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Statement by the Hon. **ZETI AKHTAR AZIZ**,
Governor of the Fund for **MALAYSIA**

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Governor of the Fund for Malaysia**

Fellow Governors, Mr. Chairman, Managing Director of the International Monetary Fund, President of the World Bank Group, ladies and gentlemen.

Challenges Facing the Global Economy

1. We are in a period of transition. Although there are tentative signs of recovery in the major advanced economies, the economic recovery is not entrenched and several structural issues remain. Meanwhile, growth in the emerging economies is moderating with domestic demand expected to remain as the key driver of growth. A sustained recovery in the advanced economies will have a positive impact on Asia through an improvement in trade and investment.
2. The current combination of conditions poses significant challenges. Financial markets are highly volatile over uncertainty on the timing of an eventual scaling back of the highly accommodative monetary policies in the major advanced economies. Most emerging economies, including Asia, are experiencing significant reversals in capital flows. This has required managing the risks arising from these uncertain and unsettling conditions. Long-term developmental priorities have however remained important on our agenda to reinforce the foundations for more sustainable growth that is durable, balanced and inclusive, and which creates employment opportunities.

Malaysia's Resilience and Policy Flexibility

3. The Malaysian economy has been steadfast in confronting the challenging external environment with our fundamentals strengthened through the steady implementation of structural and financial reforms. These efforts have resulted in a more diversified economic structure and a more developed and resilient financial system. Our resilience is further reinforced by ample buffers that are able to absorb unanticipated shocks. Despite the challenging global economic environment, Malaysia's economic expansion has been sustained. The economy is on track to grow between 4.5 to 5 per cent for the year, underpinned by strong domestic demand. Of significance is the strength of private investment activity, which has been supported by the strong financial position of the corporate sector and by the continued access to financing from both the traditional credit channels and the capital markets.

4. Policies to ensure economic stability in the near- to medium-term are also being complemented by long-term strategies to intensify the dynamism and competitiveness of the economy. These structural measures broadly comprise initiatives to ensure that private sector economic activity will flourish, through further improvements in the conditions for doing business, a resilient financial sector that can serve the changing and more diverse needs of the economy and more importantly, through a more educated and skilled labour force. Also important is the promotion of a more balanced and inclusive economic

development. Going forward, economic inclusion will increasingly depend on access to high quality education, healthcare and social security systems.

Collective Efforts in an Increasingly Interconnected World

5. The global agenda for growth and financial stability is a shared responsibility. Increasingly, we have seen international financial markets being subject to protracted bouts of instability. Such conditions can be expected to be prolonged if collective efforts to restore stability are not successful. The multilateral dimension of policy-making has not reflected the growing interconnectedness between economies and financial systems. There is an increasing need for global solutions and for global accountability. Indeed, enhanced international cooperation would not only minimise unintended policy spillovers, but the increased clarity of policy directions could raise confidence, reduce market over-reaction and deliver better policy outcomes. In Asia, there is now deeper collaboration among policymakers with significant progress made to build on our collective strengths to better manage the challenges that we face in this more interconnected world.

Role of International Financial Institutions

6. Multilateral solutions are needed to manage these risks to the global economic recovery. Meeting these challenges requires successful domestic policy responses, international cooperation and effective international institutions. As member countries transform over time, so too must the policies being prescribed by the IMF and the World Bank that will deliver improved economic well-being. At the World Bank, we welcome the World Bank Group's Strategy to achieve the twin goals of ending poverty and promoting shared prosperity. A well-thought out strategy underpinned by a robust implementation plan, supported by adequate resources and appropriate organisation structure, are all important to meet these twin goals. A greater presence and proximity of the World Bank in the Asian region would also support the World Bank in achieving its goals. We also welcome the IMF's Global Policy Agenda to support the engines of growth for a more sustainable recovery, and for the IMF to assist the membership to achieve these objectives. We are encouraged by the innovations in the surveillance framework and would welcome greater recognition for the range of policy options that a country can deploy which best suits its circumstances. Also, within the on-going innovations to ensure sound technical assessments, the IMF must also reflect its global constituency in a manner that is representative of the world today, particularly through the quota and governance reforms.