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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **WAN ABDUL AZIZ WAN ABDULLAH,**
Governor of the Fund and the Bank for **MALAYSIA,**
at the Joint Annual Discussion

Statement by the Hon. TAN SRI DR WAN ABDUL AZIZ WAN ABDULLAH,
Governor of the Fund and the Bank for Malaysia,
at the Joint Annual Discussion

We welcome the 2008 Annual Meeting of the Boards of Governors of the World Bank and the International Monetary Fund. We would like to take this opportunity to thank the Bank and the Fund for the ongoing efforts in carrying out their respective mandates to eradicate poverty and improve financial management in member countries. We also would like to thank Mr. Robert Zoellick, the president of the Bank for the immediate response to support member countries affected by the food and energy crisis. We hope the Bank will continue to be receptive to distress calls by member countries and strive to be proactive with workable and pragmatic solutions.

Global Economic Outlook

Prospects of global growth are weighed down by the prolonged financial turmoil originating from the United States sub-prime crisis, and the surge in inflation triggered by higher commodity prices. The 2008 WEO indicates that developed economies impacted by the financial crisis are bordering on recession during the second half of 2008, while emerging and developing countries which experience high inflation are heading for slower growth. The world economy is expected to moderate further in 2009, unless financial institutions resolve their capital and solvency problems; commodity and housing markets stabilize; and domestic demand in emerging and developing countries continue to strengthen. The current global slowdown clearly underscores the need for concerted commitments by national and international authorities to institute policies as well as regulatory and governance mechanisms to address the challenges and sustain global growth.

Malaysian Economy

Structural reforms and pragmatic policies undertaken over the past five decades have systematically transformed the economy into one that is broad-based and diversified. More so since the 1998 Asian crisis, when Malaysia defied the prevailing orthodoxy of the day and undertook radical measures to ensure the economy is more resilient and better positioned to withstand challenges from the external environment.

The Malaysian economy registered strong growth of 6.3% in 2007, and posted higher-than-expected growth of 6.7% during the first half of 2008, despite rising inflationary pressures and external uncertainties. Steady growth in exports, particularly for commodities and resource-based manufactured goods, as well as sustained private consumption and investment supported the robust expansion of the economy. On a sectoral basis, growth was led by the services sector at 7.8%. Sturdy growth in wholesale and retail trade as well as healthy performance in the communication, transport and storage, and finance and insurance sub-sectors underpinned the expansion in the services sector. The manufacturing sector recorded 6.3% growth, contributed mainly by domestic-oriented industries, such as transport equipment, food and construction-related activities. Growth in the agriculture sector was 6.1%, supported by strong expansion in palm oil production, making Malaysia well-positioned to benefit from the commodities boom. The Malaysian economy is projected to expand 5.7% for 2008 and 5.4% in 2009.

Fiscal policy is focused on ensuring effective public spending. The higher fiscal deficit expected this year is due to increased commitments in providing social assistance, sustaining growth momentum and managing inflation. Nevertheless the Government remains firmly committed to consolidate its financial position and reducing the budget deficit in 2009. The international reserves, remains high at USD109.7 billion, sufficient to finance 9 months of retained imports and is 4.1 times the short-term external debt as at 30 September 2008.

In relation to monetary policy, the Central Bank has maintained a stable policy interest rate since April 2006. The banking sector remains resilient, well capitalized with relatively low loan to asset ratios in mortgage financing and little exposure to the US financial crisis. The risk-weighted capital ratio (RWCR) is at 13%; and has better asset quality with non-performing loans ratio of 2.7% as at end-June 2008. Net funds raised in the capital market were higher at USD12.3 billion. These strengths ensure the Malaysian financial system continues to perform its intermediation function efficiently. Nevertheless the Government will remain alert and vigilant in view of the increasing uncertainties in the global financial market.

World Economic Development Issues

We note the Bank and Fund's concerns on recent economic developments and their effects on long-term growth as well as on the vulnerable groups. High oil and food prices have had serious consequences on the world economy, especially developing countries. Rising prices have not only contributed to inflationary pressures but have also led to social unrest, undermining the political stability in some countries. In striving for solutions to solve these problems, we urge the Bank and the Fund to be more proactive and aggressive in garnering greater international cooperation to bring about stability in the commodities market.

Of grave concern is also the prolonged duration of the financial crisis in the United States. Given that financial markets are highly integrated worldwide, the risks to international financial stability are very real. As the turmoil on Wall Street affects Main Street, we are monitoring closely the events unfolding, and are very concerned about the second round effects on the real sector. If the current financial crisis is not addressed comprehensively, the global slowdown is bound to worsen and further impact negatively on the low income economies. We, therefore, hope that the affected individual countries will take strong and immediate measures to resolve the crisis quickly before the contagion effects engulf the whole world. We also hope that the Bank will step up efforts to assist the more vulnerable among us.

Going forward, we strongly suggest the Fund to enhance its surveillance efforts to address the inadequacies in regulatory and governance mechanisms among member nations to ensure better market oversight, without fear or favour. Countries that have exercised greater discipline in banking supervision, securities market regulation and corporate governance, especially in the aftermath of the Asian financial crisis, should not have their economic gains eroded by the risky behaviour exhibited in the more developed markets. We, therefore, agree with the IMF Managing Director that, “a systemic crisis demands systemic solutions,” and that, “vigilance, objectivity and collaboration – on a global scale – will be needed to deal with the challenges ahead,” not the least being the spillover of the financial fallout into the real economy. In this context, we strongly urge the International Financial Institutions to focus on strengthening the international financial architecture to better identify weaknesses that contribute to economic and financial vulnerabilities, providing early warning signals, and instituting pre-emptive measures and policy reforms to avoid crisis situations.

Climate Change

Climate change is increasingly recognized as a challenge to sustainable development. We concur that the impact of climate change poses a higher risk to emerging and developing economies in achieving their development goals compared with developed countries. Instituting mitigation and adaptation measures in response to climate change imposes extra costs to developing countries, many of which are already grappling with critical poverty and growth issues. Abandoning developing countries to their own devices to mitigate the effects of climate change is unjust and will not bring equity. Wealthy countries are responsible for the bulk of past green house gas emissions but enjoy higher gains from global wealth, while the low-emitting poor countries are hard hit by the consequences of climate change. Developed countries should, therefore, assist developing countries with extra resources, in terms of funding, as well as facilitating technology transfer and capacity building to help integrate the process of mitigation and adaptation efforts to climate change into development projects. However, diverting existing funds from poverty reduction programmes into climate change initiatives will not bring equity to developing countries. Specific funds, which have been established in response to the threat of climate change, should continue and developed Countries should honour their agreement under the United Nations Framework Convention on Climate Change (UNFCCC) to assist developing country parties that are particularly vulnerable to the adverse effects of climate change. In this regard, we welcome the Bank's efforts in setting up the Strategic Framework for Climate Change as part of measures to mitigate the impact of climate change. However, we wish to remind the Bank that the financing of climate change actions must be well defined and not be taken from poverty eradication programs or the IDA allocation.

Voice and Participation Reform

We take note of the progress in the Bank's voice and participation reform. We would like to reiterate that the reform being undertaken should bring about equitable and transparent representation in the Bank's governance. While we can subscribe to the parallelism between the Bank and the Fund, the differences in the roles and mandates of these respective institutions must be taken into consideration in formulating the voice reform. What is appropriate for the Fund is not necessarily appropriate for the Bank. This is because both have distinct missions. As such, using the Fund formulae for the Bank's reform will not reflect its true governance. It is fundamental for the Bank to consider voice reform with a deep understanding of its mandate in order to ensure that its specific development mandate and role are reinforced. Of paramount importance, regardless what methodology is adopted, the reform should enhance legitimacy, credibility, and accountability without diluting the voice of developing countries, either as a group or as individual countries, and without imposing an extra financial burden. However, we are concerned that the option of doubling basic votes would lead to only a marginal increase of 1.2 percentage points to developing and transition countries voting power. We also welcome the suggestion that the selection of the president of the Bank be a more transparent, merit-based process, and open to all qualified nationals of all Member-States. We believe that the selection process must reflect the good governance and democratic principles espoused by the Bank.

In conclusion, we would like to express our appreciation to the Boards of Governors, management and staff of the Bank and the Fund for their good work in promoting economic growth, poverty eradication programs and financial stability in resolving the difficult challenges that lie ahead.