



## **OXFORD ANALYTICA**

**MALAYSIA**

**MONETARY TRANSPARENCY**

**Country Report 2006**

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# MALAYSIA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2006	2005	2004	2003
Clarity of roles	●●●●	●●●●	●●●●	●●●
Open decision process	●●●●	●●●●	●●●●	●●●
Availability of information	●●●●	●●●●	●●●●	●●●●
Accountability	●●●●	●●●●	●●●	●●●
<b>Score</b>	<b>4.00</b>	<b>4.00</b>	<b>3.75</b>	<b>3.25</b>

## OUTLOOK & COMMENTARY

Malaysia continues to work towards full monetary policy transparency. The Bank Negara Malaysia (BNM) has continued to assert its independence through its statements and actions, and its autonomy has been stressed by ministers as well as BNM officials.

Furthermore, in 2006 the BNM increased its efforts to engage with the public and its stakeholders. It now releases the calendar of Monetary Policy Committee (MPC) meetings in advance and a statement on monetary policy is issued on the same day as the MPC meeting. This comes on top of the Laman Informasi Nasihat dan Khidmat (LINK), a single point of contact for the public on BNM issues launched in 2005, and the Credit Counselling and Debt Management Agency, which was launched this year.

## EXECUTIVE SUMMARY

### 4.00 Compliance in progress

Bank Negara Malaysia (BNM) continued to assert its independence in 2006, and its monetary policy transparency has increased. After the prime minister announced in December 2005 that the BNM was free to make independent decisions regarding interest rates, in February 2006 the BNM raised rates when the second minister of finance had earlier declared it unnecessary. In addition, starting this year, the BNM took the decision to release the schedule of meetings for the Monetary Policy Committee (MPC) each December for the following year. The *Monetary Policy Statement* is now also published on the day of each MPC meeting.

During 2006, the BNM has also repeatedly stated the intentions behind the exchange rate policy, to highlight the fact that there is no target or band. This comes following the 2005 change in the exchange rate framework to a managed float against a trade-weighted basket of currencies. Since the change, the BNM has refused to declare details of the reference trade-weighted basket of currencies. The BNM states that it only intervenes to prevent excessive fluctuations in the value of the ringgit, and to ensure that the exchange rate does not depart significantly from the levels warranted by economic fundamentals.

Also in 2006, amendments were made to a number of acts so that the amended 2001 Anti-Money Laundering Act (AMLA) could come into force. This means that Malaysia has now acceded to the United Nations Convention for the Suppression of the Financing of Terrorism. Subsection 7(1) of AMLA established the Financial Intelligence Unit of the BNM as the competent authority.

Some important internal procedures and external services were initiated in 2006. After consideration by a task force over recent years, the BNM enhanced its procurement procedures by adopting a Procurement Management Policy Framework (PMPF). The PMPF includes processes for acquiring goods and services within a supply chain management framework. In addition, section 14 of the CBA requires that the Director of the BNM Board discloses his vested interests in procurement and abstains from any deliberation or decision with respect to such contracts. Also in 2006, the BNM established a company -- the Credit Counselling and Debt Management Agency -- to provide advice, counsel, and assistance to the public on questions of credit and financial management, including debt management.

Monetary statistics continue to meet the requirements of the IMF Special Data Dissemination Standard (SDDS), and the country's international investment position data for end-2005 was released in September 2006, with the lag of three quarters thereby meeting the SDDS requirement.

Malaysia's overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES OF CENTRAL BANKS

●●●● Compliance in progress

### The objectives and institutional framework of monetary policy

#### Central bank objectives and responsibilities

Malaysia's monetary policy framework is officially set out in the Central Bank of Malaysia Act 1958 (Revised 1994, CBA).<sup>1</sup> The legislation enumerates the principal objectives of the central bank, Bank Negara Malaysia (BNM), which are to issue currency and to keep reserves to safeguard the value of the currency, to act as a banker and financial adviser to the government, to promote monetary stability and a sound financial structure, and to influence the credit situation to Malaysia's advantage. The CBA was amended in 2003 to include additional objectives: to promote the reliable, efficient and smooth operation of national payment and settlement systems, and to ensure that the national payment and settlement systems policy is directed to the advantage of Malaysia. The CBA does not identify any priority between its objectives and provides little guidance on how to reconcile conflicting objectives. According to the central bank, its ultimate policy goal is economic growth and price stability.<sup>2</sup> The BNM also highlights its contributions to Malaysia's national development goals.

The powers of the BNM relating to the supervision and regulation of the financial system are specified in Section 30 (3) of the CBA and specific powers are provided in the Islamic Banking Act 1983, the Takaful Act 1984, the Banking and Financial Institutions Act 1989, the Insurance Act 1996, the Development and Financial Institutions Act 2002, the Exchange Control Act 1953, the Money Changing Act 1998, and most recently the Payment Systems Act 2003, which came into effect in November 2003.<sup>3</sup> The BNM has also been appointed by the minister of finance as the competent authority to administer the Anti-Money Laundering Act 2001.

#### Operational autonomy

The CBA establishes that the BNM Board of Directors shall keep the minister of finance informed of the monetary and banking policy; policies in respect of institutions in relation to which the central bank is conferred with powers; and policies in respect of the Exchange Control Act 1953, pursued or intended to be pursued by the central bank.

If a disagreement were to arise between the BNM and the minister of finance, the CBA sets out a procedure for resolving the issue. According to Section 34, if the minister of finance disagrees with the BNM Board on any policies, the minister may "issue directives to the Board relating to such policies, and any such directive shall become binding on the Board, which shall forthwith take all steps necessary or expedient to give effect thereto."<sup>4</sup> If the Board objects to the minister's directive, it may submit its objections in writing to the minister of finance who is then obliged to present those objections together with the minister's directive to the House of Representatives. The CBA is silent on how the House of Representatives -- one of the two houses of parliament -- would resolve such a situation.

In 1998, after a public dispute with the prime minister over monetary policy, the governor of the central bank (Ahmad Don) and a deputy governor (Fong Weng Phak) resigned. Another official -- formerly in the Economic Planning Unit of the Prime Minister's Department -- then headed the bank temporarily and changed monetary policy to bring it in line with that proposed by then Prime Minister Dr. Mahathir Mohamad. Dr Mahathir subsequently accepted the additional role of minister of finance; the only other prime minister to hold the office since his departure

in 2003 has continued the practice of also being minister of finance while appointing another minister, called the second minister of finance.

In the past, commentators argued that the operational independence of the central bank has been unclear since 1998. Recent developments in the conduct of monetary policy have highlighted the growing independence of the central bank under prime minister Abdullah Ahmad Badawi.<sup>5</sup> In 2006, commentators agreed that the BNM has a high degree of operational autonomy from executive government.<sup>6</sup>

The BNM has asserted that it conducts monetary policy in coordination with other government institutions and receives suggestions from the minister of finance. In this context, BNM officials have stressed that the central bank remains operationally autonomous.<sup>7</sup> Practice since 2002 bears out the BNM assertion. For example, in 2002 when Dr Mahathir publicly threatened to raise the statutory reserve requirement ratio to pressure commercial banks to increase lending and promote economic activity, the BNM made no changes to the ratio. In December 2005, prime minister Abdullah said his government left interest policy, “entirely to the central bank”.<sup>8</sup> In 2006, just days after the second minister of finance declared that Malaysia was not under immediate pressure to raise interest rates, the BNM’s Monetary Policy Committee decided to raise interest rates.<sup>9</sup>

## **Institutional relationship between monetary and fiscal operations**

### **Lending to government**

Section 33 of the CBA allows the BNM to grant temporary advances to the government, which cannot amount to more than 12.5% of the estimated government receipts for that financial year. These must be paid back no later than three months after the end of the financial year in which they were granted. The BNM is free to determine the interest rates of these advances. However, this provision has never been exercised.<sup>10</sup>

### **Central bank involvement in the rest of the economy**

The CBA allows the BNM to carry out various fiscal or quasi-fiscal activities, many of which have never been implemented. Section 30 of the CBA allows the setting up of a Special Investment Fund -- with the approval of the BNM board and the minister of finance -- for the purpose of economic development using funds from banking institutions’ statutory reserve ratios. This fund cannot exceed the amount of the BNM’s General Reserve Fund.<sup>11</sup> Subsection 30 (1) (h) and (j) of the CBA allows the BNM to purchase, sell, and hold securities of the Malaysian or state governments or public authority, and hold securities of corporations set up with government approval to develop financial markets. Subsection 30 (1) (o) empowers the BNM to purchase and sell securities issued or guaranteed by any foreign government or international financial institution.

At present, the BNM owns about 79.3% of the Credit Guarantee Corporation’s share capital. This firm was set up in 1972 to assist viable small- and medium-sized enterprises, particularly those without collateral or with inadequate collateral to obtain credit facilities from financial institutions, by providing guarantee cover on such facilities. A deputy governor of the BNM is chairman of the Credit Guarantee Corporation.<sup>12</sup>

The BNM also owns 20% of *Cagamas*, the national housing mortgage agency and a major supplier of domestic bonds. *Cagamas* bonds play a key benchmarking role for the local bond market, a market that the BNM’s operating legislation encourages it to develop. A deputy governor of the BNM is chairman of *Cagamas*. For development purposes, the BNM issues broad lending guidelines to all banking institutions operating in Malaysia to ensure that certain economic sectors, deemed by the government to be of primary importance, have continuous access to credit. Such directed lending is extended based on commercial rates and terms.<sup>13</sup>

After consideration by a task force, in August 2006 the BNM enhanced its procurement procedures by adopting a Procurement Management Policy Framework (PMPF). The PMPF includes processes for acquiring goods and services within a supply chain management framework. The PMPF is consistent with the provisions of the CBA and the powers of the BNM Board as provided in the CBA. In addition, section 14 of the CBA requires that the Director of the BNM Board discloses his vested interests, if any, in procurement contracts made or proposed to be made by the BNM, and to abstain from any deliberation or decision with respect to such contracts.<sup>14</sup>

In April 2006, the BNM established a company -- the Credit Counselling and Debt Management Agency -- to provide advice, counsel, and assist the public on questions of credit and financial management, including debt management.<sup>15</sup>

### **Central bank profit allocation**

The CBA details conditions for the allocation of BNM profits. The amount to be placed in the General Reserve Fund (GRF) will be recommended by the BNM Board, and determined by the minister of finance after consultation with the BNM Board, and the remainder is paid to the government.<sup>16</sup> If at the end of the financial year the GRF is less than half the paid-up capital of the central bank, then all profits are transferred into the GRF. If the fund accumulates more than half (but less than twice) the paid-up capital then at least 30% of the net profit is transferred to the GRF.<sup>17</sup> By mid-2005, the BNM's GRF far exceeded its paid-up capital.

### **Agency roles performed by the central bank on behalf of the government**

The CBA designates the BNM as the banker and financial agent to the government. The BNM works closely with the Ministry of Finance to determine the budgetary requirements for the government for the year ahead. This includes work that allows the issuance calendar for Malaysian Government Securities to be announced in December for the year ahead. The Development Financial Institutions Act 2002 brings six financial institutions for development, controlled by different agencies, under the scrutiny of the BNM. However, the central bank holds no equity stakes in any of these institutions. The BNM in its role as financial agent of the government regularly issues both conventional and Islamic treasury bills and bonds, under the Treasury Bills (Local) Act 1946 (Revised 1977), the Loan (Local) Act 1959 (Revised 2004), and the Government Funding Act of 1983.

## 2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS

●●●● Compliance in progress

### The framework, instruments, and targets of monetary policy

#### Framework and monetary targets

The BNM's *Annual Report* provides a general description of monetary policy, and the CBA outlines monetary policy objectives from which targets can be derived. In the past, commentators had argued that the lack of clear and published annual targets substantially diminished monetary policy transparency.<sup>18</sup> In order to allay this concern, the BNM has stepped up its efforts to enhance transparency by improving its communication strategy and enhancing the dissemination of information to stakeholders.

The BNM uses interest rates as the main operating target. In April 2004, the BNM replaced the three-month Intervention Rate with the Overnight Policy Rate (OPR) as the main indicator of its monetary policy stance. The OPR has a dual role: as a signalling device to indicate the monetary policy stance and as a target rate for the day-to-day liquidity operations of the central bank.<sup>19</sup> Liquidity management is aimed at ensuring the appropriate level of liquidity that would influence the overnight inter-bank rate to move closer to the OPR. Liquidity operations are also conducted at other maturities without targeting a specific interest rate level, such that inter-bank interest rates at other maturities would be determined by the market -- reflecting overall demand and supply conditions in the money market as well as interest rate expectations. Any change in the OPR is announced in the *Monetary Policy Statement*, which is issued on the same day as the corresponding Monetary Policy Committee (MPC) meeting. Should the monetary policy stance change in the period between two scheduled MPC meetings, an additional *Monetary Policy Statement* would be issued.<sup>20</sup>

From September 1998 to July 2005, the ringgit was pegged to the US dollar and a policy of non-internationalisation of the ringgit, enforced by limiting access to ringgit offshore operations, allowed Malaysia to set domestic interest rates while keeping the exchange rate stable. In July 2005, Malaysia replaced the peg with a managed float against a trade-weighted basket of currencies.<sup>21</sup> The governor of the BNM has said Malaysia does not use the exchange rate as an instrument of policy; the BNM does not have a target for the exchange rate and does not declare details of the reference trade-weighted basket of currencies. The BNM states in its *Annual Report 2005* that the overriding objective of the exchange rate policy is the "promotion of exchange rate stability against the currencies of Malaysia's major trading partners". They add that the exchange rate is determined by market forces and that there is no target within a band, so that the BNM would only intervene to minimise volatility.<sup>22</sup>

#### Monetary instruments

The BNM is authorised to use a variety of instruments to pursue monetary policy, as outlined in Section 30 of the CBA. These include the purchase, sale and discount of government securities, foreign bonds, and currencies. Along with changes to interest rates and open market operations, the BNM regulates the statutory reserve ratio as a monetary policy instrument. The central bank provides the latest information on changes to monetary policy instruments in its press releases, *Monetary Policy Statement*, *Monthly Statistical Bulletin*, *Quarterly Bulletin*, and *Annual Report*. These are available on the BNM website.<sup>23</sup> The BNM publicly discloses the rules and procedures for its relationship and transactions with counterparties mainly through its Circulars.

Section 19(1) of the CBA stipulates that the minister of finance, on the recommendation of BNM, may determine an exchange rate parity for the ringgit which is consistent with the IMF Articles of Agreement. However, pursuant to section 19(4), the minister of finance may decide, on the recommendation of the BNM, that it is necessary and expedient for Malaysia not to determine an exchange rate parity for the ringgit, but instead to apply any exchange arrangement that is not inconsistent with the IMF Articles of Agreement.<sup>24</sup>

## **The monetary policy-making body**

### **Monetary board**

Under the CBA, the BNM's Board of Directors is responsible for the strategy and general administration of the central bank's affairs and business -- it currently comprises five ex-officio members (four from the BNM and the secretary-general of the Treasury) and four directors drawn from the private sector.<sup>25</sup> The monarch (or the 'Yang di-Pertuan Agong') appoints the BNM governor and the four directors from the private sector, while the minister of finance appoints the deputy governors. The governor and deputy governors are appointed for a term not exceeding five years; the directors are appointed for a term not exceeding three years. All Board members are eligible for reappointment. As stipulated in the law, the Board entrusts the BNM governor to be in charge of matters pertaining to the conduct and formulation of monetary policy.<sup>26</sup>

Among the several senior management committees, the MPC, which comprises the governor, deputy and assistant governors, assesses the financial and economic developments associated with the formulation and conduct of monetary policy. The primary objective of the MPC meetings is to serve as a formal platform for comprehensive discussions on issues and developments relevant to the formulation and implementation of monetary policy. The MPC is not a decision-making committee; its role is limited to that of an internal advisory group. Rather, in setting monetary policy, the MPC ensures that the BNM Governor has the benefit of hearing various alternative opinions and perspectives before a policy decision is made.<sup>27</sup> Based on the governing legislation, monetary policy decisions remain the sole responsibility of the BNM Governor, who is accountable to the Board of Directors. The MPC receives input from the BNM's Monetary Policy Working Group, which consists of an assistant governor (acting as chairman) and other department officials. Governance and risk management procedures have also been put in place to ensure the proper running of the MPC meetings. These include a formal Terms of Reference and strict adherence to the Central Bank's Information Security policy.

The BNM closely coordinates with other government ministries. Much of this interaction takes place through the National Development Planning Council and the various Macroeconomic Inter-Agency Planning Groups that meet regularly to coordinate fiscal and monetary policy responses across agencies.<sup>28</sup> The group consists of representatives from the Ministry of Finance, the BNM, the Economic Planning Unit, and the National Economic Action Council. In the past, commentators have stated that the Ministry of Finance is perceived to be too closely involved with monetary policy-making. However, the BNM asserts that this relationship represents an integral part of its advisory function to the government.<sup>29</sup>

### **Advance meeting schedule**

In 2006, there were significant improvements to the transparency of the monetary policy-making process. The Monetary Policy Committee meets eight times a year on predetermined dates. As of 2006, the schedule of MPC meetings for the calendar year ahead is released in the preceding December. Minutes or reports of these meetings are not publicly available, but statements about the main considerations guiding monetary policy are made available through the central bank's *Annual Report* and the *Monetary Policy Statement*. The *Monetary Policy Statement* is published, since 2006, at the end of the day following an MPC meeting. In addition, the senior management of the central bank, including the governor, engages in a question and answer session with the media on the main

considerations influencing past and future monetary policy decisions, to coincide with the release of the quarterly GDP data.<sup>30</sup>

## Public statements on monetary policy

### Periodic publications

The BNM issues press releases on its website announcing changes in monetary policy, the OPR, and the range and settings of monetary instruments. These provide the rationale for changes and the time span for implementation. BNM officials regularly make statements about monetary policy in speeches, many of which can be found on the central bank's website.<sup>31</sup> Upon the release of the *BNM Annual Report*, the governor holds explanatory briefings for the various stakeholders, including foreign ambassadors, analysts, business chambers, Malaysian government officials, and the media.

Malaysia's central bank releases a variety of regular publications.<sup>32</sup> The *Monthly Statistical Bulletin* contains updated information on monetary and financial aggregates and includes the BNM's and banking institutions' updated statements of assets and liabilities. Data on certain financial intermediaries, including the Employees Provident Fund and the National Savings Bank as well as updated data on financial markets and national accounts are also provided.

Since 2006, the *Monetary Policy Statement* is issued at the end of the day following each MPC meeting.<sup>33</sup> The statement summarises the central bank's analysis of macroeconomic indicators and the direction of policy intent. Between the fixed scheduled dates, additional monetary policy statements would be issued if a policy change were warranted.

The fortnightly *Reserves Statement* describes the state of the country's foreign exchange reserves.<sup>34</sup> Additional GDP statistics and data on federal government debt are found in the *Quarterly Bulletin*, which provides statistics and analysis on economic, monetary, and financial developments, as well as features on specialised topics.<sup>35</sup>

The *BNM Annual Report* provides a detailed sectoral breakdown of the Malaysian economy and a description of monetary and fiscal developments. It includes all BNM annual accounts and an annex provides information on foreign exchange administration policies, funds administered by the BNM, and a list of licensed banking institutions. In addition, the report includes performance and developments in the financial sector, financial markets, and the payment and settlement systems. In 2006, the BNM also published the inaugural *Small and Medium Enterprises Annual Report*, reviewing the status and performance of small and medium enterprises (SMEs) in Malaysia and highlighting major programmes undertaken by government to promote SMEs.<sup>36</sup>

The BNM's liquidity forecasts and monetary operations are released daily to major commercial information service providers including Reuters, Moneyline Telerate, and Bloomberg.<sup>37</sup>

The *Financial Sector Master Plan* outlines the central bank's long-term (10-year) strategy and vision for the financial sector.<sup>38</sup>

The central bank also publishes books, occasional and discussion papers, a variety of consumer education booklets -- including financial planning books for children and adults -- and two reports on the insurance sector: the *Takaful Annual Report* and the *Insurance Annual Report*.<sup>39</sup>

### **Public hearings**

The BNM is not required by law to hold public hearings before major changes to monetary policy or supervisory regulation, but it holds consultations with the private sector on a variety of monetary and regulatory issues.<sup>40</sup> In addition, after the release of the *BNM Annual Report*, the governor holds a series of briefings for various stakeholders, including foreign ambassadors, financial analysts, chambers of commerce, government officials, and the media. The BNM holds regular meetings and discussions between its officers -- from the Monetary Assessment and Strategy Department, Economics Department, Investment Operations and Financial Markets Department, Financial Surveillance Department and Corporate Communications Department -- and financial analysts, economists and fund managers.<sup>41</sup>

### **Regulations on data reporting by financial institutions to the central bank**

The regulations on data reporting by financial institutions are publicly disclosed in two laws and a set of guidelines. The Banking and Financial Institutions Act 1989 (BAFIA) provides for financial institutions' data reporting to the central bank. This law and subsequent regulations require both banking institutions and selected non-bank financial institutions (such as discount houses) to submit information to the BNM. The regulations are reviewed from time to time to enable the BNM to undertake its supervisory and surveillance function more effectively as well as to ensure the relevance of regulations. Since the 1997-98 financial crisis, the BNM has issued new circulars tightening some of the reporting requirements.

The Development Financial Institutions Act of 2002 (DFIA) strengthened reporting requirements for the six Development Financial Institutions (DFIs) governed by the law. Under the DFIA, the central bank is responsible for monitoring the activities and financial performance of these institutions. The DFIs are required to submit their monthly reports and financial indicators to the BNM. The central bank also conducts off-site surveillance and regular examinations of the DFIs using the risk-based supervision approach, which covers the effectiveness of internal audit functions, financial analysis, and the examination of information systems.<sup>42</sup>

In 1998, the BNM relaxed the definition of a non-performing loan from the international standard of three months of no principal or interest paid to six months, although the new definition applies only to loans with repayment periods shorter than three months.<sup>43</sup> Banking institutions with more stringent rules -- which are in the majority in Malaysia -- may adopt the more stringent three-month classification rule. Industry numbers on non-performing loans calculated using both the three-month classification and the six-month classification rules are published in the *Monthly Statistical Bulletin* and *Annual Report*.

The full texts of the BAFIA and DFIA are available on the website of the BNM.<sup>44</sup> A copy of *Guidelines for Financial Institutions*, in Malay, can be purchased from the central bank.<sup>45</sup>

To enable Malaysia to accede to the United Nations Convention for the Suppression of the Financing of Terrorism, an amendment to the Anti-Money Laundering Act 2001 (AMLA) was passed in December 2003. Subsection 7(1) of AMLA established the Financial Intelligence Unit of the BNM as the competent authority. The 2003 amendments, among others, expanded the scope of AMLA to cover regulations relating to terrorist financing activities. In 2006, amendments were made to other acts in order to allow the amended AMLA to come into force.

### 3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●● Compliance in progress

#### Release of central bank data

As one of the first subscribers to the IMF Special Data Dissemination Standard (SDDS), the central bank meets most of the SDDS specifications for coverage, periodicity and timeliness.<sup>46</sup> Malaysia has taken the flexibility option for the timeliness on reporting the country's international investment position (IIP), allowing for a lag of more than three quarters.<sup>47</sup> Efforts are being made to release the data in a more timely fashion; in September 2006, IIP data for end-2005 was released with a lag of three quarters, meeting the SDDS requirement.<sup>48</sup>

An advance release calendar is available on the BNM's website, which provides the expected release dates for data described in the IMF's Dissemination Standards Bulletin Board (DSBB). The Department of Statistics publishes advance release calendars one quarter in advance in its *Quarterly National Product and Expenditure Accounts*.

For data with 'not later than' deadlines, the BNM announces the actual release dates at least one week prior to the release of the data through its website. As specified in the SDDS' *Detailed Disclosure of International Reserves Requirement*, the BNM provides additional information on international reserves, including forward-looking information on likely inflows/outflows for the next twelve months.

#### The central bank balance sheet

The BNM releases its analytical accounts on a monthly basis (within one month after the end of the reference month) in the *Monthly Statistical Bulletin*. This bulletin also provides a brief description of overall liquidity operations as part of the monthly balance sheet. In accordance with Section 47 of the CBA, the central bank also publishes fortnightly *Statements of Assets and Liabilities*.<sup>49</sup> Information concerning the value of the BNM's shares in other institutions is not publicly disclosed by the BNM, but the information is usually made available in the respective institution's report. An analytical breakdown of the BNM's official reserve assets in conformity with the SDDS specifications is published bi-weekly, better than the SDDS frequency of monthly publication, and is available on the BNM's website. There are no plans to report gross international reserves on a weekly basis.

#### Lender of last resort

The CBA and the Banking and Financial Institutions Act 1989 (BAFIA) specify the BNM's capability as lender of last resort. Section 42 of the CBA provides the BNM with emergency powers to lend money or provide advances to financial institutions to safeguard monetary stability. Section 73 of the BAFIA enables the BNM to intervene at times of emerging strains in banks and take control of insolvent banks, and section 78 empowers BNM to take actions such as granting loans to, or purchasing shares of distressed financial institutions to safeguard the financial system's stability. The Emergency (Essential Powers) Act 1979 and Essential (Protection of Depositors) Regulations 1986 further strengthen the BNM's supervisory powers in accordance with its lender of last resort operations.

In recent years, the BNM has not provided emergency financial support to troubled financial institutions. It has instead relied on market-based mechanisms to support and reform troubled institutions. Malaysia has established mechanisms, which do not rely on emergency financial support, to resolve problems with deposit-taking institutions.

In 2005, the government's blanket guarantee for deposits in Malaysia was replaced by an explicit, but limited deposit insurance scheme. The Malaysia Deposit Insurance Corporation (MDIC) Act 2005 established the Malaysia Deposit Insurance Corporation to administer the act and the country's deposit insurance scheme. The MDIC's membership consists of licensed banks, licensed finance companies and licensed Islamic banks. Its coverage, among others, is up to 60,000 ringgits (16,900 US dollars) per depositor per member institution for both Islamic and conventional deposits. The MDIC is mandated to undertake the resolution of non-viable member institutions, upon notification of non-viability by the BNM, using resolution options that would have least cost-impact to the financial system.<sup>50</sup>

## Public information services

The BNM has a comprehensive website that stores statistical outputs, press releases and speeches (from 1996 onwards), all available in English and Malay. The website also provides details on how local and overseas clients can purchase publications, with a price list of available documents. The latest issue of each major document (*Monthly Statistical Bulletin*, *Quarterly Bulletin*, and *Annual Report*) is freely available on the website. Recent issues of these publications are also available. In 2005, the BNM launched Laman Informasi Nasihat dan Khidmat (LINK), an office that acts as a single point of contact with the public on issues that relate to the BNM's operations, policies, the financial sector and consumer education.<sup>51</sup>

The range of BNM publications is extensive, including historical works, occasional research papers, and detailed information sources on all areas of BNM supervision from Islamic banking to the Takaful industry. Visitors to the BNM, with authorisation, can also use the BNM library to look up specific legislation, circulars, and Gazettes that are often only summarised on the website.

Information on bills and bonds traded in Malaysia and on the primary issues of all instruments (securities and non-securities) approved by the BNM and/or relevant authorities -- issues on tender or on private placement via the systems known as RMBond (Ringgit Bond Market) and FAST (Fully Automated System for Issuing/Tendering) -- is also available.<sup>52</sup> A Bond Info Hub website provides additional information on the Malaysian repo and bond market.<sup>53</sup> Information on current foreign exchange administration measures, including a handbook, is also available through the BNM website.<sup>54</sup>

The BNM also organises roadshows to educate the public on financial planning and consumer finance. An on-line financial education website has been developed for schoolchildren.<sup>55</sup>

## 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

### Accountability before a designated public authority

Under the Central Bank Act, the annual accounts -- certified by the Auditor General -- as well as a report by the BNM board on all annual central bank operations, are presented to the Senate and the House of Representatives. Once the BNM accounts are tabled in the parliament, the Public Accounts Committee of the Parliament (PAC) can require BNM officials to attend and answer questions on BNM's operations and administration.

The BNM also reports its return of assets and liabilities to the minister of finance twice each month (after the 15<sup>th</sup> and final days), in accordance with section 47 of the CBA.

Since independence in 1957, Malaysia has been ruled by one multi-party coalition, with the minister of finance coming from the dominant party, the United Malays National Organisation (UMNO). Since 2001, the prime minister has also been the minister of finance. This situation has left little explicit role for parliament.

### Financial statement

#### Audited financial statement

As required by law, the BNM publishes its annual financial statements within three months of the end of its financial year, which follows the calendar year. The accounts include a summary of the BNM's contingent liabilities. Section 48 of the CBA requires the accounts to be certified by the Auditor General and published in the *Government Gazette*. The accounts must be sent to the minister of finance, who presents them along with the *Annual Report*, to both the House of Representatives and the Senate.<sup>56</sup> Malaysian National Accounting Standards, Malaysian generally accepted principles of accounting, and Government Circulars guide the BNM's financial reporting framework.<sup>57</sup>

#### External and internal audit

The BNM has appropriate internal governance procedures to ensure the integrity of its operations; these are established by the Board of Directors. The BNM's Internal Audit Department, under the purview of an Internal Audit Committee of the BNM Board, enforces internal governance procedures and, in concurrence with the National Audit Department (Jabatan Audit Negara), reviews all reports. The membership of the Internal Audit Committee comprises three independent members of the Board of Directors, and it meets once every three months to review the central bank's financial operations, its internal controls, the Internal Auditor's audit programme, the performance and findings of the Internal Audit Department, and to recommend any remedial actions on the findings.<sup>58</sup>

Article 106 of the constitution and the Audit Act 1957 accord the Auditor General with independence, whereby the institution is only accountable to the legislature. A summary of findings by the Auditor General in the BNM's financial statements is provided in the *Auditor General's Report on the Federal Statutory Bodies* for each fiscal year.<sup>59</sup>

## Conduct of officials

Sections 9-11 of the CBA specify procedures for the appointment and removal of the governor, deputy governor and other members of the Board of Directors. The monarch may terminate the appointment of the governor or any of the directors, the minister of finance, and that of the deputy governors, under the conditions specified in Section 11 (2) of the CBA.<sup>60</sup>

The Public Authorities Protection Act 1948 does not prevent legal action being taken against public officials, but it imposes a shortened limitation period for bringing lawsuits. Section 114 of the Banking and Financial Institutions Act 1989, Section 117 of the Development Financial Institutions Act 2002, and Section 77 of the Anti-Money Laundering Act 2001 prevent legal process from being taken against BNM officers for their actions performed pursuant to the relevant legislation and carried out in good faith. The full texts of the CBA, the Banking and Financial Institutions Act, the Development Financial Institutions Act, and the Anti-Money Laundering Act are available on the website of the BNM.<sup>61</sup>

The CBA details the legal responsibilities of the governor, directors, and general staff, including the disclosure and/or processes concerning conflicts of interests. BNM officers are legally proscribed from revealing information gained from their professional duties, except when exercising their duties or when required to do so by a court of law. The BNM can report suspected offences by its own members and supervised institutions to the relevant authorities.

In 1995, the BNM's Human Resources Management Department issued internal guidelines that require BNM officers to wait six months prior to joining any financial institution after leaving the central bank.

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Malaysia between 1 and 8 November 2006:

### Ministry of Finance

#### 3 November 2006

Yeo Heng Hau	Deputy Undersecretary	Economic and International Division
Chua Tong Ka	Head, Fiscal Section	Economic and International Division
Nik Mohd. Shariffudin Nik Hassan		Economic and International Division
K. Givananadam	Deputy Director	Budget Management Division
S. Kumaran	Deputy Undersecretary	Financial Management Advisory Division
Nurdita Fazlinda		MoF (Inc) and Privatisation Division
Zahara Mhd. Salleh		MoF (Inc) and Privatisation Division
Yap Soo Har	Deputy Undersecretary	Tax Analysis Division
Mohd. Taufiq Mohd. Ralip		Tax Analysis Division

### Economic Planning Unit, Prime Minister's Department

#### 6 November 2006

Yap Siew Hong	Director	Macroeconomics Section
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### Bank Negara Malaysia

#### 2 November 2006

Dr Sukhdave Singh	Director	Monetary Assessment and Strategy Dept.
Friaziali Ismail	Acting Deputy Director	Monetary Assessment and Strategy Dept.
Loh Jian Wei	Senior Executive	Monetary Assessment and Strategy Dept.
Low Thiam Huat	Manager	Corporate Communications Dept.

## ADDITIONAL INTERVIEWS

#### 1 November 2006

Jeffrey Hurst	Executive Director	American Malaysian Chamber of Commerce
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#### 2 November 2006

Azidin Wan Abd. Kadir	Research Fellow	Malaysian Institute of Economic Research
Gordon B. Reid	Director for Trade & Investment	British High Commission

**6 November 2006**

Datuk Dr Paddy Bowie  
Jason Leong

Managing Director  
Senior Consultant

Paddy Schubert Sdn. Bhd.  
Paddy Schubert Sdn. Bhd.

**7 November 2006**

Dr Muthi Samudran

Associate Professor

School of Business, Monash University

Richard Yeoh

Executive Director

Transparency International Malaysia

**8 November 2006**

P. Ramakrishnan  
Andrew Wong  
Anil Noel Netto  
Mustafa K. Anuar

President  
ExCo member  
ExCo member  
Asst. Secretary

Aliran Kesedaran Negara  
Aliran Kesedaran Negara  
Aliran Kesedaran Negara  
Aliran Kesedaran Negara

## NOTES

- <sup>1</sup> The Central Bank of Malaysia Act 1958 (Revised 1994) is available at: [www.bnm.gov.my/index.php?ch=14&pg=17&ac=13&full=1](http://www.bnm.gov.my/index.php?ch=14&pg=17&ac=13&full=1)
- <sup>2</sup> Written comments from Bank Negara Malaysia to *Oxford Analytica*, 24 November 2003, p.5.
- <sup>3</sup> See press statements section at: [www.bnm.gov.my/index.php?ch=107](http://www.bnm.gov.my/index.php?ch=107)
- <sup>4</sup> Section 34, Central Bank of Malaysia Act 1958 (Revised 1994).
- <sup>5</sup> Interviews in Malaysia, 20-24 October 2003 and 7-10 November 2005. For example, PM Abdullah has said, after BNM raised the key overnight policy rate by 30 basis points to 3% in its first hike in seven years, that the government does not “fiddle and tinker with interest rates. We leave it entirely to the central bank.” See ‘Malaysia PM: Ctrl Bank, Not Govt to Decide Rate Hikes’, Dow Jones Newswires, 2 December 2005.
- <sup>6</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>7</sup> Interviews in Malaysia, 20-24 October 2003.
- <sup>8</sup> *Dow Jones Newswire*, “Malaysia PM: Ctrl Bank, Not Govt to Decide Rate hikes”, 2 December 2005.
- <sup>9</sup> Contrast “Malaysian minister sees no pressure for rate rise,” Reuters, 17 February 2006, and the BNM Monetary Policy Statement dated 22 February 2006 raising the overnight policy rate.
- <sup>10</sup> Interviews in Malaysia, 20-24 October 2003.
- <sup>11</sup> Section 30 (ffff), Central Bank of Malaysia Act 1958 (Revised 1994).
- <sup>12</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>13</sup> Interviews in Malaysia, 7-10 November 2005.
- <sup>14</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>15</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>16</sup> Interviews in Malaysia, 7-10 November 2005. Central bank officials have emphasised that the BNM acts independently on the profit allocation decision and then makes the necessary recommendation to the minister of finance.
- <sup>17</sup> Section 7, Central Bank of Malaysia Act 1958 (Revised 1994).
- <sup>18</sup> Interviews in Malaysia, 20-24 October 2003.
- <sup>19</sup> See ‘BNM introduces new interest rate framework’ PEN: 04/04/34 (BNM press release) at: [www.bnm.gov.my/index.php?ch=8&pg=14&ac=831](http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=831)
- <sup>20</sup> Interviews in Malaysia, 7-10 November 2005; Interviews in Malaysia 1-8 November 2006.
- <sup>21</sup> See ‘Malaysia Adopts a Managed Float for the Ringgit Exchange Rate’, BNM press release 21 July 2005 at: [www.bnm.gov.my/index.php?ch=8&pg=14&ac=1054](http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=1054)
- <sup>22</sup> Bank Negara Malaysia, ‘Laporan Tahunan 2005: Annual Report’, 2005 p. 74 and Bloomberg, ‘Malaysia Doesn’t Have Target or Bank for Ringgit, Zeti Says’, 18 September 2005.
- <sup>23</sup> See [www.bnm.gov.my/index.php?ch=11](http://www.bnm.gov.my/index.php?ch=11)
- <sup>24</sup> Central Bank of Malaysia Act 1958 (Revised 1994), Article 19: Parity (see [www.bnm.gov.my/index.php?ch=14&pg=17&ac=13&full=1](http://www.bnm.gov.my/index.php?ch=14&pg=17&ac=13&full=1))
- <sup>25</sup> Section 8, Central Bank of Malaysia Act 1958 (Revised 1994) provides for the composition of the BNM’s Board of Directors. The Board of Directors should consist of the governor, not more than three deputy governors and not fewer than five but no more than eight directors appointed under the requirements of Section 10.
- <sup>26</sup> Interviews in Malaysia, 27 September – 1 October 2004.
- <sup>27</sup> Interviews in Malaysia, 7-10 November 2005.
- <sup>28</sup> Interviews in Malaysia, 20-24 October 2003.
- <sup>29</sup> Interviews in Malaysia, 27 September – 1 October 2004, and 7-10 November 2005.
- <sup>30</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>31</sup> See [www.bnm.gov.my/index.php?ch=9](http://www.bnm.gov.my/index.php?ch=9).
- <sup>32</sup> See ‘Publications’ at: [www.bnm.gov.my/index.php?ch=11](http://www.bnm.gov.my/index.php?ch=11)
- <sup>33</sup> See [www.bnm.gov.my/index.php?ch=8](http://www.bnm.gov.my/index.php?ch=8)
- <sup>34</sup> See [www.bnm.gov.my/index.php?ch=8&pg=14&ac=1353](http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=1353)
- <sup>35</sup> See [www.bnm.gov.my/index.php?ch=11](http://www.bnm.gov.my/index.php?ch=11)
- <sup>36</sup> Interviews in Malaysia, 1 - 8 November 2006. See [www.bnm.gov.my/index.php?ch=8&pg=14&ac=1279](http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=1279) and [www.bnm.gov.my/index.php?ch=103&pg=456&ac=526&yr=2005](http://www.bnm.gov.my/index.php?ch=103&pg=456&ac=526&yr=2005)
- <sup>37</sup> Interviews in Malaysia, 27 September – 1 October 2004. The information is accessible through the FAST (Fully Automated System for Issuing/Tendering) and IIMM (Islamic Interbank Money Market) websites. (FAST: <https://fast.bnm.gov.my/fastweb>; IIMM: <http://iimm.bnm.gov.my/>)

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- <sup>38</sup> See [www.bnm.gov.my/index.php?ch=116&pg=355&ac=21](http://www.bnm.gov.my/index.php?ch=116&pg=355&ac=21).
- <sup>39</sup> See the BNM Publications Catalogue at [www.bnm.gov.my/index.php?ch=11&pg=359&ac=248](http://www.bnm.gov.my/index.php?ch=11&pg=359&ac=248).
- <sup>40</sup> Interviews in Malaysia, 20-24 October 2003.
- <sup>41</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>42</sup> Written comments from Bank Negara Malaysia to *Oxford Analytica*, 24 November 2003, p.10.
- <sup>43</sup> Interviews in Malaysia, 20-24 October 2003. Written comments from Bank Negara Malaysia to *Oxford Analytica*, 24 November 2003, p.11.
- <sup>44</sup> See [www.bnm.gov.my/index.php?ch=14&pg=17](http://www.bnm.gov.my/index.php?ch=14&pg=17).
- <sup>45</sup> *Garispanduan-Garispanduan untuk Institusi-institusi Kewangan*. See: [www.bnm.gov.my/index.php?ch=117&pg=368&ac=68](http://www.bnm.gov.my/index.php?ch=117&pg=368&ac=68).
- <sup>46</sup> See Economic and Financial Data for Malaysia at: [www.bnm.gov.my/index.php?ch=111](http://www.bnm.gov.my/index.php?ch=111)
- <sup>47</sup> See IMF SDDS website at: <http://dsbb.imf.org/>
- <sup>48</sup> Interviews in Malaysia, 1-8 November 2006
- <sup>49</sup> See the BNM Statement of Assets & Liabilities at: [www.bnm.gov.my/index.php?ch=12&pg=142](http://www.bnm.gov.my/index.php?ch=12&pg=142)
- <sup>50</sup> Interviews in Malaysia, 1-8 November 2006.
- <sup>51</sup> See [www.bnm.gov.my/bnmlink/](http://www.bnm.gov.my/bnmlink/)
- <sup>52</sup> See RMBond at: <http://rmbond.bnm.gov.my/> and FAST at: <http://rmbond.bnm.gov.my/wwwbis/fbfast.html>
- <sup>53</sup> See <http://bondinfo.bnm.gov.my>.
- <sup>54</sup> See [www.bnm.gov.my/fxadmin](http://www.bnm.gov.my/fxadmin).
- <sup>55</sup> See [www.duitsaku.com/](http://www.duitsaku.com/).
- <sup>56</sup> Section 48, Central Bank of Malaysia Act 1958 (Revised-1994). See Certificate of the Auditor General, Chapter 13 – Annual Accounts, 2004 Annual Report at: [www.bnm.gov.my/files/publication/ar/en/2004/ar2004.complete.pdf](http://www.bnm.gov.my/files/publication/ar/en/2004/ar2004.complete.pdf)
- <sup>57</sup> Accounting standards in Malaysia are based on International Accounting Standards (IAS), and are reflective of International Generally Accepted Accounting Principles (IGAAP). The Malaysian Accounting Standards Board (MASB) is an independent authority established to develop and issue accounting and financial reporting standards in Malaysia. See: [www.masb.org.my/masbstd\\_smry.htm](http://www.masb.org.my/masbstd_smry.htm)
- <sup>58</sup> Interviews in Malaysia, 7-10 November 2005.
- <sup>59</sup> The latest Auditor General's Report for fiscal year 2004 is available at: [www.audit.gov.my/EnglishBBPReport04.pdf](http://www.audit.gov.my/EnglishBBPReport04.pdf)
- <sup>60</sup> Specified conditions include: if the official resigns, becomes of unsound mind or incapable of carrying out his duties, becomes bankrupt, is convicted by a court of law of any offence involving dishonesty, is guilty of serious misconduct in relation to his duties, is absent (except on leave granted by the minister of finance) from all meetings of the board held during two consecutive months or during any three months in any period of twelve months, or fails to disclose to the Board a potential situation of conflict of interests and did not abstain from deliberating and deciding on a matter in which he is interested.
- <sup>61</sup> [www.bnm.gov.my/index.php?ch=14&pg=17](http://www.bnm.gov.my/index.php?ch=14&pg=17).