WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **NOR MOHAMED YAKCOP,**
Governor of the Bank for **MALAYSIA,**
at the Joint Annual Discussion

CIRCULATED STATEMENT

Statement by the Hon. Tan Sri Nor Mohamed Yakcop
Governor of the Fund and the Bank for Malaysia
at the Joint Annual Discussion,
Washington D.C., 22 October 2007

Global Economic Outlook

Amidst the turbulence in financial market that has clouded prospects for global economic growth, we are indeed heartened by the WEO's assessment that a solid global growth remains achievable. We are even further encouraged to hear that growth would be supported by generally sound fundamentals and strong momentum in emerging market economies. This reflects the success of reform measures by the national authorities as well as closer economic and financial cooperation at the regional level. However, we remain concerned with the fact that risks to the outlook are firmly on the downside, centered on the concern that financial market strains could deepen and trigger more pronounced global slowdown. We share the view that we need to remain vigilant and be prepared with appropriate strategies in the event the global growth momentum falters. The possibility of oil prices scaling heights barely conceivable a few years ago, rising inflation and interests rates, as well as increasing protectionism cannot be totally sidelined.

Malaysian Economy

Last August, Malaysia celebrated 50 years of nationhood. At the time of independence in 1957, the economy relied heavily on rubber and tin and more than half of our population was in poverty. It has since been transformed into a broad-based and diversified economy, with total external trade in excess of RM1 trillion and continues to enjoy political stability with a diverse yet united population. Per capita income has increased 26 times to RM20,841 and the incidence of poverty has been reduced to less than 6.0 percent.

Malaysia's economy expanded faster than expected in the second quarter of this year, growing 5.7 percent from a year earlier, with the services, construction and mining providing the impetus The expansion exceeds the 5.5 percent growth rate forecast by many economists and takes first-half growth to 5.6 percent. The average GDP growth rate for the 50 years was 6.3 percent per annum. Notwithstanding the downside risks, we remain confident of achieving our 2007 growth target of 6 percent. The services sector expanded 9.7 percent from a year earlier compared with 9.2 percent growth in the first quarter, boosted by financial services, tourism, transport and communications. Manufacturing, the other pillar of our economy, moderated to 1.5 percent compared with 2 percent in the first quarter, and below the 8.4 percent a year earlier, partly because of weaker exports. Unlike other economies in the region and many advanced economies that have raised interest rates, Malaysia has paused on interest rate since April 2006. Our banking sector, continues to strengthen further and remained robust in the first six months of 2007, supported by strong capitalization (RWCR: 13.1 percent), higher profitability (pre-tax profit: RM8.3 billion) and improved asset quality (NPL: 4.1 percent). In the capital market, gross funds raised grew strongly by 53.3 percent to RM56.1 billion (Jan-June2006: 5.1 percent; RM36.6 billion). The momentum of strong growth will be sustained going into 2008 with GDP growth forecast at between 6.0 percent and 6.5 percent, supported by policy measures to promote domestic consumption and investment. The Government continues to push for reform in its delivery system with the view to making Malaysia an attractive and competitive destination to invest and conduct business. Removing red tapes and streamlines rules and regulations are among the key initiatives undertaken to reduce cost of doing business and to improve investment climate.

IMF Surveillance

Malaysia would like to reiterate the call for IMF to focus it surveillance to issues that are central to its mandate and to improve the quality of policy dialogue with member countries by making better use of cross-country experiences. Achieving a more balanced global growth and greater stability in the global financial system requires greater understanding of the issues from the perspective of the emerging and developing economies. We also share the view that the Fund should not focus on transparency at the expense of its role as a confidential advisor to members. We remains concerned that the emphasis of the IFIs is still skewed towards enhancing transparency of the public sector, with limited progress for the private sector. As recent events in financial markets have revealed, more concerted efforts are required to ensure that the checks and balances are in place to make the private sector more accountable for disclosing timely and accurate information. At the same time, it should be recognized that enhanced transparency and disclosure is not an end in itself. Transparency does not guarantee stability, nor does it prevent a crisis. While we support the Fund's initiative for greater transparency, we should caution that this initiative must strike a balance between the need for transparency and the need to maintain the confidentiality of the dialogue between the Fund and its member countries. When undertaking surveillance, Malaysia also believes that the issue of exchange rates should not be analysed in isolation and must be viewed in the context of overall external stability. Further, the external economic factors should be considered in terms of consistency with the domestic macroeconomic policies.

Strategic Direction of the World Bank Group:
Engagement with Middle Income Countries

Malaysia welcomes the appointment of Mr. Robert Zoellick as the President of the World Bank and congratulates him for committing to a new business plan for the Bank on his 100th days in office. ***"An Inclusive and Sustainable Globalization"*** gives us a sense of direction where the Bank's financial and human capitals will be focused on.

We welcome the special focus given to the middle income countries (MICs) in the new Strategic Direction since MICs account for two-thirds of the world population and home to 70 percent of the world's poor. While poverty may be the most important issue for low income countries, it also remains one of major concerns for MICs, especially for those that have problems with income inequalities and which lacks access to private financing. We note the finding that the Bank's overall country programs in MICs have been moderately satisfactory and we believe this is because the Bank has not been aggressive enough in the promotion and implementation of new products for this group of countries. Considering that some MICs have graduated from the agriculture sector and are now services sector driven, the Bank should be more innovative and responsive as well as has a more differentiated business model for the MICs. For the Bank to make its presence felt and needed by MICs, it must also ensure that its in-house capability in the services sector is upgraded and enhanced. Even in the agriculture sector, the Bank should continuously add value into niche areas that can contribute to economic growth in MICs. As such, the Bank will have to focus on strengthening four key activities, namely, integrated development solution, strategy and coordination services, financial services, as well as knowledge and capacity building services.

At the same time, the MICs can play a crucial role in strategizing the WBG. Drawing on MICs own capacity, we contend that MICs have assets with regard to institutional capacity and knowledge that could be drawn upon by the Bank and disseminated among other MICs or low-income countries through collaboration, cooperation or partnership with these countries. In this regard, Malaysia has been sharing its development experiences with fellow developing countries through our bilateral Malaysian Technical Cooperation Program (MTCP) as well as through the various collaborative efforts with other development partners, including the World Bank

Quota and Voice Reform

The Bank and Fund's work program has evolved with the changing need of member countries since the historic meeting in Bretton Woods 60 years ago, whereas its structure remains the same. While the economic status of member countries, have changed drastically and many countries, in particular the Asian economies are now playing a greater role in the global economy, the same cannot be said when it comes to the Bank and Fund decision making process.

We hope that time and resources be committed to complete the entire reform agenda by the 2008 deadline. The credibility and effectiveness of any institution hinges on the degree to which its representation reflects the relative significance of its respective membership. While the Fund has made some progress, the Bank has so far taken only modest steps to enhance its legitimacy. In this regard, Malaysia welcomes Mr. Zoellick's strong message to this year's Annual Meetings, which read "… inclusive development also means greater voice for those most affected by our decisions…" We need to move beyond communiqués and progress report or measures that merely tinker with the existing system when a fundamental and complete overhaul is required. Only then, "inclusive and sustainable globalization" has real meaning.

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