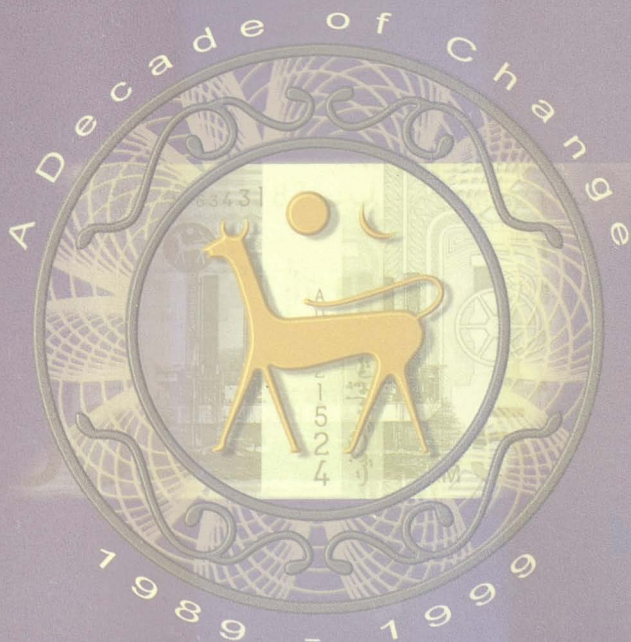


# THE CENTRAL BANK AND THE FINANCIAL SYSTEM IN MALAYSIA



**BANK NEGARA MALAYSIA**

IN CONJUNCTION WITH THE 40<sup>TH</sup> ANNIVERSARY

DANA  
BERSHIP  
ODATION  
ASAN  
KEPIMPINAN  
PERDANA





***With the Compliments  
of  
Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman  
Governor  
Bank Negara Malaysia***



**THE CENTRAL BANK  
AND THE FINANCIAL SYSTEM  
IN MALAYSIA -  
A DECADE OF CHANGE**



PERDANA  
LEADERSHIP  
FOUNDATION  
YAYASAN  
KEPIMPINAN  
PERDANA



***THE CENTRAL BANK  
AND THE FINANCIAL SYSTEM  
IN MALAYSIA -  
A DECADE OF CHANGE***

PUSTAKA PERDANA



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**BANK NEGARA MALAYSIA  
KUALA LUMPUR  
1999**



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## Foreword

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The past decade has experienced significant evolutionary changes in central banking and in the Malaysian financial sector. The Central Bank and the financial system have been at the forefront in dealing with challenges that have emerged from both domestic and external developments. The most severe has been the Asian crisis. Throughout the period, the Bank has pursued its primary objective of maintaining monetary and financial stability so as to support a balanced and equitable growth. Pragmatic policies and continuous strengthening of the institutional infrastructure have resulted in economic stability during this decade with the Malaysian financial system having now emerged stronger and thereby, providing the strong foundation on which we enter the next millennium.

The decade also saw tremendous advancements in information technology which have revolutionised the nature and the pace of economic and financial transactions. In addition, globalisation and financial sector liberalisation have had a wide-ranging impact on financial markets. These developments created many challenges for the Central Bank, challenges in terms of its own operations as well as in the development of the financial sector.

The Asian crisis was indeed the most prominent event of the decade. In its policy response, Malaysia has adopted a different approach as compared to the other countries. While there was initial criticism on the use of selective exchange controls together with the other measures, there is now a recognition worldwide that there is no one policy prescription to address a crisis. In particular, the World Bank and more recently the IMF, have now acknowledged that the use of exchange controls has had a positive impact on the Malaysian economic recovery. The debate on whether the Malaysian approach was appropriate will feature prominently in the analysis of the Asian crisis. For Malaysia, what is important is that this policy response has created the stable conditions necessary for economic recovery.

Malaysia has also adopted a different strategy in addressing the banking problems arising from the crisis. A pre-emptive and proactive approach has ensured minimum use of public sector resources. Consequently, the financial system has emerged stronger without resulting in other macroeconomic strains. With the vulnerabilities of the banking system addressed, the Bank was able to move quickly into the next stage of accelerating the consolidation process to strengthen the banking system to be able to compete in a more

globalised financial system. It is thus the Bank's vision to strengthen the foundation of the banking and financial system and, thereby, evolve a new financial landscape that is relevant as we enter the next decade. A financial master plan is currently being drawn up to create a more efficient, competitive and market-driven financial sector. It is envisaged that the financial sector will not only play a more efficient and significant role in supporting the continued transformation of the economy, but will also become an important source of growth in the economy.

In the light of financial liberalisation and reforms since the 1980s, the financial system in the country has undergone significant structural developments. Similarly, the economy also experienced two recessions. A mere update of the fourth edition of the Money and Banking in Malaysia (1959-1994) for the 40th anniversary would not do justice in explaining these structural developments. Hence, the Central Bank has published this new book "***The Central Bank and the Financial System in Malaysia - A Decade of Change (1989-1999)***" in conjunction with the 40th anniversary of the Bank. This book presents a description and analysis of the significant structural changes in the financial system and the economy during the past decade, a period which was marked by significant changes and challenges, and aptly termed a decade of change.



Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman  
Governor  
Bank Negara Malaysia

20 November 1999

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Special mention must also be made of those staff members who were involved in the production of the book and typed out the numerous drafts, as well as those who undertook the tasks of checking, proof-reading as well as producing the Bahasa Malaysia version. Admittedly, the vast amount of staff effort involved in the publication makes it quite impossible to single out any particular person for special mention. The Bank gratefully acknowledges their valuable contributions.



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