


# Year in review: Banking Regulation in Malaysia

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### Year in review

In 2022, the Malaysian economy generally recovered from the challenges posed by covid-19, and the overall gross domestic product (GDP) growth for 2023 expanded beyond expectation. Moving forward, growth is expected to improve in 2024, supported by the recovery in exports and resilient domestic expenditure. Continued employment and wage growth remains supportive of household spending. Tourism and spending are expected to further increase. Investment activity is expected to be supported by continued progress of multi-year projects in both the private and public sectors and the implementation of catalytic initiatives under the national master plans. Measures under Budget 2024 will also provide additional impetus to economic activity in three areas of focus: delivering reforms to enhance governance and public delivery system, transforming the economy and businesses, and elevating the wellbeing of Malaysian citizens.<sup>16</sup>

However, the growth outlook remains subject to risks stemming from weaker-than-expected external demand and larger declines in commodity production. Conversely, risks to growth mainly emanate from greater spillover from the tech upcycle, stronger-than-expected tourism activity and faster implementation of existing and new projects. The ringgit movements are primarily driven by external factors, and not reflective of the current domestic economic performance and prospects. The strong economic growth, moderate inflation and good labour market conditions show that the Malaysian economy continues to perform favourably.<sup>17</sup>

As the risk of heightened volatility in the global financial and foreign exchange markets remains, Bank Negara Malaysia will continue to ensure sufficient liquidity to support the orderly functioning of the domestic foreign exchange market. Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions

remaining conducive to sustain credit growth. Banking system liquidity remained sufficient at both the institutional and system-wide levels. BNM has issued Bank Negara Interbank Bills (BNIB) and Bank Negara Interbank Bills Islamic (BNIBI), short-term securities at a discount to their face-value, and has aimed to enhance liquidity intermediation in the interbank money market, to promote more efficient management of overnight liquidity balances by banks and to encourage greater trading and better price discovery in the interbank market.<sup>18</sup> At the current Overnight Policy Rate (OPR) level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects. BNM's Monetary Policy Committee (MPC) remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.<sup>19</sup>

The Economic and Monetary Review 2022 issued by the BNM reported that ongoing megatrends in the global economy are also presenting Malaysia with new prospects. Malaysia is well positioned to benefit from the reconfiguration of global value chains. To make the most of this opportunity, the country must ensure that it can continue to attract high-quality investments that boost its economic competitiveness and create high-value jobs. It is therefore imperative that we implement the New Investment Policy<sup>20</sup> in a timely fashion. At the same time, the transition towards a greener, low-carbon future will have far-reaching implications for Malaysia's economy. A comprehensive domestic policy roadmap encompassing climate change adaptation and mitigation measures to achieve an orderly transition is key, both to address risks from climate events that are already present, and to avoid costly dislocations associated with climate transition. Recent shifts in inflation dynamics have also increased uncertainties over the path of inflation and in shaping the direction of monetary policy globally. This requires careful balancing of risks to both our domestic inflation and growth. Overadjustments in monetary policy would negatively impact growth, while undershooting could lead to inflation expectations becoming unhinged with damaging effects on consumers' purchasing power and the sustainability of economic growth.<sup>21</sup>

On 3 February 2023, the Bank issued the discussion paper on Financial Inclusion Framework 2023–2026 (Financial Inclusion Framework). Developed to align with the FSB 2022–2026, the Framework serves as a four-year strategic roadmap and principle-based guidance to advance financial inclusion. The vision of the Financial Inclusion Framework is to provide a more expansive and holistic approach to achieve broader development outcomes and elevate the financial well-being and standard of living of all residents in Malaysia. Efforts will be focused on collaborating with financial institutions to develop standardised reporting metrics and promote more transparent impact-based disclosures on financial inclusion. This would

allow financial institutions to systematically demonstrate and continually improve their commitment towards supporting financial inclusion and the broader Environmental, Social and Governance (ESG) goals and the Sustainable Development Goals (SDGs) agenda. Consequently, this will instil greater confidence in consumers and investors seeking to deal with institutions that are aligned to ESG goals.<sup>22</sup>

In support of the implementation of climate related disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) in Malaysia, the Joint Committee on Climate Change published an application guide for Malaysian financial institutions on 29 June 2022.<sup>23</sup> As financial institutions in Malaysia are required to accelerate efforts to manage climate-related risks as well as opportunities, the primary underlying aim is to support financial institutions that are stepping up efforts to implement the TCFD Recommendations in phases beginning in 2022. On a related development, Bank Negara Malaysia (BNM) is currently developing a set of guidelines for climate risk management as well as climate scenario analysis to further facilitate TCFD-aligned disclosures by Malaysian financial institutions. On the part of the practitioners, 64 per cent of Malaysian banks have indicated plans to adopt TCFD in the next few years.<sup>24</sup>

The Value-based Intermediation Financing and Investment Impact Assessment Framework Guidance Document (VBIAF) was issued by the BNM on 1 November 2019, necessitating a comprehensive review of the existing business environment, innovating new policies and systems that can further deliver the value proposition of Shariah. It facilitates the implementation of an impact-based risk management system for Islamic financial institutions in line with their respective VBI commitments and also serves as a reference for other financial institutions intending to incorporate ESG risk considerations in their own risk management system.<sup>25</sup> On 30 April 2021, the BNM issued the Climate Change and Principle-based Taxonomy, aiming to:

1. provide an overview of climate change and its impact;
2. introduce a principle-based taxonomy for financial institutions to assess and categorise economic activities according to the extent to which the activities meet climate objectives; and
3. promote the transition to a low-carbon economy and to facilitate standardised classification and reporting of climate-related exposures to support risk assessments at the institution and systemic levels, strengthen accountability and market transparency, and encourage financial flows towards supporting climate objectives.<sup>26</sup>

To further enhance the protection of the customers, the BNM on 28 February 2023 issued the exposure drafts on Fair Treatment of Vulnerable Customers. The requirements in the exposure draft will be incorporated into the policy document on Fair Treatment of Financial

Consumers issued on 6 November 2019, setting requirements and expectations for all financial service providers to observe and to provide the appropriate support to vulnerable consumers,<sup>27</sup> consistent with fair treatment outcomes.<sup>28</sup>

Domestically, the Prime Minister Dato' Seri Anwar Ibrahim is expected to prioritise the rejuvenation of the nation's economy. The theme 'Ekonomi MADANI: Memperkasa Rakyat' (Economic Reform, Empowering People) was formulated with the utmost priority to serve Malaysia citizens. The framework will serve as a foundation to the recently announced policies, including the National Energy Transition Roadmap,<sup>29</sup> the New Industrial Master Plan 2030<sup>30</sup> and the Mid-Term Review of the Twelfth Malaysia Plan.<sup>31</sup> In this regard, the government has envisaged seven targets to be achieved by the country within the next 10 years. These initiatives are anticipated to drive the nation's economy, with a projected growth rate of 4–5 per cent in 2024.<sup>32</sup> The Prime Minister reaffirmed his commitment to attracting both domestic and foreign investments tied with principles of good governance, streamlined business processes and a reduction in bureaucracy. The United Nations General Assembly in September will offer Malaysia an opportunity to voice its stance on global issues and contribute to discussions on sustainable development, peace and security. Looking at the equities market, Malaysian Industrial Development Finance Berhad (MIDF) Research notes a positive start for global indices in 2024, with optimism surrounding a Fed pause.<sup>33</sup> The Budget 2024 therefore marks the start of Malaysia's journey to rebuild a sustainable, inclusive and buoyant economy as envisioned in the Ekonomi MADANI framework, and Malaysians thus hope for greater stability in domestic politics to face the challenges ahead.

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