



Governor's Statement

The year ahead is being shaped by significant developments in the operating environment, both globally and domestically. In a marked departure from the optimistic start in 2018, the global economy is set to enter a period of moderating growth, with continued volatility in the financial markets. Domestically, the unprecedented change of government entails new fiscal, economic and reform priorities. Amid these shifts that are continuing to unfold, the Malaysian economy remains resilient, supported by strong fundamentals and policy flexibility.

Prospects for global growth will be contingent upon the outcome of several key risk factors. Trade tensions, if unresolved, will have a material impact on global trade and investments. Prolonged political and policy uncertainties could further weigh on global growth prospects. Meanwhile, lower commodity prices will continue to exert pressure on commodity-exporting countries. In this environment of heightened uncertainties, global financial markets could be subject to shifts in investor sentiments and bouts of volatile capital flows, with emerging market economies inevitably caught in the crosshairs.

As a highly open economy with an internationally integrated financial system, Malaysia will also be affected by these developments. Nevertheless, we face these headwinds from a position of strength, reinforced by a diversified economy, a resilient external position and a strong financial system. The Malaysian economy is expected to remain on a steady growth path, expanding between 4.3% – 4.8% in 2019. This growth will continue to be anchored by private sector activity, supported by stable income and employment growth, as well as sustained capacity expansion by businesses. The well-diversified export structure, in terms of products and markets, will help soften the impact of moderating global growth on external demand. New production facilities and the recovery from the supply disruptions in the commodity sector will provide additional impetus to domestic economic activity. The well-developed financial system with strong financial institutions will ensure that domestic financing conditions remain supportive of the changing needs of the economy.

In this environment of heightened risks, the focus of the Bank's policy is on preserving monetary and financial stability by reinforcing the resilience of the economy and addressing vulnerabilities. The Bank strives to identify and manage risks before they become destabilising, while building policy space and buffers pre-emptively. The broad range of policy instruments available, which includes targeted prudential policies and financial market measures,

provides the Bank with policy flexibility while avoiding an over-reliance on any particular policy tool. This in turn supports a forward-looking approach to macroeconomic management, with due regard to the multifaceted and complex nature of risks.

Recognising the downside risks to domestic growth, the thrust of monetary policy in 2019 is to remain accommodative to ensure supportive conditions for sustainable economic growth amid the subdued inflation outlook. Average headline inflation in 2019 is expected to be broadly stable relative to 2018. The current period of low headline inflation is due largely to key policy measures, rather than a sharp deterioration in demand conditions. Inflation expectations also remain well anchored. These policy measures would therefore have a transitory effect on headline inflation.

The flexible exchange rate regime continues to be a key source of strength for the Malaysian economy in managing more volatile capital flows and their effects on domestic financial conditions. The exchange rate flexibility acts as a shock absorber for the economy, increasing its resilience when faced with external shocks. Nevertheless, as the exchange rate represents an important price for economic and financial market activities, the Bank continues to ensure orderly market conditions and manage excessive volatility so that the intermediation process is not disrupted. The sustained current account surplus and adequate international reserves accord crucial buffers to flexibly manage the impact of volatile capital flows on the exchange rate and the overall economy. In addition, ongoing measures to deepen the onshore foreign exchange market have supported more efficient hedging activities by economic and financial market participants to better manage their foreign exchange risks.

The Government's commitment to further strengthen fiscal management and reduce the fiscal deficit and debt, with clear outcomes, actions and timeline, will solidify the foundations for sustainable growth. Critically, the ongoing fiscal reforms to governance and institutional frameworks will serve to reinforce responsible and sustainable financial management. These reforms remain supportive of growth, while allowing fiscal consolidation efforts to continue.

At the same time, there is an urgent need to reinvigorate private investment, which is essential for Malaysia's economic progress. Attracting high-quality investments should be a key focus of policy to enhance the productive capacity of the economy and create the right kind of jobs for people from all walks of life. This calls for a clear national investment policy thrust, supported by effective incentives, a coordinated promotional strategy, and efficient business-friendly regulatory and approval regimes. Such policies should encourage the exploration, cultivation and development of new growth areas, including the digital economy and green technology.

It is equally important that Malaysia's economic progress is accompanied by inclusive growth, where the dividends accrue to all segments of society and vulnerable groups are appropriately protected. Within the boundaries of its mandate, the Bank has continued to focus on promoting the financial resilience and financial wellbeing of Malaysian households, and providing economic advice to the Government in areas concerning the rising cost of living, affordable housing and access to financial protection.

There are also ongoing collaborative efforts on the international front to further promote regional macroeconomic and financial stability. In an integrated global economy and financial system, these arrangements are necessary to build collective resilience. Such initiatives are being pursued

with strategic bilateral partners and through global and regional platforms. This will enhance our capacity to manage potential spillover risks from external developments through closer cooperation in macroeconomic and financial surveillance and strengthened financial safety net arrangements. Amid adjustments in the global trade configuration, the Bank remains committed to support the deepening of regional economic interlinkages and financial integration. This will be achieved through effective participation in a number of trade and investment agreements, closer banking and payment linkages, as well as increased settlement of trade and investment in local currencies. In response to the growing challenges and risks posed by environmental and climate change, the Bank became a member of the Central Banks and Supervisors Network for Greening the Financial System with a view to working collaboratively with other central banks and supervisors to support the transition towards a sustainable economy.

The Bank also continues to further strengthen the internal governance structure and practices to preserve the credibility of, and confidence in, the Bank. The Bank's corporate culture is being actively enhanced to foster an open, agile and collaborative environment. Grounded by the values and traditions of trust, integrity and professionalism, the Bank also strives to position itself at the forefront of change. Business strategies are being reviewed and resources optimised to sharpen our focus and ensure we remain steadfast in the delivery of our mandates. At the same time, the Bank places high priority on the continued enhancement and modernisation of the internal organisational capacity, both in human capital and infrastructure development. Having a cohesive and talented workforce, equipped with progressive technology, is key in ensuring that the Bank is able to carry out its responsibilities effectively, efficiently and in a sustainable manner.

In 2019, we celebrate the 60th anniversary of Bank Negara Malaysia at a time of transformative change. While the operating environment continues to evolve, the Bank has remained steadfast throughout the years in serving the interest of the nation. The Malaysian economy has also consistently demonstrated the dynamism and agility to thrive and flourish in an ever-changing environment. As we move forward, the collective strength of our economic resilience and institutional arrangements will serve as an anchor in these testing times. At the heart of the Bank's ability to fulfil our responsibilities is the expertise and commitment of our staff. On behalf of the Board and the management, I wish to express our utmost appreciation to all the staff of the Bank for their professionalism, dedication and hard work. I would also like to extend my gratitude to the Board of Directors for their support and guidance. The Bank will continue to strive towards achieving the highest standards of excellence in delivering our mandates and upholding the trust that is placed upon us.



Nor Shamsiah Yunus

Governor

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