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Statement by the Hon. **ZETI AKHTAR AZIZ**,
Governor of the Bank and the Fund for **MALAYSIA**,
at the Joint Annual Discussion

Statement by the Hon. Dr. Zeti Akhtar Aziz
Governor of the Fund and the Bank for Malaysia
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As we strengthen our global relationships, there needs to be greater engagement with the entire spectrum of member countries. If we are to achieve a more balanced global growth, greater stability in the global financial system and significant progress in the fight against poverty, there needs to be greater appreciation and understanding of the global issues from the perspective of the emerging and developing economies.

In the current environment, the risks to global growth have increased, presenting us with an even more challenging environment to achieve these goals. Should the trend of higher oil and asset prices, and rising interest rates continue, their combined effect could diminish the near-term global growth prospects. In this environment, appropriate policies are vital to ensure that any moderation in growth does not evolve into a fundamental economic slowdown. While countries have strengthened their resilience, international cooperation becomes important in addressing these issues. At the national level, widespread reform efforts have intensified. These have been reinforced by regional initiatives. Of equal importance are reforms at the international level. It is the nature of the leadership that is exercised at the international level, and the actions initiated, that will determine the effectiveness and relevance of the role of the international financial institutions in the global economy.

In Asia, significant progress has been made at the regional level in strengthening the underlying economic structures and fundamentals. The economies in Asia continue to be among the fastest growing in the world, and thus contributing to the rebalancing of global growth and stability. In addition to promoting domestic sources of growth, economies in Asia have also enhanced regional economic and financial cooperation, including measures to strengthen regional surveillance and financial support mechanisms, and to deepen the regional capital market. The greater economic and financial integration in Asia has been a mutually reinforcing force in strengthening growth in the regional economies. Intra-regional trade and investment flows in Asia have continued to increase significantly in recent years. Progress has also been made in the further deregulation and liberalisation of the economic and financial sector, thereby increasing the potential for the Asian economies to contribute to global growth and stability.

Malaysia's own performance has been favourable, with continued steady growth being experienced. The Malaysian economy has continued to shift to new areas of comparative advantage, to new areas of growth, with the private sector being the main driver of growth. Resources have continued to shift towards the services sector, towards strengthening linkages in the manufacturing sector, and to the resource-based industries and the agricultural sector. This has contributed to a well-diversified economic structure and has increased the resilience of the economy to external developments. The financial sector has also seen significant transformation. The restructuring, consolidation, and internal rationalisation of the banking sector is now virtually completed. Governance and risk management practices have also been improved while structural enhancements have

been made in the capital market, significantly enhancing its role in the financial system. A comprehensive and robust Islamic financial system now also operates in parallel with the domestic, conventional financial system.

Against the background of strengthened economic fundamentals and financial system, Malaysia has taken the opportunity to sequentially deregulate and liberalise the financial system. This includes the introduction of a new interest rate framework that is market-driven, the liberalisation of foreign exchange administration rules to promote greater efficiency and enhance risk management in foreign exchange transactions, and the introduction of new foreign players into our financial system. In July this year, Malaysia adopted a managed float for the Ringgit exchange rate to better position Malaysia to respond to structural changes in the global and regional environment. Under this arrangement, the Ringgit is monitored against a basket of currencies of Malaysia's major trading partners.

In this world of greater uncertainty, there has been significant focus on the issue of surveillance and risks and vulnerabilities. Experience has shown that surveillance has improved policy performance as well as the ability to take pre-emptive action to contain the impact of disruptive and destabilising developments. These efforts, however, need to be balanced by efforts to enhance the capacity of countries not only to manage the risks and vulnerabilities, but also to sustain their own capacity to support growth and development. Capacity building involves helping countries to help themselves. It requires enhancing the institutional capacity of the country. Support in putting in place

the necessary institutional structures, arrangements and systems would increase the potential for the sustainability of the development process.

Strengthening these foundations are vital to the deregulation and liberalisation process. They represent the pre-conditions to any reform agenda. In this regard, capital account liberalisation needs to be managed in accordance with the country's own institutional capabilities and implementation capacity. Supporting financial infrastructures, sound and strong financial institutions, developed financial markets, and a more market-driven environment are key to the success of the liberalisation process.

On the support for the low-income and poorer countries, the uneven progress made in meeting the Millennium Development Goals is of deep concern. The debt relief proposal of the G-8 to assist the Heavily Indebted Poor Countries (HIPC) is a welcome step. Debt cancellation, however, addresses the symptoms and not the cause of poverty. Experience has shown only a few countries have graduated from the debt relief programme under the HIPC Initiative. Many still continue to be burdened with unsustainable levels of debt.

It is important to recognise that the task of assisting the lower-income countries does not stop short at providing financial assistance. Development of education and health is an important part of the Millennium Development Goals. The IFIs also need to assume a greater role in encouraging the developed nations to invest and create job

opportunities in the Heavily-Indebted Poor Countries and other poor nations as a long-term plan to assist low-income countries to achieve the Millennium Development Goals .

Finally, we share the view that the legitimacy, credibility and effectiveness of the Fund and the Bank hinges on the degree to which its representation reflects the relative significance of its respective membership. The 13th General Review of Quotas represents an important opportunity to ensure that all members, especially the developing and emerging economies, have an adequate representation in the institutions that is consistent with their relative positions in the world economy. It is important for voices from the constituency of the emerging and developing world to not only be heard but to be listened to. We look forward to the commitment of the international community in preserving the fundamental, core principle of equality in the governance structure of the Bretton Woods Institutions. This greater engagement within the international community will contribute to increasing the prospects for a greater shared global economic prosperity.