place and is accompanied by a more dynamic and differentiated reward system to ensure that the incentives are appropriately aligned.

Finally, I wish to express my appreciation to my colleagues and all staff of Bank Negara Malaysia for their dedication and perseverance in performing their responsibilities to fulfil our mandates in the most challenging of conditions in 2009. I would also like to thank the Board of Directors for their unwavering support to the Bank. Under the new Central Bank Act, the Board and the various Board committees have a significantly enhanced role in the governance of the Central Bank. We wish to record our deep appreciation to a valued board member, Tan Sri Dato' Seri Mohd Hassan Marican, for his contribution to the Board. He is retiring following the completion of his term. At the same time, I wish to welcome Tan Sri Dr. Sulaiman Mahbob to the Board and Encik Chin Kwai Yoong who will be joining the Board in 2010. The Bank, going forward, will continue to persevere in discharging our responsibilities and to rise to the challenges, upholding the trust that has been placed in us.



Zeti Akhtar Aziz
Governor

24 March 2010