



Nor Shamsiah Yunus

Governor, Bank Negara Malaysia

Foreword

The year 2021 began with the hope that the pandemic would stabilise, bringing with it a return to normalcy for the global and Malaysian economy. With the vaccination programme kicking off – and eventually gaining full speed – a possible path out of the pandemic began to emerge as the economy started to gradually reopen. But the exit was not clear-cut, as challenges remained throughout the year. On the public health front, new variants of the virus led to further waves of infection. This led to the reintroduction of movement restrictions across the globe. Apart from the pandemic, Malaysia also experienced one of the worst floods in recent history. This impacted livelihoods and resulted in the loss of lives.

Against this backdrop, the Bank's focus in the past year was to support Malaysia's transition through and out of the crisis. To that end, we continued to deploy a wide range of tools to cushion shocks to the economy and financial system, working within our mandates to promote monetary and financial stability. We ensured accommodative monetary and liquidity conditions, keeping the Overnight Policy Rate at the lowest rate in our history. Amidst heightened volatility in global financial markets, we also took measures

to preserve investor confidence in Malaysia's financial markets. We worked with the industry and partners to evolve assistance programmes by aiming to position affected individuals and businesses on a firmer path to recovery. This included incorporating debt management and financial planning in the assistance programmes, as well as funding more sustainable ways to rebuild for the future. We also intensified public engagement efforts about these measures, taking steps along the way to make our communications more relatable to various audiences.

Even as we contended with these immediate challenges, we continued to strengthen foundations for the future. The silver lining of any crisis, after all, is the window of opportunity for reform and renewal. It was thus timely that we launched the Financial Sector Blueprint 2022-2026 earlier this year. It set out a vision for the next five years, as well as the strategies that will get us there. Complementing this, we also initiated a review on our monetary policy framework, looking to ensure continued effectiveness amid the broader forces of change shaping the economic and financial landscape ahead. This will consider how monetary policy transmission and financial intermediation may be affected in a more digitalised economy, amid emerging innovations such as decentralised finance (DeFi). Climate change will also be a key consideration, given the potential implications on growth and inflation dynamics – be it due to shocks arising from extreme weather events, or structural shifts in the transition to a low-carbon economy.

Some of our longer-term reform efforts are already underway, with major inroads made in the past year. A key area is digital financial services. We have worked to ensure that our regulatory framework remains fit-for-purpose for new business models and technologies. We look forward to the expected positive impact from the entry of digital banks in Malaysia. We will also pave the way in the coming year for digital insurers and takaful operators to follow suit. This will further enhance access, quality, efficiency and customisability of financial services, focusing in particular on underserved market segments. Working together with other central banks, we have also taken active steps to learn about central bank digital currencies while remaining vigilant over broader developments in the space of digital assets. This ensures that we remain ready and responsive to formulate policy responses, where appropriate – be it to capitalise on the opportunities, or to protect against the risks.

Efforts on the sustainability front also gained significant traction. Key building blocks are being put in place to support the effective management of climate-related risks and encourage financial flows to climate-aligned activities. In the coming years, we will press ahead to further strengthen the foundations for greater climate resilience in the financial sector, while enabling the financial sector to support an orderly transition to a greener economy. As we do so, a key focus will be to look at climate change issues in tandem with broader nature-related risks, such as those related to biodiversity loss.

As I write this, Malaysia has joined the growing number of nations that are transitioning towards endemicity. With the world learning to live with COVID-19, restrictions will likely be eased over time, setting the stage for a rebound in the global economy. For a small and open economy like Malaysia, this is a positive development – although it has to be taken with a healthy dose of caution. The risk of resurgence still remains, and could make the path towards endemicity less straightforward than one might expect.

More broadly, we may not yet be out of the woods even if we successfully come out of the pandemic. From the recent spate of floods in Malaysia to geopolitical conflicts, the past two years have underscored how quickly the operating environment can change, with new risks and opportunities continuously emerging. It is important that Malaysia's economy not only recovers, but does so in a strong and sustainable way.

Being in a continued state of preparedness is thus one of our top priorities in the year ahead. We are committed to ensure the Bank's policies and tools are ready to respond swiftly and effectively to downside risks that could derail Malaysia's economic recovery. A key focus will be to manage potential inflationary pressures and ensure orderly financial market conditions, as policy settings are adjusted from unprecedented levels of monetary accommodation. Ensuring a strong financial system also remains paramount to support a strong and durable recovery. Across these efforts, our public policy objectives will have a clear and common focus, which is the Bank's mandates of promoting monetary stability and financial stability. Our policy focus will also continue to take a longer-term view – beyond immediate issues and challenges – to strengthen and preserve strong foundations for Malaysia's economic prosperity and sustainability.

At the same time, we will continue to enhance our communications and outreach initiatives across all available channels – both physical or digital. Through these channels, we aim to help the general public and business community better understand the Bank's role and functions. Our responsibilities and powers are governed by law and we operate within these limits. On many issues, we continue to work with the Government and other authorities to advance the nation's best interests on policy responses and actions that are not within the Bank's remit. Beyond explaining what we do and why, we also seek to listen and better understand the concerns and challenges faced by our diverse stakeholders, including the general public. Our hope is that over time, a better understanding of these issues will help us be more effective, while aligning expectations with the core mandates of the Bank.

Making all of this happen will also call for us to continuously improve and reinvent ourselves as an organisation. To this end, we will continue to take measures to ensure that the Bank's staff, structures and systems are future-ready. These include efforts to reinforce the strong culture and values of the Bank.

We aim to sharpen behaviours and practices that are crucial for the increasingly complex and uncertain landscape ahead, such as collaborating more effectively across disciplines and adopting more agile ways of working. In keeping people engaged, we will also continue to enhance the work environment and adapt hybrid arrangements that strive to protect the well-being of our staff. We are also diversifying and strengthening our talent pool – be it to recruit the nation’s best at the entry level, or to upskill existing staff in relation to future-critical competencies. As an organisation, we will also want to make the best out of technology, with digital infrastructure and tools helping us do more with less.

Indeed, 2021 – like 2020 – has been yet another challenging year. I want to take this opportunity to express my sincere thanks to everyone in the Bank for their unwavering commitment to serve and act in the best interest of the nation through these uncertain times. I want to also express my utmost gratitude for the Board for their guidance and oversight. Though there is some cause for optimism in the path ahead, we remain vigilant. Whatever the challenges or opportunities on the horizon, the Bank will remain steadfast in serving our mandates with the highest standards of professionalism and integrity.



Nor Shamsiah Yunus