

International Engagements

In 2023, Bank Negara Malaysia (BNM) engaged actively with the international community, through our participation in global discourse, regional integration and cooperation platforms, as well as bilateral engagements with our counterparts. International engagements continued to be an important avenue in supporting the delivery of BNM's mandates and advancing our interests in strategic priority areas. These areas include enhancing Malaysia's financial safety nets, improving cross-border payments, and managing climate related risks in the financial sector.

Enhancing our voice at the international stage on central banking issues

Through our participation in international platforms, we continued our strategic collaboration and constructive policy dialogue with our counterparts. BNM's involvement contributed to the acknowledgement of the perspectives of emerging markets economies (EMEs) in international discourse.

The priority focus in 2023 was on spillovers from the tight monetary policy in advanced economies; inflation; and geopolitical conflict. At the International Monetary Fund (IMF), we highlighted challenges faced by EMEs and emphasised the need for international financial institutions to account for policy priorities and country characteristics when dispensing policy advice. At the regional level, BNM supported deeper financial cooperation at the Association of Southeast Asian Nations (ASEAN) and the ASEAN+3, which also includes China, Japan and Korea. Key topics at these forums included financial integration, financial safety nets and sustainability.

During the year, central bank platforms such as the Bank for International Settlements (BIS) and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) remained important in strengthening cooperation on monetary and financial stability related issues. Under the ambit of the Asian Consultative Council of the BIS, BNM worked with 12 other Asian central banks to examine policy responses to various macrofinancial shocks faced during 2022 and lessons learnt. This resulted in the publication of a report on Inflation, external financial conditions and macro-financial stability frameworks in Asia-Pacific.¹ The report provided insights on the important considerations in the formulation of appropriate policy responses, depending on country-specific circumstances.

At the Alliance for Financial Inclusion (AFI) Global Policy Forum 2023, we advocated focusing on long-run positive outcomes of international regulations on financial inclusion arising from improved stability and transparency for the financial system. In line with the theme of the Forum, AFI launched a research initiative on the interplay between monetary stability, financial stability and financial inclusion in EMEs. This aims to solidify the importance of inclusion to the mandate of central banks.

Supporting sustainability initiatives

BNM continued to advocate for a just and orderly transition towards a greener economy across major platforms such as ASEAN, EMEAP and the Network for Greening the Financial System. At global platforms, we advanced EME perspectives on the importance of incorporating developmental priorities and funding requirements in charting out the transition and managing climate risks.

At COP28,² BNM and the World Bank announced several initiatives to encourage sustainability in the financial

¹ The full report can be found at <https://www.bis.org/publ/othp78.htm>

² The 28th Annual Meeting of the Conference of the Parties of the United Nations Framework Convention on Climate Change

sector in managing nature-related risks. The first was a financial risk assessment guide which will assist financial institutions and businesses to assess nature-related risks and impacts. The second was an initiative to encourage mobilisation of private capital towards nature-positive outcomes by creating enabling regulations and piloting new innovative financial structures. These initiatives will facilitate the integration of nature-related considerations into decision-making while aligning financial flows with sustainable solutions.

We further advanced sustainable finance in ASEAN. As a member of the ASEAN Taxonomy Board, we contributed towards the publication of Version 2 of the ASEAN Taxonomy for Sustainable Finance. Building on the concepts in Version 1, Version 2 provides detailed qualitative methods to assess transition and sustainable activities; and the Technical Screening Criteria for the energy sector.³ Version 2 demonstrates ASEAN's commitment in providing stakeholders with a common framework that is science-based, while being inclusive of the different development stages of its members.

Leveraging Malaysia's leadership in Islamic finance

In line with our aspiration of positioning Malaysia as an international gateway for Islamic finance, BNM was active in sharing Malaysia's expertise and experience, while also learning from the insights of our partners. This includes through active participation and advocacy at the OIC-COMCEC and MLC platforms.⁴

In collaboration with our international counterparts,⁵ BNM organised a workshop on Promoting Islamic Social Finance and Accelerating the Growth of Halal Value Chain Ecosystem. The workshop brought together to Kuala Lumpur 44 high-level participants from 15 member countries of the OIC. BNM shared our efforts in optimising social finance funds to support small businesses. We also shared on how Malaysia's dual financial system model enables a resilient and comprehensive ecosystem to support Islamic finance development, innovation and financial inclusion. The workshop highlighted common challenges faced by

countries in implementing Islamic social finance and provided insights on how these challenges could be addressed based on others' experience.

BNM advocated for the alignment of prudential standards within the Islamic financial services industry through our membership at the Islamic Financial Services Board (IFSB). We actively contributed to thought leadership by sharing Malaysia's experiences in developing and implementing similar standards domestically. In 2023, these contributed to the IFSB's issuances of standards on liquidity risk management tools, corporate governance and supervision in relation to Shariah compliant financial services.

Preventing and combating money laundering and terrorism financing

BNM participated actively in global initiatives to implement anti-money laundering (AML) controls and counter the financing of terrorism (CFT). The rise of transnational financial crimes has elevated the importance of our international engagements in building domestic resilience.

With this in mind, BNM hosted a Standards Training Course in collaboration with the Financial Action Taskforce (FATF) and the Asia/Pacific Group on Money Laundering. It aimed to enhance understanding on FATF Standards and their implementation. BNM also contributed to joint publications such as the Egmont Group⁶ Typologies Report on Misuse of Corporate Structures and Illicit Financial Flows from Cyber-Enabled Fraud.⁷ These publications set out the key risk indicators for authorities to monitor and emphasised the need for multilateral cooperation. Within the Asia-Pacific region, we continued to co-lead the ongoing Multi-Jurisdictional Anti-Fraud Project and the Regional Information Sharing Platform. Both projects aim to improve AML/CFT operations by allowing for real-time information sharing.⁸

Strengthening external financial safety nets

We continued to strengthen our resilience against external shocks by enhancing our financial safety net arrangements. Focus was accorded to expand the number of channels available to us, while improving the accessibility and usability of existing channels.

³ The Technical Screening Criteria will apply to five other sectors, namely agriculture, forestry and fishing; manufacturing; transportation and storage; water supply, sewerage and waste management; and construction and real estate.

⁴ For more details on BNM's participation at the Organisation of Islamic Cooperation (OIC) – Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) and the Malaysia International Islamic Financial Centre (MIFC) Leadership Council (MLC), see Chapter 1.4: Promoting a Progressive and Inclusive Islamic Financial System.

⁵ The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTC), and central banks of Indonesia, Saudi Arabia and Turkiye.

⁶ The Egmont Group is a united body of 170 Financial Intelligence Units (FIUs) and provides a platform for the secure exchange of expertise and financial intelligence for AML/CFT.

⁷ The full publication report can be found at <https://www.fatf-gafi.org/en/publications/Methodsandtrends/illicit-financial-flows-cyber-enabled-fraud.html>

⁸ This is further detailed in Chapter 1.7: Maintaining Financial Integrity.



BNM Senior Management met with their counterparts at the Bank of Thailand during a bilateral meeting on 4 February 2023 in Bangkok, Thailand. Both central banks exchanged insights on key emerging issues and strengthened financial cooperation via the signing of a bilateral swap arrangement.

In February 2023, we established a bilateral swap with the Bank of Thailand (BOT). This allows both parties to access up to USD3 billion (or the equivalent amount in local currencies) to address short-term liquidity or balance of payments difficulties. Similarly, BNM also renewed the USD3 billion bilateral swap with Japan⁹ on improved terms. Specifically, this renewal introduced a precautionary line for crisis prevention as well as the option to obtain Japanese yen in addition to US dollars. Parties are now also able to access 40% of the swap without IMF conditionality.

On the regional front, together with other ASEAN+3 countries, BNM continued to advocate for enhancements to the Chiang Mai Initiative Multilateralisation (CMIM).¹⁰ Our advocacy aimed to ensure the CMIM continues to reflect the needs of the region. One of the crucial improvements is the reduction in the cost of borrowing, which will reduce the burden on potential borrowers during a crisis. BNM also supported the creation of a new rapid financing facility, which will ensure the quick disbursement of funds without attaching conditionalities. The new facility aims to address urgent balance of payments difficulties stemming from exogenous shocks such as natural disasters or pandemics.

On the global front, BNM supported a pragmatic and timely resolution to the IMF's 16th General Review of

Quotas, following an impasse during the last review. The IMF quota reflects the relative position of each member in the world economy. It determines, among others, the amount each member contributes to the IMF, voting power and eligible financing. The outcome was favourable, seeing a 50% increase in quotas and a commitment to reduced reliance on the IMF's borrowed resources.¹¹ This ensured the adequacy of IMF resources to lend to its members while enhancing the primary role of quotas.

Deepening integration for trade and investment

In support of our national strategy, BNM made strides in advancing integration in trade, investments and payments in 2023. International trade and investment agreements are important to reduce barriers to integration. For the Malaysian financial sector, this means greater opportunities for businesses, and more access to products and services for consumers. To this end, BNM led financial services negotiations to spearhead progressive liberalisation, facilitate key developmental agendas and advance strategic interests for Malaysia through these agreements. 2023 witnessed the conclusion of the United Kingdom's accession to the CPTPP.¹² This marks the first time both countries have entered into a trade agreement with each other. ASEAN had also elevated our partnerships with Australia and

⁹ The agreement was signed with Bank of Japan, acting as an agent of the Japan Ministry of Finance.

¹⁰ The CMIM is a multilateral currency swap arrangement for liquidity support among ASEAN+3 members. Its core objectives are to address balance of payment and/or short-term liquidity difficulties in the ASEAN+3 region, and supplement existing international financial arrangements.

¹¹ Quotas are the IMF's first line of defence. Borrowed resources include the New Arrangements to Borrow (NAB) and Bilateral Borrowing Arrangements (BBA), which are the IMF's second and third lines of defence respectively. Borrowed resources are less representative of IMF membership (not all members contribute), take longer to activate, and are less reliable than quotas (they need to be renewed, compared to quotas which are permanent).

¹² Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

New Zealand through the conclusion of the review of the AANZFTA.¹³ The IPEF's¹⁴ Clean Economy and Fair Economy Agreements will also improve inclusivity through the adoption of sustainable and fair trade practices.

BNM was also active in promoting the use of local currency to settle trade and investment as well as encourage currency diversification. This will help prevent reliance on major currencies and reduce foreign exchange risks for Malaysian investors and businesses. BNM expanded and refined our frameworks with BOT and Bank Indonesia (BI) in August to include more eligible cross-border transactions and provide an efficient infrastructure for the use of local currencies. In 2023, USD2.4 billion (18.6%) of our bilateral trade with Thailand was settled in local currencies, while USD1.3 billion (7.6%) settlement in local currencies was undertaken with Indonesia. BNM has also pursued local currency initiatives with China, Malaysia's largest trading partner. In 2023, USD12.7 billion (24.4%) of our trade settlements with China were denominated in ringgit and renminbi.¹⁵ With these initiatives making it easier for businesses to transact in local currencies, we expect their usage to increase further.

Going beyond bilateral arrangements, together with other ASEAN central banks, an agreement was reached on the high-level principles for the establishment and implementation of the ASEAN Local Currency Transactions Framework. The Framework will cover all economic and financial transactions and interlink with cross-border payment initiatives within ASEAN.

BNM also strengthened bilateral cross-border payment linkages with other central banks. Notably, 2023 witnessed our payment systems with Indonesia and Singapore becoming more interconnected. Users from Indonesia and Malaysia can now make instant retail payments in either country by scanning QR codes of participating financial institutions. Meanwhile, in addition to scanning QR codes, users in Singapore and Malaysia can make real-time cross-border peer-to-peer fund transfers by simply referencing a mobile number. These efforts will help to improve the cost, speed, and accessibility of cross-border payments. This will further enhance trade and investment flows.¹⁶

¹³ ASEAN-Australia-New Zealand Free Trade Agreement

¹⁴ Indo-Pacific Economic Framework for Prosperity

¹⁵ For more details on BNM's efforts in promoting local currency settlements, please see feature article 'Promoting Cross-border Local Currency Settlement (LCS)'.

¹⁶ This is further detailed in Chapter 1.5: Promoting Safe and Efficient Payments and Remittance Services.

Strengthened cooperation in relevant areas of central banking

As Malaysia and other economies become increasingly interconnected, the financial and monetary stability of the region becomes a shared goal. Given this objective, BNM worked closely with our peers to exchange insights, as well as collectively strengthen our technical capacity and expertise. Our cooperation has expanded our proficiency and will continue to support our policy making alongside other central banks.

In 2023, BNM conducted 35 capacity building programmes for partner central banks on a wide range of areas. The focus of these programmes was on digitalisation, surveillance and Takaful regulatory frameworks. BNM leveraged our relations with other central banks to gain knowledge and build expertise on strategic areas such as climate change and crisis preparedness. In 2023, we strengthened our cooperation with Bank of the Lao PDR through a Memorandum of Understanding where we agreed to cooperate on areas of mutual interest such as financial innovation.



Governor with Dr. Bounleua Sinxayvoravong, Governor of Bank of the Lao PDR at the signing of the Memorandum of Understanding to cooperate in areas of mutual interest.



International Engagements

Going Forward

Our international engagements have been essential in enhancing mutual understanding on global economic and financial developments. These insights have also

informed our policymaking capabilities in executing our mandates of safeguarding macroeconomic and financial stability. Going forward, BNM will continue to strengthen our partnerships to deepen integration and further advance our collective strategic interests.