



**Abdul Rasheed Ghaffour**

Governor, Bank Negara Malaysia

# Foreword

The year 2023 has been one defined by a confluence of challenges globally. The continuing threat of inflationary pressures, high-profile global bank failures, geopolitical tensions and disruptions in global trade were among factors that continued to test the resilience of the global economy. Against the heightened uncertainty in major economies, global financial markets also remained volatile. In Malaysia, the newly-formed Government started charting the path for Malaysia's post-pandemic growth while paving the way for structural reforms.

In navigating these developments, we remained focused on our core mandates of promoting monetary and financial stability conducive to sustainable growth and price stability. We continued to use our policy levers to carefully manage complex policy trade-offs and interdependencies between the OPR, inflation, growth and the ringgit. Timely actions since 2022 to gradually normalise monetary policy in line with improvements in economic activity have helped contain the build-up of inflationary pressures without hurting growth. In light of the challenging environment for the ringgit, we also continued to ensure sufficient liquidity and orderly functioning of the financial markets, so that businesses can be assured that their foreign currency needs can be met. Notwithstanding this, external factors continue to affect emerging market currencies including the ringgit. Bank Negara Malaysia (BNM) is resolved to preserve confidence in the ringgit and to that end, we have recently taken coordinated actions and stepped up engagements with key stakeholders to encourage inflows to ease the short-term pressure on the ringgit. At the same time, we continue to advocate for structural reforms which are critical to strengthen our growth prospects and encourage investments to provide more enduring support for the ringgit.

As I write this, a number of national reform efforts have been launched, with major inroads made in the past year. In 2023, Malaysia embarked on several flagship policies and master plans – which include the New Industrial Masterplan 2030 and National Energy Transition Roadmap – to lay the foundation for sustainable growth. The timely and effective execution of these initiatives is paramount. In our role as economic advisor to the Government, we will continue to provide our analysis and recommendations to inform policies at the national level, particularly on critical reforms like subsidy rationalisation and fiscal consolidation measures. The effective coordination of fiscal, monetary and financial policies is crucial to achieve optimal outcomes for the economy.

A strong financial sector, being the bedrock of the Malaysian economy, continues to provide critical support to Malaysia's economic aspirations. Measures continue to be taken to ensure that the financial system is well positioned not just to finance the needs of today's economy, but to also prepare for and pivot to the future. This includes helping households and businesses adopt sustainable practices and embrace digitalisation. We have scaled up and are refining the design features for our special funds – such as the High Tech and Green Facility, Agrofood Facility, and SME Automation and Digitalisation Facility – to further improve access to financing for SMEs and help them successfully pivot to new growth areas. Efforts are also underway to advance value-based intermediation and promote solutions by the Islamic finance industry in Malaysia to meet the growing demand for green and sustainable finance. This is an area with a lot of promise and potential, not just for Malaysia in its journey to meeting its Net Zero commitment, but for other economies in the region and the world at large.

We remain committed to providing a facilitative environment for responsible innovation in the financial sector. This continues to pave the way for more financial services to be accessed and delivered through digital channels, including to previously underserved segments of society. To date, three out of five successful applicants for digital bank licences have commenced operations. We are finalising the licensing and regulatory framework for digital insurers and takaful operators this year. We are also doubling down on efforts to combat online financial fraud, working closely with the financial industry and law enforcement agencies through the National Scams Response Centre to improve fund tracing and disrupt fraudulent fund flows.

The Financial Inclusion Framework 2023–26, which was launched during the year, will further propel the inclusion agenda by setting out strategies to close the remaining gaps to meaningful access to quality and affordable financial services for all. One area with large potential is social finance. Being at the intersection of not just financial inclusion and sustainability but also with Islamic finance – areas which are all close to my heart – we believe that innovative social finance solutions can be developed at scale to make a meaningful impact in the lives and livelihoods of Malaysians. We expect this to gain further traction as more Islamic financial institutions progressively adopt innovative financial structures, such as blended finance and other alternative sources of funding, which integrate social finance into Islamic finance solutions.

As we reach the midway point of the Financial Sector Blueprint 2022–26, it will also be key for the financial sector to take stock of progress made thus far. This means not just stepping up efforts to see through the implementation of Blueprint strategies we set out in 2022, but to also consider what more recent developments – such as breakthroughs in artificial intelligence – mean for finance and the economy. The financial sector will continue to play a critical role both as a counter-cyclical force during periods of stress and as a catalyst for reform in the economy.

This is only possible because of the strength and resilience of the financial system – the product of decades of reform. The strong financial buffers built up over the years and the levelling up of risk management practices have ensured that the financial sector is able to support the economy in good times and bad, providing a source of stability during turbulent times. While banks in Malaysia were insulated from the global banking turmoil in early 2023, we took the opportunity to consider lessons for Malaysia to further strengthen the financial system.

With the pandemic now fully behind us, our regulatory and supervisory work programme is moving at full speed. Key regulatory and supervisory initiatives – such as that to strengthen the capital and liquidity positions of banks, insurers and takaful operators – are underway to further strengthen the buffers that have helped protect Malaysia against shocks, such as the pandemic. We are also increasing the preparedness of the financial sector to face crises, through recovery and resolution planning, and simulation exercises. We continue to make further inroads in integrating climate-related risks into prudential regulation and supervision. Strengthening the climate resilience of the financial sector will remain a key priority for us in the coming years. This is important for financial stability and for the financial sector to support Malaysia's orderly transition to a greener economy.

Looking ahead to 2024 and beyond, the Malaysian economy is expected to remain resilient despite headwinds, mainly on the external front. In 2024, growth is projected to be higher, while inflation remains moderate. The year ahead provides Malaysia with a window of opportunity to accelerate the implementation of structural reforms. These reforms are critical to strengthen the economy's resilience while raising its prospects – imperative for Malaysia to meet the challenges of tomorrow. At the same time, it is crucial that they are implemented along with appropriate support for more vulnerable segments. Everyone has a role to play in this reform journey. Government, businesses, households, and individuals would need to work together to ensure these efforts bring positive results for the country.

The central bank's mission is as challenging as ever. Supporting me in this effort are the members of my team who tirelessly give their best in discharging BNM's mandates. We will continue to transform and renew ourselves in meeting the evolving challenges. There are many things that we are doing to further strengthen BNM as an organisation to ensure that we remain a trusted public institution for the people and the nation. This is underpinned by our ongoing culture transformation journey, where we seek to foster norms and practices that are critical to effectively discharge our mandates – in particular, collaboration, candour and accountability. Alongside this, we continue to further strengthen our collective knowledge and skillsets as policy challenges evolve, while also modernising BNM to be future-ready. Just as we are preparing the Malaysian financial system to be more sustainable and climate-resilient, we are also working to reduce our own carbon footprint in our investments, currency operations, travel and energy consumption.

In closing, I would like to extend my heartfelt gratitude to Governor Tan Sri Nor Shamsiah Mohd Yunus for her invaluable contributions and service to BNM and the country. She laid the foundations and set in motion a number of initiatives that has placed BNM in a stronger position, allowing us to be well-positioned to deal with the many challenges we face today. Sincere thanks also go out to all our staff for their unwavering dedication and commitment. I am also thankful to the Board of Directors for their unwavering support and guidance. We will continue to deliver the mandates entrusted upon us with uncompromising standards of professionalism and integrity.



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