

Muhammad: Malaysia has capacity to absorb external shocks

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KUALA LUMPUR: Malaysia has the capacity to absorb any exogenous shocks should the global economy deteriorate, with excess capital in the banking industry of about RM120bil, says Bank Negara governor, Datuk Muhammad Ibrahim (pic).

He said Malaysia had since the 1997/1998 Asian financial crisis, undertaken a lot of reforms which did well in strengthening the banking sector with far-reaching impact.

"Some of those reforms were very much fundamental.

"For instance, consolidating the banking sector from over 60 institutions to 10 and now eight banking groups, and these are far-reaching measures that we have done," he told *Bernama* in his first exclusive media interview since his appointment as the central bank governor on May 1.

He was responding to a question of the need to revert to unorthodox measures introduced during the Asian financial crisis such as the ringgit peg and other capital controls, should the global economic outlook deteriorates due to impact from major economies and the UK's withdrawal from the European Union following the "Britain exit" referendum.

Muhammad said that the consolidation of banks to eight banking groups was the right move as this had strengthened the banking sector in enabling the domestic banking institutions to stand on their own feet and com-



pete with foreign banks as well as expanding their operations abroad.

"The biggest test is that they (the banks) can expand their operations outside Malaysia and they thrive in the new economies they are operating in.

"This shows they are competitive now and

that is a big development for the domestic banking industry," he added.

He emphasised that other measures undertaken also involved the development of new entities such as deposit insurance corporation, or Perbadanan Insurans Deposit Malaysia, which has strengthened the banking sector in ensuring depositors money were fully-insured.

Meantime, the measures introduced in the banking sector, such as a more effective risk management practice and a stronger corporate governance culture, have been an anchor for the nation's financial and economic fundamentals.

"We want Malaysians to be confident of the banking sector, the integrity and sanctity of the financial system and for it to be the epitome of good corporate governance.

"Recently, we issued a new consultative document on corporate governance guidelines for financial institutions which comprise several enhancements, much higher than what other entities are subjected to," he added.

The aim of the guidelines, he said, was to set a gold standard for governance in Malaysia where bankers should be looked up to for their integrity and stature.

"We need to continuously sell our strong fundamentals and do more roadshows.

"We need to highlight the various bold measures we have undertaken, over the last

two decades and tell our story," he said.

He said confidence among foreign investors was building up, as evidenced by the large capital inflows into the bond market.

On the worrying trend of household debt in Malaysia, he said, this was one area that the central bank had been monitoring very closely for some time.

The risks of destabilising financial imbalances had receded, he added.

He explained that the various macro prudential measures put in place by the central bank and strengthened supervisory oversight, had resulted in more prudent lending standards.

"The banks' affordability assessment, or debt service ratio, has improved drastically, now averaging at 40% compared with 60% to 70% for the more vulnerable borrowers," he said.

As the economy still depends on domestic demand, Muhammad said, there was no intention by the central bank to dampen private consumption.

What we do not want is that people who can borrow money, cannot have access to credit.

"We need to be clear that people do not over-borrow and are well-versed with matters concerning financial services and this is why AKPK, or the Credit Counselling and Debt Management Agency, was created," he said. — *Bernama*