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Statement by the Hon. **NOR MOHAMED YAKCOP**,
Governor of the Fund and 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
Singapore, 19 September 2006**

Global Economic Outlook

We are heartened over the revised economic forecast by the IMF that the global economy will grow by 5.1 percent in 2006 and 4.9 percent in 2007. This optimism is backed by vibrant and steady growth expansion in China and India as well as economic dynamism generated in the other developing countries in Asia. Emerging Asia is forecast to grow by 7.3 percent and about 7 percent in 2006 and 2007, respectively.

While the IMF's revised forecast for global growth does partly allay our concerns over downside risks, we share the view that we should remain vigilant and be prepared with appropriate strategies to meet any possible faltering of the global growth momentum. The possibility of sustained higher oil prices, rise in inflation and interest rates, the slowdown in global demand, as well as increasing protectionism, cannot be totally sidelined.

Malaysia's Economy

Growth of the Malaysian economy continues to be supported by robust export growth as well as sustained strong domestic demand. The economy is forecast to grow at 5.8 percent in 2006 and 6 percent in 2007. Private investment and consumption have regained primary importance in the context of the Government's policy stance to consolidate its finances. The Malaysian Government continues to push for reform in its delivery system with the view to making the country an attractive place to invest and conduct business. Removing red tapes and streamlining rules and regulations are some of the initiatives undertaken to reduce cost of doing business and to improve investment

climate. Fresh strategies are also being introduced to promote new sources of growth, especially in the services sector, biotechnology and finance. The role of education and training in providing the required skills is also strongly emphasized.

The services sector, which now accounts for about 58 percent of GDP, is seen as a major driver of future growth. Agriculture will be revitalized through modernization and the promotion of greater wealth-creating downstream activities. Manufacturing sector will be encouraged to engage in higher value added activities and focused more on sophisticated and technology-based activities to maintain its position as the second largest contributor to economic growth.

The Ninth Malaysia Plan, a five-year development plan, which was launched recently focuses on five key thrusts, namely: moving the economy up the value chain, raising the country's capacity for knowledge and innovation, addressing socioeconomic inequalities, improving the standard and quality of life, as well as strengthening the institutional and implementation capacity of the country. An overriding objective of the Plan is to ensure that economic growth leads to higher income and living standards of all Malaysians.

To operationalize the Ninth Plan, we subsequently launched the Budget 2007 early this month. The Budget has put in place various incentives and tax measures to accelerate the growth of the private sector. Efforts have also been undertaken to enhance and expedite the transformation towards a technology and knowledge-intensive economy which requires more competent and skilled workers with the necessary skills sets required by industry. In this regard, efforts will be intensified to improve access to quality education and training at all levels.

IMF's Quota and Voice Reform

We note the outcome of the resolution with regard to the IMF Reform on Quota and Voices. We were concerned with this exercise because the stage one ad-hoc increase was limited to only four countries and failed to address the significant under representation of

many other members. However, we support the resolution in the interest of consensus building, just like many other member countries, believing that this could ensure speedy progress and resolution of the entire reform agenda.

However, the real test of international cooperation is in the second stage. In this regard, Malaysia calls for a stronger commitment from advanced economies to limit their claims for higher quotas to allow emerging market economies to have greater voice representation. In addition, we share the majority view that the new formula should be simpler and more transparent, unlike the present one. More importantly, we should avoid prejudging that GDP would be the predominant factor in the new formula. Malaysia is of the view that all four variables, that is GDP, openness, variability and reserves are important indicators of a country's relative influence within the global economy as well as members' ability and willingness to contribute and play a larger role within the international financial community. In order to reach agreement of a new formula at the 2007 Annual Meetings and to provide sufficient time for the completion of the entire reform agenda by the 2008 deadline, there should be a firm commitment by all for an expeditious implementation of the second stage.

World Bank's Engagement with MICs

Malaysia supports the proposal for the World Bank partner countries to engage in a collaborative and cooperative partnership as it would be most beneficial for the Middle Income Countries (MICs), especially those which have not fully utilized Bank's resources. As such, the World Bank must be prepared to become more pro-active in delivering a flexible, high quality and cost-effective menu of services for all clients to assist them in achieving development result. For the Bank to meet this challenge, it will have to focus on strengthening four key activities, namely, integrated development solutions, strategy and coordination services, financial services as well as knowledge and capacity building services.

Finally, it is important for the Fund and the Bank to adopt an open approach in its engagement with the MICs to synergize on each others' strengths and expertise. In this regard, countries should be allowed greater flexibility in determining policy priorities and options in charting their own development paths.