


Foreword



The Bank continues to promote monetary stability and financial stability in the face of an uncertain and challenging operating environment.

In 2019, economic growth remained subdued around the world, with investor confidence held back by trade tensions and other geopolitical uncertainties. As a highly open economy, Malaysia was affected by these developments – through muted demand for exports as well as greater cross-border capital flows. Domestically, subdued sentiments, weakness in investment activity and supply disruptions also affected the economy.

Against this backdrop, the Bank sought to keep inflation low and predictable. We maintained interest rates that were supportive of sustainable economic activity. As Malaysia's flexible exchange rate policy helped buffer against external shocks, we monitored the ringgit and took measures to avoid excessive volatility that would disrupt trade and investments. The Bank also worked to make sure that the financial sector continued to meet the needs of the economy effectively. We paid particular attention to strengthening governance and controls in financial institutions, to ensure that they manage risks proactively while continuing to support the financial needs of individuals and businesses. Together, these policies aimed to foster conditions for individuals and businesses to thrive, whether through employment, entrepreneurship, investment or other economic endeavours.



We dedicated time in 2019 to consider how best to position the Malaysian financial system to adapt to the new realities it will have to face in the years ahead. In particular, we made important progress in identifying priorities and kick-starting efforts in the areas of climate change and the digitalisation of finance. The Bank, with the Securities Commission, established a Joint Committee on Climate Change which brings together industry captains to build climate resilience in the Malaysian financial sector. Our shared efforts will equip the financial sector to understand and respond appropriately to the financial risks posed by climate change. In turn, this is intended to support Malaysia's orderly transition to a low-carbon economy. As a start, we are building a common language for financial institutions to identify and assess the climate risk implications within economic activities. During the year, we also developed a framework for licensing and regulating digital banks. Through this, we signalled our goal to facilitate innovation that will contribute to a more inclusive financial system. As our society moves further into the digital age, our approach to regulation will continue to evolve to reflect a progressive financial system while safeguarding financial stability.

While the global community had been expecting a challenging entry into the new decade, few would have anticipated the nature and degree of the shocks we have seen in recent weeks. In light of these developments, the Bank will be adjusting a number of priorities for the year ahead – sharpening our focus in certain areas, and reducing our emphasis on other areas which can wait for a more suitable time. We will continue with monetary policy that is accommodative of sustainable economic activity amid low inflation. The Bank will ensure that there is enough liquidity in the system and work to avoid excessive volatility in the exchange rate. We will also carry on our role to provide independent, professional advice to the Government on issues affecting the economy. In the current environment, this will involve weighing in on strategies to help households and businesses weather the economic shocks of COVID-19 and transition toward a stable recovery.

In our regulation and supervision of financial institutions, we will seek to reduce procyclicality: this means making efforts to stimulate the economy to 'flatten the curve' of this downward business cycle, while ensuring that risks are well-managed. In this regard, our immediate priority is for the financial sector to mitigate the present shocks and help the economy stabilise. Financial institutions are well-positioned to do this, given their large financial buffers built up over the years. This is what enabled the recently announced regulatory flexibility for financial institutions and relief for their customers. The Bank will therefore maintain a clear line of sight of the path to recovery and ensure that the financial system rebuilds its buffers in a timely manner, to bolster its ability to provide support during any swings in economic conditions. As our current experience shows, it is hard to predict what might happen next. In this regard, we will work closely with the industry to enhance its resilience to financial and operational disruptions. Notwithstanding these changes, the Bank will remain active in safeguarding the integrity of the financial system. We will continue to consult widely on the idea of a cash transaction limit to curb the abuse of large payments by cash to fund corrupt and illegal activities.

Beyond priorities for the immediate term, the Bank plans to build on our efforts to position the Malaysian financial system for future challenges and opportunities. We are working to develop the next blueprint for the financial sector, which we aim to publish next year. In it, we will address the future path of regulation to support the objectives of a sound, progressive and inclusive financial system going forward. This will include outlining structural reforms to modernise the insurance, takaful and development financial institution sectors. We will also identify initiatives to future-proof the country's payment infrastructure as we encourage greater public confidence and acceptance of e-payment and e-remittance services. With an advanced regulatory framework already in place, Islamic finance is envisaged to play a more prominent role in the coming period, particularly in its potential to apply Shariah principles to expand social finance and address market gaps in innovative ways. Another important area will be readiness to deal with increasingly complex cybersecurity and technology risks. Our overarching objective remains the same – to ensure that financial intermediation will continue to be effective, serving as a catalyst for economic progress and a shock absorber in difficult times.

The period ahead will also see significant changes in public discourse, as technology continues to transform the speed and style of communications. In the Bank, we have begun adopting a posture of greater transparency and openness to adjust to these changes and meet the higher expectations of Malaysians. As you would be able to tell, this year's *Annual Report* takes a different approach. Our hope is that this new tone will help the public at large have a better sense of our role as a central bank and what we have been doing to discharge our mandate. Separately, we continue to communicate our technical assessments through the *Economic and Monetary Review*, *Financial Stability Review* and *Quarterly Bulletin*. The Bank will also continue listening to a broad range of stakeholders – from the financial industry, business sector, Government as well as the wider public – about risks and opportunities in the immediate term as well as further along the horizon. This includes gleaning insights through our economic liaison officers around the country and working closely with the civil service on matters of common interest. We will also engage widely in the coming year as we develop the forthcoming financial sector blueprint.

Last year, we commemorated the Bank's 60 years of serving the nation. As an organisation, we are using this occasion to reflect on our journey thus far and consider how to build on the success of the past as we move into the new decade. In the coming year, we will continue to seek opportunities to work better as we discharge our duty of care. This includes improving the way we hold ourselves accountable – within the Bank as well as to the public – and fostering a culture that celebrates candour and collaboration in the organisation. This will be important to support our long-standing commitment to integrity and excellence, particularly as we navigate uncharted terrain. As we continue to refine our supervisory and surveillance capabilities, we will also enhance our policy frameworks. One area of priority will be to develop a better understanding of interlinkages between monetary policy, financial stability, capital flows and the exchange rate – particularly when markets are volatile. The Bank will also work to improve internal processes, using technology sensibly and ensuring discipline in our management of resources.

Although we are paying attention to frameworks and procedures, ultimately, the Bank serves its mandate through the judgment and actions of our staff. Our people are our most important asset. In the coming year, we will continue to make refinements to our people management philosophy to ensure that we bring out the best in each individual. I wish to take this opportunity to express my sincere thanks to everyone in the Bank for their dedication and hard work, especially in the past few weeks. I am also deeply grateful to the Board for their guidance and oversight.

As I write this from my home, the world is going through a testing moment. As a nation, Malaysia has already had to face a number of surprises this year. In all this, the Bank will remain steadfast in serving our mandate with uncompromising standards of professionalism and integrity. I am confident that, with God's help, we will steer through our current challenges as we have done in the past.



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