

CEO Series of Talk 2

Re-engineer Global Monetary Policy

IEM BUSINESS CLUB

reported by



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On 5 August, 2017, the former Governor of Bank Negara Malaysia, Tan Sri Dr Zeti Akhtar Aziz, gave a talk at Wisma IEM which attracted over 100 engineers of various disciplines. Talk 2 of the CEO Series was jointly organised by IEM Business Club and Women Engineers Section.

Ir. Dr Leong Wai Yee, Chairman of IEM Business Club and Women Engineers Section, welcomed Dr Zeti and thanked her for accepting the talk invitation.

At the height of the Asian financial crisis in 1998, Malaysia choked off ringgit speculation by fixing the exchange rate at RM3.80 to US\$1, cutting interest rates and imposing capital controls within the country.

Dr Zeti, who was with Bank Negara Malaysia (BNM) for 35 years, including 16 years as its governor, was widely criticised for implementing extreme and unconventional monetary policies at that time. Today however, it is evident that her leadership has helped to steer the country through some of its most difficult times. She also guided the reform of the central bank following the financial crisis. Her accolades include being named one of the world's best monetary policy chiefs, central banker of 2005 by finance magazine *Euromoney* and world's best central bankers for the year 2014 by international business magazine *Global Finance*.

Twenty years after the crisis, ringgit is back at around RM4.00 to US\$1. BNM has just released figures that indicates GDP expanded 5.6%, year-on-year. Still, it has not been easy for the man on the street grappling with the higher cost of living and higher economic uncertainty on local and global markets.

Across the world, countries put a lot of weight on monetary policy to sustain a healthy economy. "The world is currently in uncharted territory," said Dr Zeti as she began her talk. The role of monetary policy to provide sustainable growth had not been successful. The fiscal and monetary policy responses to the 2007/2008 global financial crisis, which started from the fallout of the sub-prime lending bubble burst in the US, were on an unprecedented scale, leading to debt hangover of unprecedented proportions after the financial crisis.

To boost business spending and stop inflation, central banks use Quantitative Easing (QE) to inject money into

the financial system. However, when policy interest rates hover around zero in developed countries and balance sheets of central banks grow massively, measures such as asset purchase programme and fiscal stimulus only benefit those with assets and not the vast majority of the populations, especially wage earners.

In short, it has not resulted in growing investment activities as expected. Today, the US seems to be starting to "normalise" interest rates while negative interest rates persist in Europe and Japan. In Malaysia, BNM is also taking steps to "normalise" monetary conditions to ward off financial risks and economic imbalances. The term "normalise" is used frequently today to refer to raising interest rates to normal levels.

One of the few women to run a central bank in the world, Dr Zeti said unconventional monetary policy had averted a total crash and immobilisation of our financial market. It prevented Malaysia, an export-driven economy, from slipping into recession at that time. However, it did not produce the desired economic recovery and failed to lift the economy to growth after 10 years.

Some experts argued that it was a solvency crisis misdiagnosed as liquidity crisis, therefore leading to wrong "medication" and incorrect treatment. As a consequence, the financial market soared without reflecting the underlying principles and this posed a risk of correction. It also resulted in misallocation of resources across sectors.

Inflation targeting policies in countries like New Zealand, Canada and Australia also failed to anchor inflation expectations. Instead, these created a more uneven distribution of income and many countries exhausted their interest rates ammunition.

As monetary policies alone cannot lead to strong, sustainable and balanced growth, Dr Zeti believes that structural reform, labour market reform and fiscal reform are the key factors to increasing productivity and achieving sustainable growth. According to her, today's policymakers must be able to coordinate a range of policies in a dynamic and globalised world which is more interconnected than ever.

Cybersecurity is a major challenge in the fast-changing digital landscape. Media and social media are also changing financial services around the world. FinTech companies have emerged as an industry, as are bitcoins and cryptocurrencies.

LEARNING FROM ASIAN FINANCIAL CRISIS

Malaysia has built up its resistance since the financial crisis by diversifying its economy structure and moving from being an export-driven to domestic-driven economy. Since then, the banking sector has been strengthened, the bond market developed and the capital account sequentially liberalised. With a flexible currency regime, ample liquidity in domestic banks and alternative sources of growth, the nation is able to absorb external shocks.

Dr Zeti reiterated that the world is very much prepared and that it's important to re-engineer the monetary policy. Looking at the current development in US and the need to improve fundamentals to prepare for the risk of major corrections in the market, monetary policy normalisation should be adopted before it is too late.

The Malaysian financial system too has undergone significant transformation over the years such as implementation of BNM's stress test of banks, extensive financial surveillance system, technology leveraging and higher standards of governance.

On whether China's emerging presence is an opportunity or a threat, Dr Zeti said China is proactively raising its international profile and taking an international leadership position, so it is very important for a country like ours to be part of the world's second largest economy's foreign investment abroad, especially in higher value added sectors of the economy.

Malaysia is also the first country in the world to use Chinese yuan or renminbi (RMB) for trading. One participant

raised the question of a single currency for ASEAN. Dr Zeti said ASEAN is too diverse and lacks the preconditions to have a single currency.

"If we try to achieve it, it will come at a very high cost. Thus, ASEAN should not try to adopt a single currency," she added.

SHOULD MALAYSIA PEG THE RINGGIT AGAIN?

"The value of the weak ringgit currently does not reflect the underlying solid fundamentals of the current market in the country. The ringgit will continue to stay range-bound until very positive developments are seen in the Malaysian market. The decision to peg the ringgit during Asian Financial Crisis was to intermediate volatility and our nation should look forward instead of looking back. Such a policy comes with a price and should only be used under very extreme conditions."

In short, monetary policy is the macroeconomic policy laid down by the central bank. Macroeconomists formulate theories with mathematical precision, collect huge data sets on individual and aggregate behaviour, and use sophisticated statistical techniques to reach empirical judgments. Sounds very much like what engineers do, don't you agree?

To thrive in today's fast changing world, we must continuously upgrade ourselves and seek new knowledge.

After the Q&A session, IEM Vice President Ir. Elias Saidin gave a closing speech and IEM Deputy President Ir. David Lai presented Dr Zeti with a token of appreciation. ■