Marzunisham Omar: Risk and opportunity – managing risk for development

Welcoming remarks by Mr Marzunisham Omar, Assistant Governor of the Central Bank of Malaysia, at the WB-BNM Seminar on the World Development Report 2014 "Risk and Opportunity: Managing Risk for Development", Kuala Lumpur, 29 April 2014.

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It is my pleasure to welcome you to Sasana Kijang this morning to the seminar on the World Development Report 2014, with the theme "Risk and Opportunity: Managing Risk for Development".

Reading through the Report, I'm struck by two observations:

- first, in the past 50 years, middle-income countries have been in recession 14 to 16 per cent of the time and low income countries, a staggering 27 per cent of the time.
- second, from 1970 to 2011, there were 147 banking crises in 116 countries.

So, while the world has, in the last 50 years, made significant progress in terms of economic development, poverty eradication and overall standard of living, the above observation begs the question of whether the global economy is also more prone to crises, highlighting the fragility of the economic system that is currently in place. This reinforces the need to have a proper framework to identify and manage risks, towards achieving a common shared goal of sustaining long-term development.

Almost six years after the collapse of Lehman Brothers, the world economy is still coping with the aftermath of the Global Financial Crisis, notably the worst financial crisis in the last 70 years. Of relevance is that excessive risk-taking behaviours featured prominently as a key factor contributing to the Crisis. In addition, what makes the Global Financial Crisis different is the extent of the economic and financial inter-linkages within and across borders, which explains the far-reaching impact of the crisis. While the greater interconnectedness of economies and financial systems has brought about opportunities, it has also resulted in greater risks.

The Global Financial Crisis has resulted in the re-assessment of how policymakers view the achievement of macroeconomic and financial stability. There is a growing recognition that emerging risks to macroeconomic and financial stability have to be identified and managed in a more holistic and effective manner. As the economy and financial system grow in complexity, policymakers have to strengthen the understanding of the macroeconomic and financial inter-linkages in order to be able to effectively assess the implications of any potential risk on the economy.

Before the Global Financial Crisis, the predominant view was that unfettered markets, self-corrections and minimal interventions would deliver the best economic outcomes. However, recent experiences have shown that policy interventions to correct market misalignments after a crisis may prove too late as the aftermath could be extremely costly. This, therefore, call for policies to be pre-emptive rather than reactive.

For policymakers, the aim is to preserve macroeconomic and financial stability, and build the country's resilience to shocks. Macroeconomics stability is a very important prerequisite for businesses and individuals to undertake economic activities. In strengthening the resilience of our economy and promoting the sustainability of growth, the role of policymakers go beyond managing short-term fluctuations in business and financial cycles. Equally important are structural reforms and institutional building that would increase the capacity and flexibility of the economy to absorb shocks and to improve the competitiveness and inclusiveness of the economy. The resilient and ability of an economy to face a crisis depends as much on what has been done throughout the years to strengthen the economic fundamentals and the financial system. However, the implementation of structural reforms is not without risks. In this regard, reforms that are undertaken in an environment of growth and stability would have a higher chance of success, as it would cushion the potential disruptions to economic activity and dislocations to vulnerable segments of society.

The formulation of appropriate and consistent short-term and long-term policies, in turn, requires policymakers to have a holistic understanding of the domestic economy and financial system. From experience, a broad macro-level understanding of issues alone may not be sufficient, as issues at the sectoral level may be obscured at the aggregate level. This highlights the importance of having a firm understanding of micro-level behaviour and reaction patterns of households and businesses, which would reinforce the design of macro-based policy strategies.

In this regard, the World Development Report 2014 is useful in facilitating policymakers in making more informed policy decisions. The report provides a wide coverage of micro-level risk management practices by households, businesses and the wider community, and how they are linked to macro-level risk management policies by national and global institutions. Essentially, with a better understanding of micro-level risk management, the implementation of macro-based policies can be more effective, not only at the national level but also at the organisational and household levels. The Report further emphasis the need to manage risks in a pro-active, systemic and integrated way, and underscores the importance of forward looking planning and preparation.

On this final note, I would like to extend our appreciation to the World Bank for the opportunity for Bank Negara Malaysia to co-host this event. I hope you will find the subsequent discussion on the World Development Report 2014 to be productive and beneficial.