



## **Nor Shamsiah Yunus**

Governor, Bank Negara Malaysia

# Foreword

We started the year with the worst of the pandemic behind us. But even amid expectations of a rebound in the global economy, the world was swiftly reminded of the uncertainties in the road ahead. The rapid escalation of the conflict in Ukraine, and the global headwinds that came after, presented new challenges for sustaining economic recovery. Notably, with inflation returning as a top-of-mind concern for policymakers all around the world, we saw aggressive and unprecedented monetary policy tightening in developed economies.

The Bank's priority in the past year was therefore to ensure that monetary and financial conditions remained supportive of a firm path to recovery for the Malaysian economy. This meant recalibrating monetary policy in a gradual and measured manner to maintain price stability and thus preserve sustainable growth. With interest rates reduced to an all-time low in response to the unprecedented economic shocks from the pandemic, avoiding a 'too low for too long' interest rate environment was important to mitigate a build-up of future risks. This is especially when economic growth has been sustained and signs of demand-driven

price pressures have started to emerge. Against this backdrop, the Bank has remained focused in its policy response on managing risks that could undermine the long-term health of the economy and the well-being of the people.

The Bank also continued to ensure that the financial sector remains a source of strength for the Malaysian economy. Despite a highly challenging environment, the banking system continues to be well capitalised. Strong capital and liquidity buffers have enabled banks to continue lending to the economy, while extending help to borrowers who are still struggling. These buffers have remained critical to preserve banks' resilience, as well as public and investor confidence – including during the most recent episodes of banking stress experienced in some advanced economies. Exceptional policy measures introduced during the pandemic crisis have also been largely withdrawn to reinforce the resilience of banks, without disrupting intermediation activities.

In the face of heightened market volatility, the Bank also remained focused on preserving orderly market conditions and ensuring that financial markets continued to absorb – rather than amplify – shocks. To this end, the Bank ensured that there was sufficient liquidity in the financial markets and took measures to mitigate excessive volatility that would have disrupted trade and investment activities. We also continued efforts to strengthen and expand our policy toolkit. These include working in close cooperation with the regional and global central banking community to enhance cross-border liquidity arrangements.

Malaysia's economic recovery has now been firmly established. But we cannot rest on our laurels as we focus on ensuring sustainable growth going forward. World events over the past few years are an important reminder that we need to plan for surprises and be ready to respond accordingly. We anticipate that the environment moving forward will remain challenging as we continue to face risks from increasing geopolitical conflict, elevated price pressures and tighter financial conditions. In navigating these developments, our foremost focus will be on ensuring the right calibration, timing, and mix of policies that promote monetary and financial stability conducive for sustainable economic growth. Our policy response will also need to work together with, and take account of, other national and global policies.

The past few years are also a reminder to seize opportunities to institute reforms that will put the Malaysian economy on a stronger footing. The Malaysian economy has weathered many storms in the past. How well we can weather future ones will depend on the actions we take today to strengthen our resilience and rebuild buffers that were drawn down during the pandemic. As economic adviser to the Government, we will continue to provide our professional advice on the country's key economic policy reforms. And we continue to maintain a strong focus on how we can advance longer-term measures to further develop the financial sector. In this report, we outline key milestones and developments that bring us closer to the vision set out in the Financial Sector Blueprint 2022-2026.

In line with the Financial Sector Blueprint, we will continue to develop and promote a sound and progressive financial system that delivers 'finance for all', 'finance for transformation' and 'finance for sustainability'. To this end, we started to lay down the groundwork to license digital insurers and takaful operators. This follows closely after the approval of new digital banks that are in the process of gearing up to commence operations sometime before mid-2024. We also continue to advance efforts on multiple fronts to promote the responsible and safe use of e-payments, including cross-border payments.

In the area of sustainability, we are focused – in line with our mandates – on strengthening the resilience of financial institutions to manage climate-related risks. In parallel, we are advancing efforts in cooperation with the financial industry, key Government agencies and institutional investors through JC3 to scale up capacity to finance activities that mitigate against or adapt to climate risks.

We also continue to work closely with the Government and other relevant stakeholders to improve people's financial well-being. We are actively supporting the Government's initiative to strengthen oversight arrangements for consumer credit activities through the enactment of the Consumer Credit Act. We are making further headway in piloting and scaling up social finance solutions. And we are progressively rolling out key reforms in the motor, fire and medical/health insurance sector.

At the same time, we are doubling down on efforts to ensure emerging cyber threats are well-managed. For 2022, working closely with the Government and financial industry, the Bank heightened efforts to combat online financial scams. A key initiative is to educate and enhance public awareness on ways to protect against scams. This will continue in 2023, and as with many challenges in the digital age, a whole-of-nation approach will be necessary for this endeavour to succeed.

Delivering all of this places significant demands on the Bank as an organisation. We are committed to providing a working environment that keeps our staff highly engaged to grow and thrive, so that they can be at their best. This has included the roll-out of a multi-year programme to promote and sustain a strong culture across all levels in the Bank. This complements our ongoing effort to future-proof the organisation, retain the right talent and to develop our people to prepare for the future. We also continue to devote significant resources to transforming our IT infrastructure to be fit-for-purpose and facilitative of collaboration and innovation.

The Bank's strong track record in delivering its mandates is a testament to the strength and dedication of our people. For this, on behalf of the Board and Management, I want to take this opportunity to express my deep and sincere gratitude to all Bank staff for their hard work, unwavering support and professionalism. It is because of our people that the Bank continues to perform to the high standards expected of us, and uphold

the trust that is placed upon us by the public. I would also like to thank the Board of Directors for their invaluable support and incisive guidance in helping the Bank navigate through these challenging times.

2023 will mark another turning point for Malaysia as we rebuild and position for lasting prosperity. With the pandemic receding further into the rear-view mirror, it is critical that we stay the course in implementing reforms that will allow us to secure our future. The Bank will continue to do our part, by remaining laser focused on delivering our mandates with uncompromising standards of professionalism and integrity.



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