Liberalisation of Foreign Exchange Administration (FEA) Rules to Enhance the Competitiveness of the Malaysian Economy

Malaysia remains committed to further liberalising FEA rules to support and enhance the competitiveness of the economy through the creation of a more supportive environment for trade, business and investment activities.

In 2011, the Bank continued with the efforts to create a more favourable environment to promote the expansion of the private sector's productive capacity abroad in tandem with the liberal regulatory environment on international trade. The liberalisation recognises the growing trend for Malaysian companies to venture abroad given the strong economic growth in the emerging economies, particularly in Asia, and the deepening regional integration. Between 2001 and 2010, direct investments abroad by resident companies averaged 4.3% of GDP and peaked at 9.4% of GDP in 2008. Cumulatively, net direct investments abroad amounted to RM215 billion over this period, where a significant share of the investments was channelled into new areas of comparative advantage particularly in the oil and gas, manufacturing, telecommunication, finance and insurance sectors.

The increasing trend of Malaysian corporations venturing abroad underscores the importance of robust and sound domestic financial markets to meet the demand for more diverse and sophisticated financial solutions and services. Various measures, including the liberalisation of FEA rules, have been implemented by the Bank to promote the liquidity, depth and number of players in the domestic financial markets.

Productive direct investment abroad

As one of the fundamental measures to support the presence of domestic businesses globally, resident companies that meet the Bank's prudential requirements have been granted the flexibility to undertake any amount of direct investment abroad. The implementation of this liberalisation measure is sequenced to take into account the capacity of the resident companies. This is one of the Bank's strategic thrusts towards full cross-border capital mobility for productive purposes that will benefit the Malaysian economy. With this liberalisation measure, direct investment abroad by qualified resident companies will no longer be subject to the annual threshold of RM50 million equivalent in aggregate per corporate group for investment in foreign currency assets.

Access to competitive financing

To facilitate the expansion of the private sector's productive capacity abroad and to enhance the efficiency of financial management, greater freedom has been accorded to resident companies in managing financial resources within their corporate group. This liberalisation measure to allow a company to obtain any amount of inter-company loans from its related resident and non-resident companies will further enhance business efficiency.

Additionally, the limit of RM5 million imposed on foreign currency-denominated trade financing from non-residents has been abolished. Accordingly, foreign currency trade financing will now be computed as part of the prevailing limit on foreign currency borrowing by resident companies and individuals, of RM100 million and RM10 million equivalent, respectively.

Effective risk management

Given the importance of having appropriate risk management practices to the financial health of residents, greater flexibility has also been granted for them to undertake asset and liability management through the swapping of their ringgit or foreign currency debt obligations into debt obligations in another foreign currency. This liberalisation measure will help residents with exposure to international transactions to manage their financial risk exposures related to these transactions.

Greater product innovation

As domestic firms grow in size and strength and become increasingly integrated with the global markets, having a sound, robust and dynamic domestic financial market is critical to support the expansion of the Malaysian economy. In line with this, the FEA rules were liberalised to support domestic financial market players in innovating and offering new financial products to meet the diverse needs of a more developed and internationally-integrated Malaysian economy. In this regard, the scope of product offerings by licensed onshore banks has been expanded to allow greater flexibility in the trading of foreign currency against other foreign currencies with residents. Similarly, flexibility was also granted to licensed onshore banks to offer interest rate derivative contracts to non-bank non-residents for any purpose. These liberalisation measures are in line with the broad thrust of the Bank's Financial Sector Blueprint to widen the investor base and further enhance the development of the domestic financial markets.

Promote Treasury Management Operations

Efforts to create a dynamic and more internationally-integrated economy were further supported by the Budget 2012 announcement on new incentives to promote and facilitate the establishment of Treasury Management Centres (TMCs) in Malaysia by foreign and domestic-owned multinational companies. In addition to the fiscal incentives, FEA flexibilities have also been accorded to TMCs to facilitate effective management of their financial resources. These flexibilities include the ability to undertake investments and foreign currency financing to support the needs of companies with international presence.

Strengthening Malaysia's competitive position

The continuous efforts undertaken by the Bank and the Government to enhance efficiency and reduce the cost of doing business have contributed towards the improvement in Malaysia's ranking in the Global Competitiveness Report published by the World Economic Forum. Malaysia's competitiveness improved from 26th position in 2010/2011 to 21st position in 2011/2012. This was attributed, among others, to the openness of the Malaysian economy to international trade and foreign direct investment, as reflected in its liberal environment, notably on capital mobility. Similarly, the liberal environment for investment in Malaysia has also resulted in Malaysia being ranked as one of the top ten most preferred investment destinations in the world in the A.T. Kearney FDI Confidence Index for 2012.

The strengthening of the Bank's surveillance mechanisms, including enhanced regional cooperation, has enabled the Bank to intensify its liberalisation initiatives while ensuring that the benefits of the liberalisation outweigh the risks. The liberalisation measures are complemented by robust safeguards to ensure monetary and financial stability.

Conclusion

Consistent with the need for greater flexibility on cross-border current account and financial account transactions to support the growing global integration of the Malaysian economy, the implementation of FEA measures will shift towards a more principle-based regulatory framework to enhance clarity of the desired regulatory outcomes. This shift is part of the regulatory reform embarked on by the Bank to create a more facilitative and transparent regulatory environment that will support Malaysia becoming an investment destination of choice.

The policy thrust of FEA to enhance competitiveness of the economy will continue to be pursued in support of the transformation of the Malaysian economy into a high-income, high value-added economy by 2020. Important consideration would be given towards creating an enabling environment to support areas where Malaysia has a comparative advantage and to further enhance the competitiveness of Malaysian corporations. Focus will also be given to areas that will enhance the development of Malaysia's financial markets and also promote regional economic and financial integration. In this regard, continuous engagement and consultation with all stakeholders, including the industry players, will be undertaken to promote the role of the private sector in realising these desired outcomes. The progressive liberalisation of the FEA measures will continue to be reinforced by adequate prudential safeguards to ensure monetary and financial stability, both of which are integral for achieving sustainable growth of the Malaysian economy.