

Abdul Rasheed Ghaffour: Keynote address - launch of Tun Ismail Ali Centre of Excellence in Monetary and Financial Economics

Keynote address by Mr Abdul Rasheed Ghaffour, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Preliminary Launch of the Tun Ismail Ali Centre of Excellence (TIA CoE) in Monetary and Financial Economics, hosted by the Asia School of Business, Kuala Lumpur, 20 January 2025.

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Assalamualaikum warahmatullahi wabarakatuh and a very good afternoon to our distinguished guests, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, former Governor of Bank Negara Malaysia, Professor Helene Ray, Professor of Economics at the London Business School and other honoured guests, welcome.

It is with great pleasure and a deep sense of gratitude that I stand before you today at the launch of Tun Ismail Ali Centre of Excellence in Monetary and Financial Economics, here at the Asia School of Business (ASB).

Previously known as Tun Ismail Ali Chair (TIAC), the initiative has thrived under the auspice of Universiti Malaya over the last 20 years. Since its establishment in 2000, the success of the Tun Ismail Ali Chair in fostering innovative research and academic contributions are a testament of Tun Ismail Ali's legacy. For this, we are deeply grateful to Universiti Malaya for their unwavering support and invaluable partnership, which has laid a strong foundation for Tun Ismail Ali Chair.

Allow me to begin by expressing my deepest gratitude to Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz. The initiative we are celebrating today is a reflection of her commitment to fostering excellence within our local academics communities, whose dedication has paved the way for this endeavour. The Tun Ismail Ali Chair owes its success to her strong aspiration to shape outstanding scholars in the field of monetary and financial economics. We also owe a great debt of gratitude for her instrumental role in the establishment of the Asia School of Business. Tan Sri Zeti's efforts and commitment have been pivotal in establishing ASB as a leading institution for higher learning and research in the ASEAN region. We are truly honoured to continue her legacy here at ASB.

I am also honoured to welcome our distinguished keynote speaker, Professor Helene Rey, who is the Professor of Economics at the London Business School. We are privileged to have a prestigious scholar of her caliber with us today despite her demanding schedule.

The Late Tun Ismail Ali's Legacy

Ladies and gentlemen,

As we gather here today, let us reflect on the legacy of the late Tun Ismail Ali, and his significant contributions to Malaysia's financial and economic landscape. He was a pioneer in the field of central banking in Malaysia, and his visionary leadership laid the

groundwork for many of the institutions that we have today. Tun was known to be a man of principles – in particular, trustworthiness and integrity. His relentless pursuit of excellence and formidable intellect were matched by a deep sense of purpose to serve the country.

Among his lasting imprint as the first Malaysian Governor of Bank Negara Malaysia was the introduction of the Malaysian ringgit in 1967 to replace the Malayan dollar, which was a defining move that led to the establishment of the monetary policy framework. Under his leadership, he forged the path to a thriving financial system, overseeing the growth of domestic banks as champions for the underserved segment. To quote his own words, *"the role of Bank Negara is to ensure that the less privileged, the farmers, the small traders, small enterprises, small businesses and individuals, have ready access to bank credit on reasonable terms"*¹. This quote exemplifies his unwavering dedication to serve the nation by establishing policies that benefit the whole society. This, along with the establishment of the Malaysian Stock Exchange market paved the way to Malaysia's financial market resilience.

Today, we mark the beginning of a new chapter with the establishment of this Centre of Excellence together with the ASB. The Centre extends the legacy of Tun Ismail Ali. While the mission to advance expertise in the field of monetary and financial economics remains intact as it was first established two decades ago, the Centre will broaden its scope to address today's challenges. This includes widening its outreach through engagements with local institutions, students, and the public which would elevate the capacity of our education institutions. It will also function as a research hub on central banking matters, with a deep focus on emerging markets. Moving forward, the organisation of conferences, seminars, workshops and public lectures would allow the Centre to further facilitate the knowledge creation and exchange between academicians and institutions.

The Challenges of Monetary Policy at Present and in the Future

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Risk assessment under Knightian uncertainty

We as policymakers find ourselves navigating an era marked by unprecedented global uncertainties. While monetary policy has always involved some level of uncertainty, recent macroeconomic trends including the ongoing technological breakthroughs coming from machine learning and artificial intelligence, and the shifting geopolitical dynamics have amplified this uncertainty. This compels us to reassess our approach to monetary policy and increase the focus on risk assessments, for this to be prioritised at the forefront to support informed and effective decision-making. In this context, I would

like to revisit the concept of Knightian uncertainty². The concept indicates that there is a critical distinction between risk and uncertainty. Risk presents uncertainties with known and measurable probabilities. Uncertainty on the other hand, is characterised by unknown and unquantifiable probabilities of occurring. Accounting for both risk and uncertainty in policymaking is critical to ensure we are able to address macroeconomic challenges effectively.

In facing these uncertainties, Malaysia is no different from the rest of the world. The structural trends that I outlined earlier have resulted in an environment where conventional economic models struggle to offer us insights. These unknown and unquantifiable uncertainties pose a formidable challenge to policymaking. To better navigate these challenges and uncertainties, we continue to explore frontier methods and go beyond conventional approach.

We have to diversify our surveillance methods. For instance, we have our regional offices to conduct on-the-ground surveillance and actively engage with relevant industries. We also use high-frequency data to assess the state of the economy and spend a great deal of time filtering the noises from such data. BNM's approach to monetary policy remains data-driven and forward-looking. To this end, we continue to closely monitor the balance of risks surrounding our domestic inflation and growth outlook, and will ensure that our monetary policy stance remains conducive to sustainable growth amid price stability.

Monetary policy in a post-globalisation environment

The early 1990s saw the world enter an era of "hyperglobalisation" where trade grew markedly quicker than global GDP. The integration of global supply chains drove costs down and enabled low inflation despite relatively loose monetary policy. Indeed, central bank policymaking during those times were relatively more straightforward. Now, the recent trend of deglobalisation, reshoring, and supply chain fragmentation - particularly following the pandemic and ongoing geopolitical tensions - have disrupted these established assumptions. This combined with the rapid increase in digitalisation including the emergence of Central Bank Digital Currency (CBDC), could have implications on monetary policy either through the effects of tightness in financial conditions or other monetary policy transmission channels.

Conventional thinking about monetary policy in this new economic environment characterised by increased risks and fragmentation will no longer be sufficient. Amid this new economic reality, policymakers are confronted with the question of whether inflation dynamics are shifting structurally, which could result in a change in the traditional Phillips curve relationships, thereby complicating the trade-offs between inflation control and growth support. Moreover, another potential factor that could contribute to the more complex environment is the quality and timeliness of economic data which may have been challenged amid ongoing heightened global uncertainties.

As a result, our conventional thinking about monetary policy may require a closer look. While established macroeconomic assumptions continue to underpin baseline scenarios, their relevance in the current environment is increasingly uncertain. This

evolving context presents challenges in forecasting and subsequently formulation of monetary policy decisions, underscoring the need for greater adaptability and innovation in central banking.

The vast unexplored area pertaining to macro-financial trade-offs and linkages

Last but not least, one of the most intricate challenges that policymakers have had to navigate is the interplay between monetary and financial stability. There remains a vast, unexplored area involving the potential trade-offs and linkages between monetary and financial stability.

Here, we are highly privileged to have Professor Helene Rey with us. Professor Rey's research on global financial cycles and its spillovers to emerging markets offers valuable insights in this domain. Her seminal research in the field of monetary and financial economics, especially looking into the global financial cycle has underpinned our understanding, particularly on capital flows and external shocks.³ I have taken a keen interest in her study on risk-taking among financial intermediaries, which have uncovered unexpected trade-offs. Conventional economic models often indicate that financial agents such as banks and investors operate identically in terms of risk behaviour. However, Professor Rey's research demonstrates that there are indeed differences in risk appetites among financial intermediaries that can markedly influence the aggregate outcome of policy decisions.⁴

As emphasised in her study, in scenarios of elevated interest rates, monetary policy easing can stimulate investment and stabilise the economy. However, at very low rates, further rate reductions would lead to concentrated risk among the most leveraged institutions, thereby creating financial fragility. This "risk-taking channel of monetary policy" underscores the delicate balance that policymakers must strive to maintain.

Another area that is vital to consider is the growing importance of coordination between monetary and fiscal policies. Establishing robust institutional frameworks that align these policies play a significant role in facilitating coordination between the two, while preserving independence. This would ensure the potential trade-offs mentioned earlier can be managed effectively.

Positioning TIA CoE To Address these Challenges

Ladies and gentlemen,

With this in mind, we turn back to Tun Ismail Ali, his enduring legacy, and the unique position this Centre is now in. The Centre is able to facilitate policymakers to effectively address the upcoming global macroeconomic challenges, with proper arrangements planned ahead for the Centre to embark on. These include the Visiting Fellowship program, which would involve scholars and practitioners from around the world to contribute to our mission and provide guidance on the direction of the Centre based on their extensive academic experience.

The Centre is also committed to providing training and development opportunities. Plans have been made for visiting scholars, seminar series, and the establishment of thematic focus areas to align with the Centre's long-term objectives for capacity building. By enhancing the skills and knowledge of our local talent, the Centre aims to elevate the overall capacity of our institutions. Therefore, I strongly encourage academicians from local universities to participate and seize this opportunity to enhance skills and knowledge, with the aim of creating a robust economics and financial academic ecosystem in Malaysia.

Conclusion

Ladies and gentlemen,

Let me conclude my remarks. I would like to reiterate the Centre's overarching mandate, which is to advance research in monetary and financial economics, and elevate the capacity of local higher education institutions. Through the collaboration with ASB and other local institutions as well as leveraging on the planned programs, the aim is to produce and disseminate impactful research. As Tun Ismail Ali once stated: "*The banking community in particular, as custodians of public funds, should strive to build up in time a legacy in the form of a body of traditions based on these time-tested virtues so that future generations may inherit a truly sound banking system and extol banking as a truly great profession.*"⁵ We may not always be able to predict every uncertainty. But what we can do is to equip ourselves with as much knowledge and information as possible to better navigate and prepare against the unknown. This is what the Centre aims to achieve in honour of Tun Ismail Ali's memory.

Let us honour his memory by dedicating ourselves to the betterment of this country and effectively address the challenges of today's economy. In closing, I thank you all for being here today. Together, we will ensure that this Centre of Excellence becomes a beacon of knowledge and innovation in the field of monetary and financial economics that will underpin Malaysia's continuous development to a successful nation. May the establishment of this Centre serve as a reminder of how we have come, and how far more we must go.

Thank you.

¹ Perdana (1998) Tun Ismail Ali Obituary: The Passing of A Banking Legend

² Knight, F.H., 1921. "Risk, Uncertainty, and Profit". Houghton Mifflin Company, Boston.

³ Rey, H., 2015. "Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence". NBER Working Paper.

⁴ Coimbra, N. and Rey, H., 2024. "Financial cycles with heterogeneous intermediaries". *Review of Economic Studies*, 91(2), pp.817-857.

[5](#) Tun Ismail bin Mohamed Ali (1975) 'Management of The Banking System', Central Banking in An Era of Change: Landmark Speeches 1959-1988, Bank Negara Malaysia, pp. 69-86.