



2014

ANNUAL MEETINGS

International Monetary Fund
World Bank Group

Washington, D.C.

Governor's Statement No. 20

October 10, 2014

Statement by the Hon. **CHUA TEE YONG**,
Governor of the Bank for **MALAYSIA**

Statement by the Hon. Chua Tee Yong,
Governor of the Bank for Malaysia

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

Global Economy

1. The world economy is on a moderate growth trajectory. Although growth in some major economies has improved, the expansion continues to be uneven and downside risks remain. Among the major risks include geopolitical tensions; fragile growth with low inflation in the euro region; lower growth in emerging economies and the possible disruption to financial markets as a result of monetary policy normalisation, particularly in the United States. These uncertainties undermine business confidence and hold back investments, further aggravating growth potential. Economies that have a higher exposure to the external sector are affected the most. These pose challenges to policy makers in taking precautionary measures to mitigate the adverse impacts while trying to enhance resilience to support inclusive and sustainable growth.

Policy Response in Malaysia

2. Malaysia being a small and open economy is no exception and is vulnerable to external developments and shocks. Hence, we remain vigilant and focused on strengthening fundamentals through gradual implementation of structural and financial reforms as well as prudent fiscal management. Despite the challenging global economic environment, Malaysia's economic growth has been sustained. The GDP growth forecast has been revised upward to between 5.5% and 6% for 2014, supported mainly by strong domestic demand and improved export performance. Pro-growth policies have resulted in a vibrant private sector. Implementation of the Economic Transformation Program (ETP) since 2009 has led to a significant growth in private investment of 15.3% (CAGR 2010-2013) compared with 4.7% (CAGR 2008-2010). In the first half of 2014, private investment accounted for 68.9% of total investments, reflecting the growing role of the

private sector as the driver of growth. The strong private investment is supported by a resilient and diversified financial sector, both from the well-capitalised banking sector as well as the capital market segments.

3. In order to ensure fiscal sustainability, Malaysia is committed to ensuring effective and efficient government spending, broadening the tax base through the implementation of the Goods and Services Tax as well as improving the subsidy targeting mechanism. With these major policy measures, we aim to reduce the fiscal deficit to 3% in 2015 and achieve a balanced budget by 2020.

Policy Coordination in an Inter-dependent World

4. Globalisation of trade and finance, supported by innovations in transport and information technologies has given rise to an increasingly inter-dependent world. This makes international cooperation inevitable if we share the common goal of optimizing mutually reinforcing growth. Therefore, we underscore the importance of meaningful cooperation and policy coordination at the global level, in order to better manage interdependencies, promote sustainable economic growth and financial stability, and deliver desired policy outcomes. In this regard, multilateral and regional financial institutions and forums have a major role in strengthening cooperation by ensuring international policy coherence, managing interdependencies, and promoting collective growth, resilience and development.

Role of International Financial Institutions

5. Despite significant monetary support in major advanced economies and delayed fiscal consolidation, the world economy continues to underperform. Perhaps, new approaches may be necessary to revitalize global growth. The World Bank and IMF could explore more innovative policy solutions to reduce poverty, promote shared prosperity and stimulate balanced growth.

6. In this regard, we welcome the progress made by the World Bank to become an integrated Solutions Bank in achieving its twin goals of ending extreme poverty and

promoting shared prosperity in a sustainable manner. Operating as One Group, we hope that the WBG will continue to assist middle- and upper-middle-income countries in identifying and tackling the toughest development challenges through enhanced partnership and quality engagements, coupled with rigorous and systematic country diagnostics. We look forward to continued partnership with the WBG.

7. We recognise the progress on IMF surveillance since the implementation of the Integrated Surveillance Decision and welcome the 2014 Triennial Surveillance Review to further refine, adapt and reinforce surveillance to ensure its continued effectiveness and relevance in an interconnected post-crisis world. In its provision of policy advice, we look forward for the IMF to continue to assist members in applying macro-prudential policies, deepen analysis on capital market development, address data gaps and apply other appropriate macro-economic management tools. On governance, quota and governance reforms remain key to strengthen the legitimacy as well as the credibility and effectiveness of the IMF. On this front, we underscore the urgency for the 2010 quota and governance reforms to be implemented soon.