

## ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FOURTH QUARTER OF 2011

### OVERVIEW

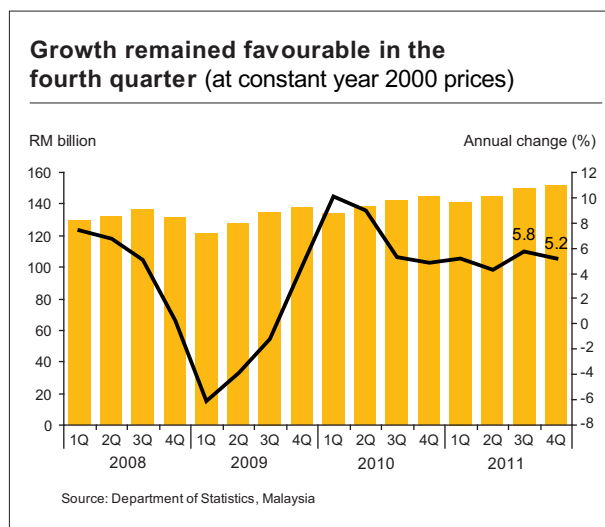
#### Growth of the Malaysian economy remained favourable in the fourth quarter

The global economic and financial conditions continued to experience stress in the fourth quarter of 2011, following heightened concerns over the resolution of the European sovereign debt crisis. Growth in the advanced economies was affected by high unemployment, weak housing markets and fiscal issues while growth in Asia was affected by weaker external demand. Despite the challenging external environment, the Malaysian economy expanded by 5.2% (3Q 11: 5.8%), with growth being underpinned by domestic demand. The favourable domestic demand conditions were supported by both private and public sector spending. On the supply side, the services sector recorded slower growth, while the manufacturing sector grew at a similar pace to the previous quarter, reflecting the weaker external environment amid sustained growth in domestic activity. Other sectors, however, recorded improvements during the quarter, while the agriculture sector continued to record strong growth. For the whole year, the Malaysian economy expanded by 5.1%.

Domestic demand expanded by 10.5% during the quarter (3Q 11: 9.0%), driven by the continued expansion in household and business spending, and public sector expenditure. Private consumption increased by 7.1% (3Q 11: 7.3%), supported by favourable income growth while public consumption expanded by 23.6% (3Q 11: 21.7%) following higher expenditure on emoluments and supplies and services. Gross fixed capital formation increased by 8.5% (3Q 11: 6.1%), supported by continued expansion in capital spending by the private sector and the non-financial public enterprises. The Federal Government development expenditure during the quarter was mostly channelled into the transportation, and trade and industry sectors.

On the supply side, activity in the services sector moderated in the fourth quarter, while the manufacturing sector expanded at a similar pace to the previous quarter. This trend reflected the weaker external environment amid strong performance in domestic-oriented activity. The agriculture sector continued to expand on account of strong production of crude palm oil, while mining output recorded a slower contraction. The construction sector registered higher growth, supported by the implementation of major infrastructure projects.

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), declined to 3.2% in the fourth quarter (3Q 11: 3.4%). Inflation in the *transport* category was lower at 3.2% (3Q 11: 4.3%) as the impact of the one-off adjustment to the prices of RON95 petrol, diesel and LPG in December 2010 wore off. Inflation in the *food and non-alcoholic beverages* category, however, rose to 5.3% during the quarter (3Q 11: 4.8%), mainly due to higher prices in the *fish and seafood* subcategory.



In the external sector, the current account surplus narrowed in the fourth quarter, but remained large at RM22 billion, equivalent to 10.1% of GNI. The lower surplus reflected the lower goods surplus, higher trade deficits and larger income outflows. The goods surplus was slightly lower at RM36.9 billion as gross exports expanded at a more moderate pace (9.8%; 3Q 11: 11.4%), while import growth was sustained (7.6%; 3Q 11: 7.4%).

The financial account turned around from a net outflow position to record a small net inflow of RM0.2 billion in the fourth quarter (3Q 11: -RM23.3 billion), due to the significantly smaller net outflow of portfolio funds and higher net inflow of other investments. During the quarter, foreign direct investment recorded a higher net inflow of RM6.5 billion (3Q 11: +RM5.2 billion), supported by higher retained earnings by the multinational companies (MNCs) in Malaysia and higher inflow of equity capital. Direct investments abroad by Malaysian companies increased further to -RM14.4 billion (3Q 11: -RM12.9 billion), reflecting higher outflow of equity capital and larger earnings retained abroad for reinvestment purposes. The overall balance of payments continued to remain strong, recording a surplus of RM6.3 billion in the fourth quarter (3Q 11: RM10.9 billion), as the current account surplus remained high and the financial account registered a net inflow position.

The international reserves of Bank Negara Malaysia amounted to RM423.4 billion (equivalent to USD133.6 billion) as at 31 December 2011. The reserves level as at 31 December 2011 has taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of the ringgit against some major currencies during the quarter. As at 31 January 2012, the reserves position amounted to RM424.8 billion (equivalent to USD134.1 billion), sufficient to finance 9.6 months of retained imports and is 4.1 times the short-term external debt.

### **Monetary policy remained supportive of economic activity**

The Overnight Policy Rate (OPR) was left unchanged at 3.00% in the fourth quarter of 2011 given the higher downside risks to growth

and lower upside risks to inflation. At the prevailing level, the OPR remains supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate and interbank rates of other maturities were relatively stable. In terms of retail interest rates, the average quoted fixed deposit (FD) rates of commercial banks were stable during the quarter. The average base lending rate (BLR) of commercial banks decreased slightly to 6.53% as at end-December due to the inclusion of a new foreign bank with a lower BLR in December. The weighted average lending rate (ALR) on loans outstanding moderated slightly to 5.66% as at end-December 2011 (end-September 5.70%). The cost of borrowing for businesses and households is still below pre-crisis levels and remains supportive of the economy.

In the fourth quarter, total gross financing raised by the private sector through the banking system and the capital market increased to RM240.6 billion (3Q 11: RM223.9 billion). The higher financing reflected increased loan disbursements during the quarter. On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 12.5% as at end-December (3Q 11: 13.4%). The major loan indicators posted strong performances in the fourth quarter.

Net funds raised in the capital market increased to RM19.4 billion during the quarter (3Q 11: RM12.7 billion). Of this amount, RM15.9 billion was raised by the public sector. There was a significantly lower amount of redemptions by the public sector during the quarter. In the private sector, fund raising activity remained healthy. After adjusting for redemptions, net funds raised by the private sector amounted to RM3.5 billion.

The monetary aggregates grew at a stronger pace during the fourth quarter. M3, or broad money, expanded at a faster annual growth rate of 14.4% as at end-December (end-September 2011: 12.5%).

The global foreign exchange markets remained volatile in the final quarter of the year as uncertainty surrounding the European sovereign debt crisis continued to dampen investor

sentiments towards emerging market assets. In general, exchange rate performance was largely news-driven, as markets reacted to developments in Europe. Overall, in line with the regional trend, the ringgit appreciated by 0.4% against the US dollar in the fourth quarter. Against other major currencies, the ringgit appreciated against the euro (5.0%), Japanese yen (1.7%) and the pound sterling (1.6%). Against regional currencies, the ringgit strengthened against the Indonesian rupiah (4.5%), Thai baht (2.3%), Singapore dollar (0.4%) and the Philippine peso (0.4%) but depreciated against the Chinese renminbi (-0.9%) and Korean won (-1.5%). During the period 1 January - 13 February 2012, the ringgit appreciated against the Japanese yen (5.1%), US dollar (5.0%), euro (2.6%) and the pound sterling (2.5%). The ringgit broadly strengthened against regional currencies, appreciating in the range of 1.3% and 4.9%.

### **Risks to financial stability remained manageable**

Financial stability remained intact throughout the fourth quarter despite the persistent uncertainties and challenging external environment. Well-capitalised financial institutions and orderly functioning of the financial markets continued to provide support for financial intermediation activities in the domestic economy.

The banking system exhibited strong performance during the quarter. Sustained profitability continued to support the capital strength of banks. Liquidity in the banking system remained ample and sufficient to meet the demand for financing and other liquidity obligations. The core capital ratio and risk-weighted capital ratio of the banking system were at 12.9% and 14.9% respectively. Similarly, the insurance sector remained

resilient with a strong capital adequacy ratio of 222.5%.

The Financial Sector Blueprint 2011 – 2020 was launched during the quarter, charting the future direction and initiatives to develop the financial sector to best serve the economy and to facilitate the economic growth and transformation over the next ten years. These include initiatives to promote inclusive access to financial services; encourage further development of financial institutions, products and markets that facilitate and drive the development of new domestic sources of growth; and accelerate Malaysia's regional and international connectivity.

### **Growth may moderate amidst more challenging external environment**

The global economic recovery continued in the fourth quarter, albeit at a more modest pace. Growth prospects, however, have become increasingly uncertain with the emergence of greater downside risks. In particular, policy uncertainty on the resolution of the ongoing sovereign debt crisis in Europe amid fiscal consolidation in the advanced economies could add further strains to the international financial system, thus affecting the prospects for continued global growth.

For the Malaysian economy, the favourable growth in the fourth quarter was underpinned by sustained domestic demand amid weaker external demand. Going forward, the more challenging external environment could present greater downside risks to Malaysia's growth prospects. Nevertheless, domestic demand is expected to continue to be the key driver of growth, supported primarily by the continued expansion of private sector activity. Public sector expenditure is also expected to lend strong support to the overall growth performance.

## DEVELOPMENTS IN THE FOURTH QUARTER OF 2011

### INTERNATIONAL ECONOMIC ENVIRONMENT

#### Global growth moderated amid escalation of the European sovereign debt crisis

The world economic and financial conditions continued to experience stress in the fourth quarter of 2011, following the escalation of the sovereign debt crisis in Europe. Global growth was modest as economic activity moderated amid weaker sentiments and higher uncertainty especially in the major economies. In the advanced economies, private sector activity was constrained by high unemployment, weak housing markets and ongoing fiscal issues. In Asia, growth moderated due to weaker external demand. Domestic demand, however, continued to support economic activity.

International financial market conditions turned more volatile as markets were affected by continued policy uncertainty and sovereign downgrades of several core euro area countries. Specifically, fiscal concerns led to a widening of sovereign spreads that reached record-highs for many euro area economies, including Italy and Spain. Furthermore, banking concerns emerged, as European banks with high exposures to troubled sovereign debt faced renewed funding stress, increasing the risk of significant disruptions of credit flows to support economic activity. In response to the deterioration in market conditions, six major central banks announced coordinated measures to provide liquidity support to the global financial system, including lowering interest rates on existing US dollar swap agreements. In addition, the European Central Bank (ECB) also decided to adopt further monetary easing measures, including long-term refinancing operations to support the provision of credit to the real economy. These policy actions provided some respite to the financial markets. European leaders announced a set of measures to stem the contagion, including a 50% write-down on the value of private sector-held Greek debt and the expansion of the European Financial Stability Facility (EFSF) to €1 trillion from €440 billion, in part through leveraging. In

December, European leaders agreed to an intergovernmental fiscal compact, aimed at improving fiscal discipline in the region. However, the European sovereign debt crisis remains unresolved given the uncertainties surrounding the implementation of these plans. Markets remained volatile amid increasing uncertainty and rapid changes in sentiments. Markets were further jolted by the downgrade of 9 of the 17 euro area economies by a credit rating agency on fiscal sustainability concerns. Subsequently, the EFSF was also downgraded from AAA to AA+.

The **US** economy expanded at an annual rate of 1.6% (3Q 11: 1.5%) in the fourth quarter. On an annualised basis, the economy grew by 2.8% (3Q 11: 1.8%) due mainly to inventory restocking. Private consumption improved modestly, with an expansion in purchases of motor vehicle and nondurable goods. Consumer spending was supported by a drawdown in personal savings and an increase in credit amid a marginal improvement in sentiments. Private fixed investment grew at a slower pace of 3.3% (3Q 11: 13%), as the moderation in equipment and software spending and a decline in structure investment offset the increase in residential construction activity. Growth was also constrained by a negative contribution from net exports and a contraction in government spending amid a sharp drop in defense spending. Headline CPI rose at a more moderate pace of 3.3% (3Q 11: 3.8%) due to lower fuel prices.

Growth in the **euro area** economy weakened as domestic demand was affected by ongoing sovereign debt crisis. This was reflected in the decline in consumer spending in both the core and peripheral economies amid a continued deterioration in private sector sentiments. Higher unemployment and additional austerity measures in the affected economies further weighed down domestic economic activity. Inflation remained high, with consumer prices rising at a rate of 3% (3Q 11: 2.7%), attributed mainly to elevated energy prices.

In the **UK**, real GDP grew at a faster pace of 0.8% on an annual basis (3Q 11: 0.5%). On a quarter-on-quarter basis, however, the economy contracted by 0.2% (3Q 11: 0.6%) following a decline in manufacturing and construction activity during the quarter. In addition, domestic demand continued to be weighed down by fiscal austerity measures, weaker sentiments and higher consumer prices. Inflation remained high at 4.7% (3Q 11: 4.7%), attributable to higher energy tariffs and the increase in the value-added tax rate in January 2011.

The **Japanese** economy declined by 1% on an annual basis (3Q 11: -0.5%). On a seasonally adjusted annualised basis, the economy contracted sharply by 2.3% (3Q 11: 7.0%), following continued weakness in the external sector. Exports declined by 1.7% (3Q 11: 1.2%), due primarily to weakening global demand for consumer electronics and machinery, and exacerbated by the persistent strength of the Japanese yen. On the domestic front, household spending remained sluggish as disposable incomes and wage growth continued to decline amid weak confidence. Core consumer prices (excluding fresh food) returned to negative growth at -0.1% (3Q 11: 0.2%).

Advanced Economies: Real GDP Growth					
	2010		2011		
	4Q	Year	3Q	4Q	Year
Annual change (%)					
US <sup>1</sup>	2.4	3.0	1.8	2.8 <sup>a</sup>	1.7
Japan <sup>1</sup>	-0.6	3.3	7.0 <sup>r</sup>	-2.3 <sup>a</sup>	-0.9 <sup>a</sup>
UK	1.7	2.1	0.5	0.8 <sup>p</sup>	0.9 <sup>p</sup>

<sup>1</sup> Annualised basis  
<sup>r</sup> Revised  
<sup>a</sup> Advance estimate  
<sup>p</sup> Preliminary  
Source: National authorities

Monetary policy remained accommodative in the advanced economies, with more measures undertaken amid increasing signs of weakening growth prospects. In the US, the **Federal Open Market Committee (FOMC)** maintained the federal funds rate at 0-0.25%. In the euro area, heightened strains in the financial markets and increasing downside risks to the economic outlook prompted the **ECB** to reduce its key policy rate by 25 basis points (bps) each time in

November and December, lowering the policy rate to 1%. The ECB also announced additional credit support measures to provide liquidity to the banking sector and support lending activity in the region. This included the introduction of 3-year refinancing operations and a reduction in the reserve ratio. In view of the weak state of the economic recovery, the **Bank of England** expanded its quantitative easing measures by increasing the size of its asset purchase programme in October and February by a total of £125 billion to £325 billion while keeping its policy rate at 0.5%. Similarly, the **Bank of Japan (BoJ)** increased the total size of the Asset Purchase Programme by ¥5 trillion to ¥55 trillion for the purchase of Japanese government bonds to continue its support of the nation's economic recovery. The BoJ also further extended the ¥1 trillion loan programme to financial institutions in areas affected by the natural disasters in March for another 6 months, ending in April 2012.

Regional Countries: Real GDP Growth					
	2010		2011		
	4Q	Year	3Q	4Q	Year
Annual change (%)					
PR China	9.8	10.4	9.1	8.9	9.2
Singapore	12.0	14.5	5.9	3.6 <sup>a</sup>	4.8 <sup>a</sup>
Hong Kong SAR	6.6	7.0	4.3	3.0 <sup>p</sup>	5.0 <sup>p</sup>
Chinese Taipei	6.5	10.7	3.4	1.9 <sup>a</sup>	4.0 <sup>a</sup>
Korea	4.7	6.2	3.5	3.4 <sup>a</sup>	3.6 <sup>a</sup>
Indonesia	6.9	6.1	6.5	6.5	6.5
Philippines	6.1	7.6	3.6 <sup>r</sup>	3.7	3.7

<sup>p</sup> Preliminary  
<sup>a</sup> Advance estimate  
<sup>r</sup> Revised  
Source: National authorities

In **Asia**, economic activity moderated in the fourth quarter amid slower external demand and manufacturing activity. Nevertheless, domestic demand was sustained, supported by favourable labour market conditions, continued access to financing, rising income and high commodity prices. **Singapore's** economy expanded at a slower rate of 3.6% (3Q 11: 5.9%), as activity in the manufacturing sector moderated, particularly in the electronics and biomedical sub-sectors. Growth in **PR China**, **Hong Kong** and **Chinese Taipei** moderated due to slower export activity. In **Chinese Taipei**,

growth was also dampened by a contraction in investment. **Korea's** economy expanded by 3.4% (3Q 11: 3.5%) supported by domestic demand. **Indonesia's** economic growth was sustained at 6.5% (3Q 11: 6.5%), due largely to continued investment activity and resilient private consumption. The **Philippines'** economy grew by 3.7% (3Q 11: 3.6%), supported mainly by private consumption.

Headline inflation in the region moderated on slower increases in food and energy prices, but remained elevated during the quarter. Amidst heightened uncertainties in the global economy and easing inflationary pressures, several central banks in the region began to shift their policy focus towards supporting economic growth. **Bank Indonesia** cut its benchmark interest rate by a total of 75bps in October, November and February 2012 to 5.75%. The **Bank of Thailand** cut its key policy rate by a total of 50bps to 3.00% in November and January to mitigate the impact of severe flooding on the economy. **Bangko Sentral ng Pilipinas** also lowered its key policy rate by 25bps to 4.25% to support economic activity amid a benign inflation outlook. The **People's Bank of China** reduced the required reserve ratio by 50bps, bringing the reserve requirement ratio to 21% to improve bank lending activity and support growth. Inflation, nevertheless, remained a key concern in several countries. The **Reserve Bank of India** raised its policy rate by 25bps to 8.50% in October. In addition, the Bank also increased its rates on non-resident rupee deposits and foreign currency loans to contain the sharp rupee depreciation in November. In January 2012, it reduced its cash reserve ratio by 50bps to 5.50% while keeping its key policy rate unchanged to ease liquidity in the banking system. The **Bank of Korea** kept its policy rate unchanged at 3.25% in February after raising its policy rate three times in the first half of 2011.

Prices of **crude oil**<sup>1</sup> remained elevated, averaging USD109 per barrel (p/b) during the quarter (3Q 11: USD112 p/b). The

fluctuation of prices within a relatively wide range of USD101 to USD115 during the quarter reflected the tension among conflicting forces, emanating from economic risks and geopolitical tensions. Weakening growth prospects lowered demand for oil, exerting downward pressure on prices. At the same time, a potential sanctions on imports of Iranian crude oil raised concerns over supply disruptions. At the end of the quarter, crude oil prices closed at USD107 p/b.

The **foreign exchange markets** remained volatile due to continued risk aversion in the global financial markets. In the beginning of the quarter, most major and regional currencies appreciated against the US dollar. In October, the appreciating trend for the euro and the pound sterling against the US dollar was supported by investor expectations of a comprehensive solution to the European sovereign debt crisis. However, following the policy measures announced on 27 October, the trend reversed due to renewed concerns over the implementation of the measures and the announcements of possible downgrades for several euro area economies by major credit rating agencies. Of significance, the euro fell to a 15-month low towards the end of the year. The yen continued to strengthen against the US dollar despite intervention measures by the national authorities in October following safe-haven flows into the Japanese currency. For 2011 as a whole, the euro declined by 3.2%, while the yen rose by 5.5% against the US dollar. In Asia, the Indian rupee recorded the largest depreciation among the regional currencies in 2011, weakening by 15.6%.

Going forward, global growth prospects have become increasingly uncertain. Developments in the sovereign debt crisis in Europe will continue to affect sentiments worldwide, with real implications on economic activity. The actions undertaken by the national authorities in the coming months will be crucial in determining the outcome of the crisis and subsequently, the impact on growth.

<sup>1</sup> Refers to Brent one-month futures on the Intercontinental Exchange (ICE).

## DEVELOPMENTS IN THE MALAYSIAN ECONOMY

### Growth remained favourable in the fourth quarter

Despite the challenging global economic and financial conditions, the Malaysian economy continued to expand in the fourth quarter of 2011, growing by 5.2% (3Q 11: 5.8%). Growth in domestic demand remained favourable, supported by both private and public sector spending.

### Domestic demand remained supportive

**Domestic demand** expanded by 10.5% in the fourth quarter (3Q 11: 9.0%). Growth was sustained by a continued expansion in both household and business spending as well as public sector expenditure.

	2010		2011		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	5.9	6.3	9.0	10.5	8.2
Consumption	4.8	5.2	9.9	11.1	8.9
<i>Private sector</i>	6.4	6.5	7.3	7.1	6.9
<i>Public sector</i>	0.1	0.5	21.7	23.6	16.8
Gross Fixed Capital Formation	10.0	9.8	6.1	8.5	6.0
Net Exports	-19.2	-25.7	18.1	-25.7	-14.4
<i>Exports of Goods and Services</i>	1.7	9.9	4.2	4.9	3.7
<i>Imports of Goods and Services</i>	3.5	15.1	3.2	7.0	5.4
<b>GDP</b>	<b>4.8</b>	<b>7.2</b>	<b>5.8</b>	<b>5.2</b>	<b>5.1</b>

Source: Department of Statistics, Malaysia

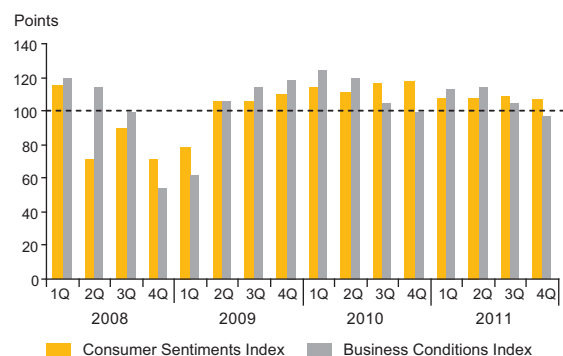
**Private consumption** grew at a pace of 7.1% (3Q 11: 7.3%), supported by favourable income growth and robust labour market conditions. The payment of the half-month bonuses to civil servants, combined with the firm rural household incomes due to elevated commodity prices, provided strong support to consumer spending during the quarter. In addition, the year-end sales promotions in conjunction with the festive period and long school holidays also spurred firm growth in consumption expenditure. Major consumption indicators such imports of consumption goods, bank lending to households and credit card spending continued to show strong positive trends. Consumer confidence also remained positive, as reflected by the

4Q MIER Consumer Sentiments Index (106.3 points; 3Q 11: 108.7 points).

**Public consumption** grew by 23.6% (3Q 11: 21.7%) due mainly to higher expenditure on emoluments and supplies and services.

**Gross fixed capital formation** expanded by 8.5% during the quarter (3Q 11: 6.1%), supported by the continued increase in capital expenditure by the private sector and the non-financial public enterprises (NFPEs). Capital spending by the private sector expanded further, although uncertainties in the global economic environment affected capacity expansion activity in the export-oriented industries. This was reflected in the decline of several private investment indicators including the sales of E&E machinery and the number of new local companies registered, while business sentiments dipped below the 100-point benchmark level (4Q 11: 96.9 points; 3Q 11: 104.5 points). Nonetheless, other major indicators pointed to continued expansion in private sector capital expenditure, as imports of capital goods, sales of commercial vehicles and loans disbursed to businesses recorded positive growth. Public sector investment was supported by the continued expansion in capital expenditure by the NFPEs, which were channelled mainly into the oil and gas and transportation sectors, as the Federal Government development expenditure was lower during the quarter. The Federal Government development expenditure was mostly channelled into the transportation, and trade and industry sectors.

### Business and consumer sentiments moderated



## Moderate growth in major economic sectors

On the supply side, activity in the services sector moderated in the fourth quarter, while the manufacturing sector expanded at a similar pace to the previous quarter. This trend reflected the weaker external environment amid strong performance in domestic-oriented activity. The agriculture sector continued to record robust growth, supported by strong output of key crops, while mining output continued to improve. The construction sector grew at a stronger pace, following the ongoing implementation of major infrastructure projects.

The **services sector** continued to expand in the fourth quarter of 2011, albeit at a more moderate pace (6.4%, 3Q 11: 7.0%). This reflected mainly slower capital market-related activity, which more than offset the sustained strong growth in the consumption-driven sub-sectors. The **wholesale and retail trade** sub-sector grew by 7.2% (3Q 11: 9.0%), driven primarily by the retail segment as private consumption remained firm. The **finance and insurance** sub-sector expanded by 6.4% (3Q 11: 4.6%) supported by expansion in bank lending as well as higher growth in insurance premiums. Growth in the **real estate and business services** sub-sector was lower (2.3%, 3Q 11: 6.8%), as

capital market-related activity slowed during the quarter.

The manufacturing sector expanded by 5.2% (3Q 11: 5.3%), supported by robust growth in the **domestic-oriented industries**. Performance of the domestic-oriented industries was driven mainly by the consumer-related cluster. This was reflected in both the higher production of transport equipment amid receding global automotive supply chain pressures, and stronger output in the food and beverages segment. The construction-related cluster also continued to expand. **Export-oriented industries**, however, expanded at a slower pace. Output in the E&E cluster remained weak, given the weaker global

### GDP by Economic Activity (at constant 2000 prices)

	2010		2011		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Agriculture	-3.9	2.1	8.2	6.9	5.6
Mining	-1.2	0.2	-6.1	-3.3	-5.7
Manufacturing	6.2	11.4	5.3	5.2	4.5
Construction	5.6	5.1	3.0	6.4	3.5
Services	6.1	6.8	7.0	6.4	6.8
<b>Real GDP (Annual Change)</b>	<b>4.8</b>	<b>7.2</b>	<b>5.8</b>	<b>5.2</b>	<b>5.1</b>
<b>Real GDP (Preceding Change)</b>	<b>1.7</b>	<b>7.2</b>	<b>3.8</b>	<b>1.2</b>	<b>5.1</b>

Source: Department of Statistics, Malaysia

### Performance of the Services Sector (value added at constant 2000 prices)

	Share 2010 (%)	2010		2011		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
<b>Intermediate Services</b>	<b>43.7</b>	<b>6.0</b>	<b>7.2</b>	<b>6.0</b>	<b>5.9</b>	<b>6.2</b>
Finance & insurance	20.3	3.7	6.4	4.6	6.4	5.9
Real estate & business services	9.5	8.7	7.8	6.8	2.3	6.3
Transport & storage	6.6	5.2	6.9	6.1	6.2	5.3
Communication	7.4	9.8	8.5	8.7	8.8	7.6
<b>Final Services</b>	<b>56.3</b>	<b>6.3</b>	<b>6.5</b>	<b>7.9</b>	<b>6.8</b>	<b>7.3</b>
Wholesale & retail trade	23.6	8.3	8.0	9.0	7.2	7.6
Accommodation & restaurant	4.2	3.7	5.0	5.4	5.7	5.2
Utilities	5.2	4.2	8.2	4.6	3.8	3.0
Government services	13.0	6.1	5.8	10.7	9.6	11.6
Other services	10.2	3.9	4.0	4.3	3.8	4.1
<b>Total Services</b>	<b>100.0</b>	<b>6.1</b>	<b>6.8</b>	<b>7.0</b>	<b>6.4</b>	<b>6.8</b>

Source: Department of Statistics, Malaysia

### Selected Quarterly Indicators in the Services Sector

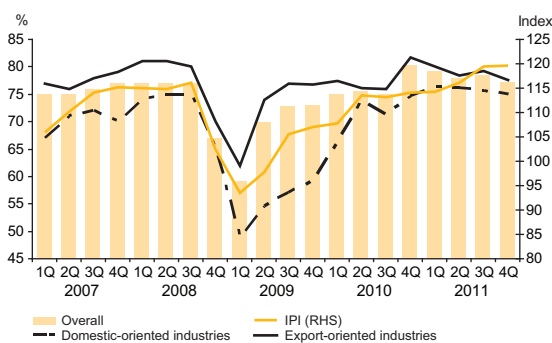
	2010		2011			
	3Q	4Q	1Q	2Q	3Q	4Q
	<b>Index</b>					
MIER Consumer Sentiments Index	115.8	117.2	108.2	107.9	108.7	106.3
MIER Retail Trade Index	140.0	132.0	99.1	120.8	150.0	92.6
MIER Tourism Market Index	118.8	124.6	113.1	125.4	115.2	126.0
	<b>Annual change (%)</b>					
Tourist arrivals	6.0	1.2	-3.9	-5.2	-17.9	n.a.
Total passenger traffic at all airports	10.0	6.3	11.8	13.4	10.8	n.a.
Total consumption credit outstanding	10.7	9.8	9.5	8.7	8.5	9.6
Loans outstanding to the wholesale & retail trade, hotels & restaurants	7.3	7.5	7.2	6.8	9.6	11.5
Imports of consumption goods	2.8	6.9	5.8	17.5	26.5	25.4
Total sales of motor vehicles	3.7	9.3	7.5	-9.7	0.6	-1.5
Container cargo handled (Port Klang and PTP)	10.9	9.6	14.4	9.6	9.8	11.5

Source: Various sources

demand for PC and parts and semiconductors. Nevertheless production in the primary-related cluster was sustained, supported by strong performances in the chemicals and chemical products and off-estate processing segments.

Overall, the capacity utilisation rate in the manufacturing sector was sustained (77%; 3Q 11: 78%). Export- and domestic-oriented industries operated at 78% and 75% of total capacity respectively during the quarter (3Q 11: 79% and 76% respectively).

### Capacity utilisation rate in the manufacturing sector\*



\* Beginning 2009, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2004 to value-add in year 2006

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

### Performance of the Manufacturing Sector

	2010		2011		
	4Q	Year	3Q	4Q	Year
	<b>Annual Change (%)</b>				
Value Added (RM million at 2000 prices)	6.2	11.4	5.3	5.2	4.5
Overall Manufacturing Production <sup>1</sup>	6.6	11.1	5.4	5.3	4.7
<b>Export-oriented industries</b>	4.6	9.7	4.0	2.7	3.3
<b>Electronics and electrical products cluster</b>	0.1	17.4	-0.5	-3.7	-3.8
Of which:					
Electronics	-16.5	3.1	-3.9	-11.5	-12.0
Electrical products	34.8	47.8	4.0	6.5	8.4
<b>Primary-related cluster</b>	7.2	5.7	6.5	6.2	7.5
Of which:					
Chemicals and chemical products	4.7	11.5	9.7	14.0	8.8
Petroleum products	16.3	-2.4	1.7	-1.1	6.2
Rubber products	12.7	20.8	15.5	6.1	13.0
Off-estate processing	-14.1	-2.3	9.9	18.8	10.0
<b>Domestic-oriented industries</b>	13.6	15.6	10.3	13.7	9.2
<b>Construction-related cluster</b>	22.2	18.9	19.1	14.7	18.2
Of which:					
Construction-related products	20.4	21.9	13.1	12.7	14.1
Fabricated metal products	24.7	15.0	27.5	17.4	23.8
<b>Consumer-related cluster</b>	7.6	13.4	3.9	12.9	2.5
Of which:					
Transport equipment	20.8	29.7	1.0	15.0	-1.0
Food, beverage & tobacco products	9.3	8.8	4.9	9.5	5.8

<sup>1</sup> Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Value-added growth of the **agriculture sector** remained strong at 6.9% (3Q 11: 8.2%), due mainly to the continued strong production of crude palm oil. The **mining sector** recorded a smaller contraction of 3.3% (3Q 11: -6.1%), reflecting a slower decline in crude oil production and a turnaround in the production of natural gas, amid higher LNG demand from Japan. This is due to the closure of nuclear reactors following the natural disasters in March.

### Performance of the Agriculture Sector

	2010		2011		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2000 prices)	-3.9	2.1	8.2	6.9	5.6
Industrial Crops	-10.2	-2.3	10.4	8.5	5.3
Food Crops	4.5	7.4	5.8	5.3	5.8
<b>Production</b>					
<i>Of which:</i>					
Crude palm oil	-9.5	-2.9	12.8	16.2	11.3
Rubber	6.1	9.6	15.8	-8.0 <sup>1</sup>	7.3 <sup>2</sup>
Fish	2.4	2.7	2.7	0.8 <sup>1</sup>	1.0 <sup>2</sup>
Livestock	-2.2	2.4	5.9	-6.6 <sup>1</sup>	0.5 <sup>2</sup>

<sup>1</sup> Oct - Nov 2011

<sup>2</sup> Jan - Nov 2011

Source: Malaysian Palm Oil Board (MPOB)  
Malaysian Rubber Board (MRB)  
Fisheries Department, Malaysia  
Department of Veterinary Services, Malaysia  
Department of Statistics, Malaysia

The **construction sector** expanded by 6.4% during the quarter (3Q 11: 3.0%), driven by the residential and civil engineering sub-sectors. Growth in the residential segment improved amid higher construction activity, especially in the Klang Valley. Higher investment following the continued progress in the construction of major infrastructure projects such as the Seremban-Gemas electrified double-tracking project, the Second Penang Bridge and the Sabah Oil and Gas Terminal, boosted the civil engineering sub-sector. Growth in the non-residential sub-sector continued to be underpinned by the ongoing construction of commercial properties.

### Indicators for the Construction Sector

	2010		2011		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
New sales and advertising permits	13.0	16.0	6.0	22.4	16.1
Housing approvals	31.7	23.6	54.1	29.8	32.2
Production <sup>1</sup> of construction-related materials	22.2	18.9	19.1	14.7	18.2
Loans approved for construction	49.7	53.6	-20.5	64.0	25.7
Imports of construction materials and mineral products	23.1	27.5	24.4	9.6	14.0

<sup>1</sup> Industrial Production Index (2005=100)

Source: Ministry of Housing and Local Government, Department of Statistics, Malaysia and Bank Negara Malaysia.

### Performance of the Mining Sector

	2010		2011		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2000 prices)	-1.2	0.2	-6.1	-3.3	-5.7
<b>Production</b>					
<i>Of which:</i>					
Crude oil and condensates	-4.4	-3.1	-9.9	-5.9	-10.2
Natural gas	0.2	2.1	-1.5	1.3	0.4

Source: PETRONAS  
Department of Statistics, Malaysia

### Inflation moderated in the fourth quarter

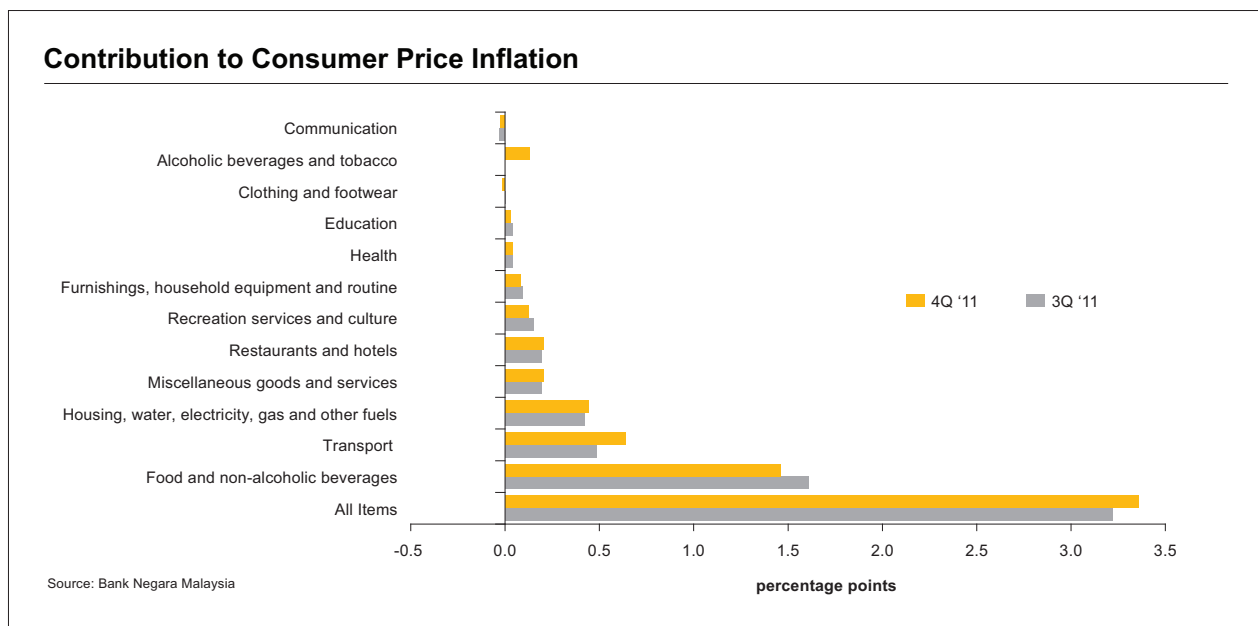
The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), declined to 3.2% in the fourth quarter (3Q 11: 3.4%). Inflation in the *transport* category was lower at 3.2% (3Q 11: 4.3%) as the impact from the one-off adjustment to the prices of RON95 petrol, diesel and LPG in December 2010 wore off.

Inflation in the *food and non-alcoholic beverages* category rose to 5.3% during the quarter (3Q 11: 4.8%). Higher food prices were mainly due to higher prices in the *fish and seafood* subcategory, which rose by 7.7% (3Q 11: 6.7%), caused by supply shortages following adverse weather conditions

domestically. The *meat* category also recorded higher inflation of 8.5% in the fourth quarter (3Q 11: 8.2%).

The increase in prices in the quarter, however, was partially mitigated by declining prices in the *communication* category.

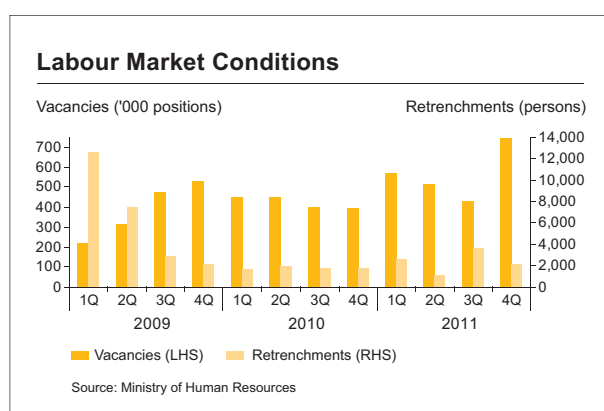
The Producer Price Index (PPI) increased at a slower rate of 7.5% on an annual basis during the fourth quarter (3Q 11: 10.9%). In terms of composition, prices in both the commodity-related components and non-commodity-related components recorded lower growth at 18.3% (3Q 11: 29.6%) and 2.1% (3Q 11: 2.3%) respectively. Prices of the local components of the PPI had a slower increase of 9.7% (3Q 11: 14.9%) while prices of the imported components of the PPI rose by 2.4% (3Q 11: 2.3%).



## Favourable labour market conditions

Overall labour market conditions remained favourable with the unemployment rate remaining at 3.1% during the first two months of the quarter (3Q 11: 3.1%). Retrenchments decreased to 2,119 persons (3Q 11: 3,605 persons) attributable mainly to lower layoffs in the manufacturing sector. Retrenchments in the sector dropped from 2,499 persons in the third quarter, due to one-off closures of several companies in August, to 944 persons in the fourth quarter.

Labour demand during the quarter remained strong, as evidenced by the higher number of job vacancies posted in the JobsMalaysia Portal (745,205 positions; 3Q 11: 431,437 positions). The increase from the previous quarter mostly reflected the higher number of job openings in the services and agriculture sectors. Real wages in the manufacturing sector expanded at a faster pace compared to the preceding quarter (5.3%; 3Q 11: 3.9%).



## External sector continued to remain strong

**Overall balance of payments** continued to remain strong, recording a surplus of RM6.3 billion in the fourth quarter (3Q 11: RM10.9 billion), as the current account surplus remained strong and the financial account turned around to register a net inflow position. Errors and omissions (E&O) including quarterly reserves adjustments for foreign exchange revaluation loss amounted to an outflow of RM15.9 billion. Excluding

## Balance of Payments

	2010		2011		
	4Q	Year	3Q	4Q	Year
	RM billion				
<b>Current Account</b>	<b>23.8</b>	<b>88.1</b>	<b>26.6</b>	<b>22.0</b>	<b>97.9</b>
(% of GNI)	11.9	11.9	12.5	10.1	11.8
Goods	32.3	134.7	38.2	36.9	149.4
Services	0.9	1.7	-2.4	-4.0	-8.4
Income	-4.0	-26.5	-3.8	-5.6	-22.0
Current transfers	-5.5	-21.8	-5.3	-5.3	-21.1
<b>Financial Account</b>	<b>1.2</b>	<b>-19.8</b>	<b>-23.3</b>	<b>0.2</b>	<b>15.5</b>
Direct investment abroad	-8.9	-42.9	-12.9	-14.4	-45.3
Foreign direct investment	10.7	29.3	5.2	6.5	32.9
Portfolio investment	3.5	48.5	-23.4	-2.7	30.3
Financial derivatives	0.1	-0.7	-0.3	-0.3	-0.1
Other investment	-4.3	-54.0	8.2	11.2	-2.4
- Official sector	-0.2	0.2	-0.5	-0.1	-1.3
- Private sector	-4.2	-54.2	8.7	11.2	-1.1
Errors & omissions	-7.0	-70.7	7.6	-15.9	-18.5
<b>Overall Balance</b>	<b>17.9</b>	<b>-2.6</b>	<b>10.9</b>	<b>6.3</b>	<b>94.8</b>

Source: Department of Statistics Malaysia

this revaluation loss, the net E&O is smaller and reflects the errors and omission of data compilation.

The **current account** surplus narrowed in the fourth quarter, but remained large at RM22 billion, equivalent to 10.1% of GNI. The lower surplus reflected the lower goods surplus, higher trade deficits and larger income outflows. The goods surplus was slightly lower at RM36.9 billion as gross exports expanded at a more moderate pace (9.8%; 3Q 11: 11.4%), while imports growth was sustained (7.6%; 3Q 11: 7.4%).

## Trade Account

	2010		2011		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
<b>Gross Exports</b>	<b>3.3</b>	<b>15.6</b>	<b>11.4</b>	<b>9.8</b>	<b>8.7</b>
Manufactured	-0.3	12.3	4.9	2.1	2.0
E&E	-8.0	9.7	-4.0	-5.0	-5.4
Non-E&E	10.2	15.4	15.8	10.2	10.7
Commodities	15.8	28.9	28.6	29.0	26.5
Agriculture	31.9	28.3	44.9	18.9	32.6
Minerals	5.7	29.3	17.8	36.9	22.3
<b>Gross Imports</b>	<b>10.2</b>	<b>21.7</b>	<b>7.4</b>	<b>7.6</b>	<b>8.6</b>
Capital goods	9.0	12.2	5.5	8.4	9.8
Intermediate goods	10.6	23.0	3.7	2.3	5.3
Consumption goods	6.9	9.7	26.5	25.4	19.0
<b>Trade balance (RM billion)</b>	<b>25.5</b>	<b>110.0</b>	<b>30.1</b>	<b>31.1</b>	<b>120.3</b>

Source: MATRADE and Department of Statistics, Malaysia

### Malaysia: Direction of Exports

	2010		2011			2010		2011		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	Annual change (%)					Share of total exports (%)				
United States	-11.0	0.2	-3.6	-3.5	-5.5	9.1	9.5	8.4	8.0	8.3
European Union (EU)	0.3	14.3	6.3	3.9	4.7	10.8	10.8	10.3	10.2	10.4
Selected ASEAN countries <sup>1</sup>	1.9	13.8	10.1	5.6	5.4	25.3	25.1	23.8	24.3	24.3
North East Asia	1.4	19.6	14.6	9.6	8.9	24.2	24.6	25.3	24.2	24.6
<i>People's Republic of China</i>	-0.5	18.9	27.1	15.3	13.9	12.3	12.5	14.2	12.9	13.1
<i>Hong Kong SAR</i>	-0.7	11.3	-2.2	-7.3	-3.6	5.0	5.1	4.5	4.2	4.5
<i>Chinese Taipei</i>	30.6	39.2	4.3	14.5	12.4	3.3	3.2	3.2	3.4	3.3
<i>Korea</i>	-8.3	19.8	5.0	9.0	6.1	3.7	3.8	3.4	3.6	3.7
West Asia	11.0	4.0	11.9	6.5	12.1	3.7	3.5	3.4	3.5	3.6
India	20.2	21.0	36.0	33.7	34.6	3.3	3.3	4.3	4.0	4.1
<b>Total exports</b>	<b>3.3</b>	<b>15.6</b>	<b>11.4</b>	<b>9.8</b>	<b>8.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup>Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

The **export** performance in the fourth quarter was supported mainly by the sustained strong growth in exports of commodities and non-E&E manufactured products. Commodity exports continued to be driven by elevated commodity prices and higher demand. Sustained growth in exports of non-E&E products was attributable mainly to higher demand for chemicals and chemical products, machinery appliances and parts, manufactures of metal, and iron and steel products. However, the weaker global economy had dampened the demand for E&E products, particularly computers and computer-related products.

The sustained **import** growth in the fourth quarter reflected an expansion in capital imports and more moderate growth in intermediate and consumption imports. The stronger growth in capital imports was due mainly to higher imports of machinery for capacity expansion. Consumption imports increased at a more moderate pace, driven by imports of food and beverages, transport equipment and consumer durables. Intermediate imports grew at a more moderate pace, supported by sustained activity in the manufacturing sector, particularly non-E&E industries.

In the fourth quarter, the deficit in the **services account** widened to RM4 billion due mainly to higher net payments for imports of other services, including payments for royalties and license fees, professional and technical fees, and communication and construction services. A larger outflow in the income account of RM5.6 billion was largely attributable to higher

investment income accruing to foreign direct investors.

The **financial account** turned around from a net outflow position to record a small net inflow of RM0.2 billion in the fourth quarter (3Q 11: -RM23.3 billion), due to the significantly smaller net outflows of portfolio funds and higher net inflow of other investments.

**Portfolio investment** recorded a smaller net outflow of RM2.7 billion during the quarter (3Q 11: -RM23.4 billion), largely reflecting foreign liquidation of debt securities amidst continued volatility and deleveraging in the global financial markets. Nevertheless, the significantly smaller outflows indicated a slight improvement of market sentiments in the fourth quarter, as evidenced by a net inflow of foreign funds into the equity market.

**FDI** recorded a higher net inflow of RM6.5 billion (3Q 11: +RM5.2 billion), supported by higher retained earnings of the multinational companies (MNCs) in Malaysia as well as higher inflows of equity capital. FDI inflows were broad-based during the quarter, the bulk of which were undertaken by companies in the manufacturing sector, particularly the E&E and petrochemical sub-sectors. The oil and gas sector, the wholesale and retail trade, and the finance and insurance sub-sectors were recipients of sizeable investments during the quarter. Of significance, net FDI in 2011 increased to RM32.9 billion from RM29.3 billion in 2010, indicating continued improvement of FDI flows into Malaysia, despite the more challenging global economic conditions, especially in the second half of the year.

**Direct investment abroad (DIA)** by Malaysian companies increased further to -RM14.4 billion in the fourth quarter (3Q 11: -RM12.9 billion). The larger net DIA reflected higher outflows of equity capital and larger earnings retained abroad for reinvestment purposes. These investments were mainly channelled into the mining and manufacturing sectors, as well as the finance and insurance, and hospitality sub-sectors.

Net inflow of **other investments** amounted to RM11.2 billion (3Q 11: +RM8.2 billion) in the fourth quarter, on account of higher inflows into the private sector, particularly in the banking sector. Of significance, these inflows reflected the liquidation of foreign assets by the Malaysian banking sector, a trend observed since the third quarter, in line with the escalation of the European debt crisis in the second half of the year. The official sector recorded a small net outflow due to external loan repayments.

### Lower external debt

Malaysia's **total external debt** declined to RM257.2 billion or USD80.4 billion as at end-December 2011 (end-Sept: RM263.3 billion or USD81.8 billion). This is equivalent to 31% of GNI, and remains small as a share of total debt<sup>2</sup> (12.7%).

The **medium- and long-term external debt** decreased to RM153.3 billion (end-

Sept: RM157.8 billion), reflecting in part the net repayment of external borrowing and a strengthening of the ringgit against selected major currencies during the quarter. There were net repayments by both private and public sectors. The net repayment by the public sector largely reflected repayments by NFPEs which outweighed a small net drawdown by the Federal Government.

As at end-December 2011, **short-term external debt** had declined to RM103.9 billion (USD32.5 billion) from RM105.5 billion at end-Sept 2011, mainly due to the repayment of inter-bank borrowings. Short-term external debt accounted for 40.4% of total external debt while international reserves were able to cover 4.1 times the short-term external debt.

#### External Debt Outstanding

	2010	2011	
	end-Dec	end-Sep	end-Dec <sup>o</sup>
	RM billion		
Medium- and long-term debt	147.7	157.8	153.3
Public sector	83.3	83.8	83.1
Private sector	64.3	74.0	70.3
Short-term debt <sup>1</sup>	79.4	105.5	103.9
<b>Total external debt</b>	<b>227.1</b>	<b>263.3</b>	<b>257.2</b>
USD billion equivalent	72.8	81.8	80.4
External debt/GNI (%)	30.7	31.7	31.0
Reserves/Short-term external debt (times)	4.1	4.0	4.1 <sup>2</sup>

<sup>1</sup> Excludes currency and deposits held by non-residents with resident banking institutions

<sup>2</sup> Based on international reserves as at 31 January 2012

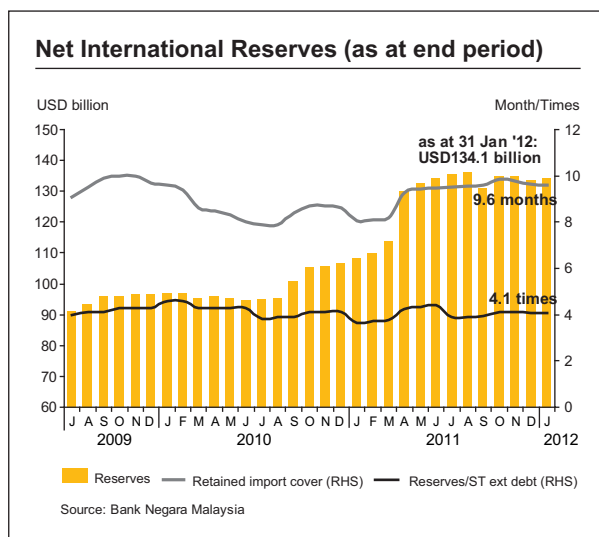
<sup>o</sup> Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

<sup>2</sup> Total debt comprises domestic and external debt. Domestic debt comprises loans by banking system, private debt securities and federal government debt.

## International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM423.4 billion (equivalent to USD133.6 billion) as at 31 December 2011. The reserves level as at 31 December 2011 has taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of the ringgit against some major currencies during the quarter. As at 31 January 2012, the reserves position amounted to RM424.8 billion (equivalent to USD134.1 billion), sufficient to finance 9.6 months of retained imports and is 4.1 times the short-term external debt.



## Lower fiscal deficit of 5% of GDP in 2011 compared to the previous year

In the fourth quarter, the Federal Government incurred a higher total expenditure, amounting to RM73.6 billion. The higher operating expenditure was mainly on account of the payment of subsidies, and grants and transfers to statutory bodies. The development expenditure was mainly channelled into the transportation, and trade and industry sectors. For the year as a whole, the Federal Government recorded a lower fiscal deficit of 5% of GDP (2010: 5.6% of GDP), supported by stronger revenue performance during the year. As at end-Dec 2011, total outstanding debt of the Federal Government amounted to RM456.1 billion or 53.5% of GDP.

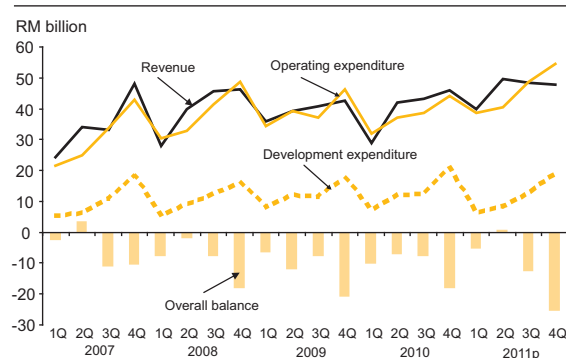
## Federal Government Finance

	2010		2011 <sup>P</sup>		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	45.8	159.7	48.3	47.7	185.4
% growth	7.6	0.6	12.1	4.0	16.1
Operating expenditure	44.1	151.6	48.8	54.5	182.6
% growth	-4.6	-3.5	26.6	23.6	20.4
<b>Current account</b>	<b>1.7</b>	<b>8.0</b>	<b>-0.5</b>	<b>-6.9</b>	<b>2.8</b>
% of GDP	0.8	1.0	-0.2	-3.1	0.3
Gross development expenditure	20.8	52.8	12.6	19.1	46.4
% growth	18.6	6.6	0.3	-8.4	-12.1
<b>Overall balance</b>	<b>-18.2</b>	<b>-43.3</b>	<b>-12.8</b>	<b>-25.4</b>	<b>-42.5</b>
% of GDP	-8.9	-5.6	-5.9	-11.4	-5.0
<b>Memo item:</b>					
Total gross expenditure	64.9	204.4	61.4	73.6	229.0
% growth	1.8	-1.0	20.1	13.4	12.0
Total Federal Government debt (as at end-period)	407.1	407.1	440.8	456.1	456.1
% of GDP	53.1	53.1	51.7	53.5	53.5
Domestic debt	390.4	390.4	422.8	438.0	438.0
% of GDP	51.0	51.0	49.6	51.4	51.4
External debt	16.7	16.7	18.1	18.1	18.1
% of GDP	2.2	2.2	2.1	2.1	2.1

<sup>P</sup> Preliminary

Source: Ministry of Finance

## Federal Government Finance



<sup>P</sup> Preliminary

Source: Ministry of Finance

## MONETARY AND FINANCIAL DEVELOPMENTS

### Interest rates remained stable

The Overnight Policy Rate (OPR) was left unchanged at 3.00% in the fourth quarter of 2011 given the higher downside risks to growth and lower upside risks to inflation. At the prevailing level, the OPR remains supportive of economic activity.

The average overnight interbank rate was stable, moving within a range of 2.92% to 3.00% during the period 1 October – 31 December 2011. Interbank rates of other short-term maturities were also relatively stable.

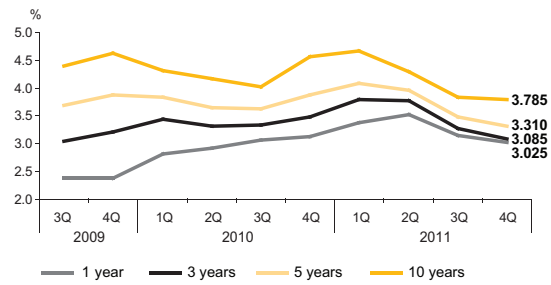
Rates on interest rate swaps and KLIBOR 3-month futures continued to decline in the fourth quarter as markets revised down expectations for an OPR increase amidst greater uncertainties about the global recovery.

In terms of retail deposit rates, the average quoted fixed deposit (FD) rates of commercial banks were stable during the quarter. As at end-December, the average quoted FD rates for tenures between 1 to 12 months ranged between 2.95% to 3.22%, respectively.

The average base lending rate (BLR) of commercial banks decreased slightly to 6.53% as at end-December due to the inclusion of a new foreign bank with a lower BLR in December. The weighted average lending rate (ALR) on loans outstanding also moderated slightly to 5.66% as at end-December 2011 (end-September 5.70%). The cost of

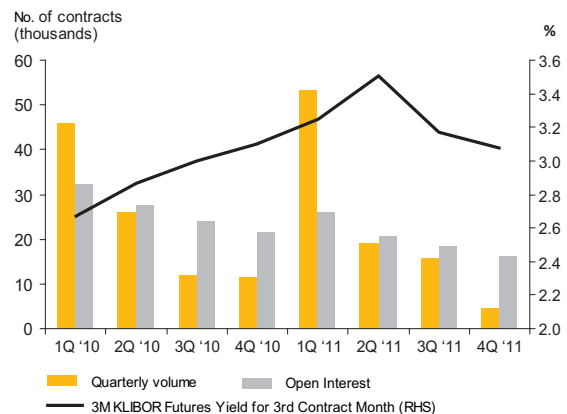
borrowing to businesses and households is still below pre-crisis levels and remains supportive of the economy.

### Interest Rate Swap: Rates



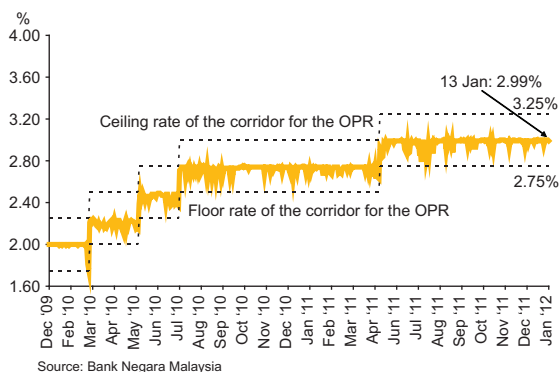
Source: Bloomberg

### 3 Month KLIBOR Futures



Source: Bursa Malaysia

### Daily Weighted Average Overnight Interbank Rate



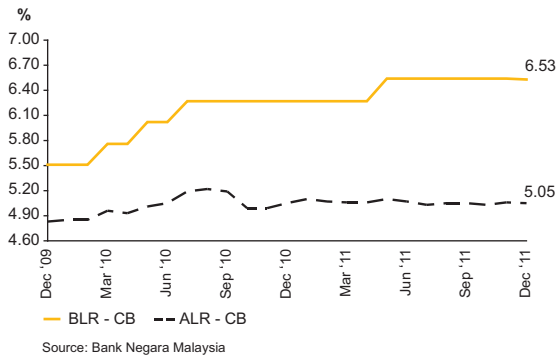
Source: Bank Negara Malaysia

### Interest Rates

	2010	2011	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.75	3.00	3.00
Interbank rates			
Overnight	2.72	2.99	2.99
1-month	2.83	3.09	3.05
Base lending rates (BLR)			
Commercial banks	6.27	6.54	6.53
Average lending rates (ALR)			
Commercial banks	5.05	5.05	5.05
Fixed deposit rates			
Commercial banks			
3-month	2.74	3.00	2.99
12-month	2.97	3.22	3.22

Source: Bank Negara Malaysia

### Lending Rates of Commercial Banks (At end-period)



### Determinants of Broad Money, M3

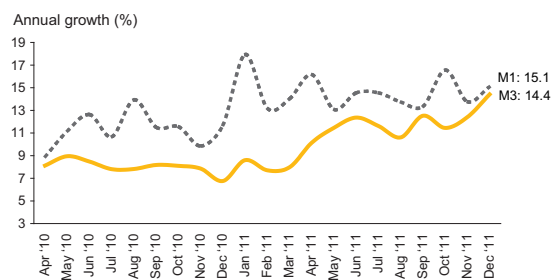
	Change during the period				
	2010		2011		
	4Q	Year	3Q	4Q	Year
	RM billion				
<b>M3</b>	<b>30.5</b>	<b>68.8</b>	<b>28.8</b>	<b>54.9</b>	<b>156.5</b>
Net claims on Govt	-3.4	-8.1	10.4	-7.3	-12.0
Claims on private sector	29.1	84.8	20.2	36.1	116.9
Loans	28.6	92.0	22.6	33.4	111.8
Securities	0.5	-7.1	-2.4	2.7	5.1
Net foreign assets <sup>1</sup>	17.3	64.4	3.0	1.8	102.5
BNM	17.2	30.9	10.7	6.5	94.5
Banking System	0.1	33.6	-7.7	-4.7	8.0
Other influences	-12.5	-72.4	-4.8	24.3	-50.9

<sup>1</sup> Pre-revaluation  
Source: Bank Negara Malaysia

### M3 continued to expand

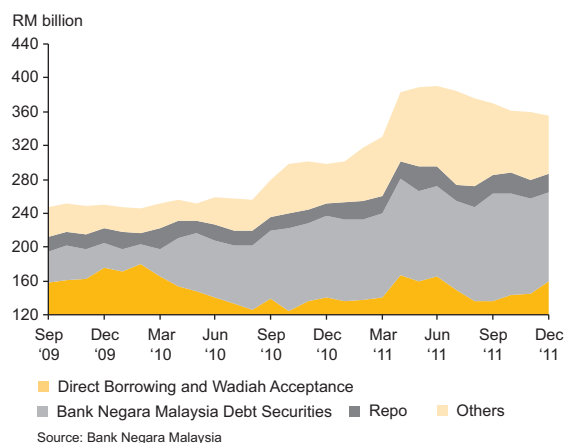
The monetary aggregates grew at a stronger pace during the fourth quarter. M1, or narrow money, increased by RM16.3 billion during the quarter. On an annual basis, M1 expanded by 15.1% as at end-December (end-September 2011: 13.3%). M3, or broad money, expanded at a faster annual growth rate of 14.4% as at end-December (end-September 2011: 12.5%), and increased by RM54.9 billion from the previous quarter.

### Monetary Aggregates



Both domestic and external factors contributed to the increase in broad money. On the domestic side, broad money expanded following increased banking system credit extension and private sector redemption of securities issued by BNM. This was reflected by the increase in the *claims on private sector* and *other influences* categories. On the external side, Malaysia registered net foreign inflows in the fourth quarter, mainly from trade. The expansion in broad money, however, was partially offset by Government fund raising activities during the quarter.

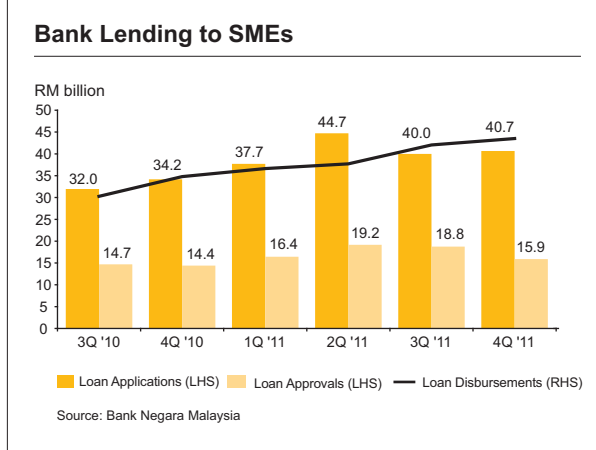
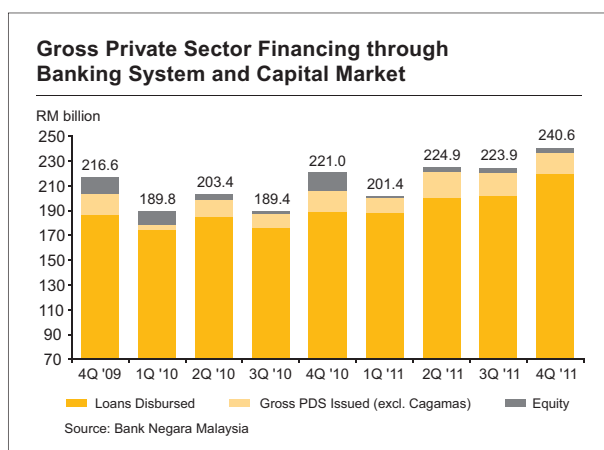
### Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



## Private sector financing activity strengthened in the fourth quarter

In the fourth quarter, total gross financing raised by the private sector through the banking system and the capital market increased to RM240.6

billion in the fourth quarter (3Q 11: RM223.9 billion). The higher financing reflected increased loan disbursements during the quarter. On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 12.5% as at end-December (3Q 11: 13.4%).



## Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)					Annual growth (%)				
	2010		2011			2010		2011		
	4Q	2010	3Q	4Q	2011	4Q	2010	3Q	4Q	2011
<b>Gross total financing</b>	<b>221.0</b>	<b>803.6</b>	<b>223.9</b>	<b>240.6</b>	<b>890.8</b>	<b>2.1</b>	<b>8.7</b>	<b>18.2</b>	<b>8.9</b>	<b>10.8</b>
Loans disbursed*	188.9	724.6	202.1	219.7	811.3	1.0	10.2	14.8	16.3	12.0
Gross PDS (excl. Cagamas)	17.4	46.9	18.0	17.1	66.9	5.9	-16.4	61.1	-2.1	42.6
Equity	14.7	32.1	3.8	3.8	12.6	12.0	23.4	79.3	-73.9	-60.7
<b>Net total financing (A)+(B)</b>	<b>36.9</b>	<b>116.1</b>	<b>31.4</b>	<b>32.1</b>	<b>147.4</b>	<b>10.9</b>	<b>10.9</b>	<b>13.4</b>	<b>12.5</b>	<b>12.5</b>
Banking system	29.5	101.0	25.9	32.2	122.9	11.9	11.9	13.1	13.0	13.0
Loans outstanding (A)	29.1	99.8	24.8	31.3	120.2	12.7	12.7	13.8	13.6	13.6
Holding of PDS	0.4	1.2	1.3	1.0	2.7	1.9	1.9	3.4	4.3	4.3
PDS outstanding (B)	7.8	16.3	6.8	0.8	27.2	5.9	5.9	11.9	9.3	9.3
Memorandum item										
Gross PDS (incl. Cagamas)	18.3	52.1	19.1	17.4	69.6	11.4	-11.0	32.4	-5.2	33.4

\*Banking systems loans include loans sold to Cagamas

Source: Bank Negara Malaysia

The major loan indicators posted strong performances in the fourth quarter. In the business sector, the bulk of the loans were disbursed to finance working capital requirements of the *manufacturing; wholesale and retail, restaurants and hotels; finance, insurance and business services* and *construction* sectors. In addition, financing extended for mergers and acquisitions activity during the quarter was also higher by RM4.7 billion, and was channelled mainly to the *construction* sector. Demand for new financing by businesses increased

with higher loan applications mainly from the *construction, real estate and wholesale and retail, restaurants and hotels* sectors. On an annual basis, business loans outstanding expanded at a growth rate of 13.5% as at end-December (end-September 11: 14.1%).

Financing to the household sector also rose with loans outstanding expanding by RM17.8 billion during the quarter to increase at an annual growth rate of 12.9% as at end-December (3Q 11: 12.5%).

Loan Indicators	During the period (RM billion)					Annual growth (%)				
	2010		2011			2010		2011		
	4Q	2010	3Q	4Q	2011	4Q	2010	3Q	4Q	2011
<b>Total</b>										
Loan applications	173.5	641.3	182.9	191.6	742.2	22.9	23.0	3.7	10.5	15.7
Loan approvals	91.8	343.4	97.3	103.2	397.8	14.1	19.7	6.7	12.4	15.8
Loan disbursements	188.9	724.6	202.1	219.7	811.3	1.0	10.2	14.8	16.3	12.0
Loan repayments	167.9	649.3	188.2	195.5	725.6	3.4	9.1	13.9	16.5	11.8
Change in loans outstanding*	29.1	99.8	24.6	31.3	120.2	12.7	12.7	13.8	13.6	13.6
<b>Of which:</b>										
<b>Business enterprises**</b>										
Loan applications	82.1	298.4	85.7	96.0	357.8	34.1	25.5	1.1	16.9	19.9
Loan approvals	43.4	159.3	46.2	52.4	192.9	17.0	24.7	5.8	20.5	21.1
Loan disbursements	124.6	483.2	135.9	150.8	543.5	-1.2	9.8	16.6	21.1	12.5
Loan repayments	113.0	443.1	130.2	137.8	494.7	0.2	8.8	14.6	21.9	11.6
Change in loans outstanding*	13.4	28.5	8.7	13.3	44.9	9.4	9.4	14.1	13.5	13.5
<b>SMEs**</b>										
Loan applications	34.2	128.3	40.0	40.7	163.1	14.9	22.7	25.2	19.0	27.1
Loan approvals	14.4	57.8	18.8	15.9	70.2	13.5	27.7	27.7	10.4	21.5
Loan disbursements	39.8	147.2	47.0	48.5	179.9	4.0	2.7	33.4	21.9	22.3
Loan repayments	37.4	137.2	41.9	43.9	159.7	7.3	3.8	23.6	17.2	16.4
Change in loans outstanding*	3.5	3.0	5.7	8.3	24.9	2.4	2.4	16.1	19.4	19.4
<b>Large corporations</b>										
Loan applications	47.9	170.1	45.7	55.3	194.7	52.3	27.7	-13.4	15.5	14.4
Loan approvals	29.1	101.5	27.5	36.5	122.7	18.9	23.1	-5.3	25.6	20.9
Loan disbursements	84.8	336.0	88.8	102.3	363.6	-3.4	13.2	9.3	20.7	8.2
Loan repayments	75.6	306.0	88.3	93.9	335.0	-3.0	11.2	10.8	24.3	9.5
Change in loans outstanding*	9.8	25.5	3.0	5.0	20.0	14.2	14.2	12.8	9.8	9.8
<b>Households</b>										
Loan applications	91.4	342.9	97.2	95.7	384.4	14.3	20.9	6.2	4.7	12.1
Loan approvals	48.3	184.1	51.0	50.8	204.9	11.5	15.6	7.5	5.2	11.3
Loan disbursements	64.3	241.4	66.2	68.9	267.7	5.6	11.1	11.1	7.1	10.9
Loan repayments	54.9	206.2	58.0	57.7	231.0	10.6	9.8	12.4	5.2	12.0
Change in loans outstanding*	14.2	57.9	15.2	17.8	63.2	13.4	13.4	12.5	12.9	12.9

\* The annual growth is for end-period.  
\*\* Include loans to individual businesses.

Source: Bank Negara Malaysia

## Loans by Sector

	Loans disbursed					Loans out-standing	
	During the period					Share of total	Share of total
	4Q 10	2010	3Q	4Q	2011	4Q 11	
	(RM billion)					(% )	
<b>Business enterprises</b>	<b>124.6</b>	<b>483.2</b>	<b>135.9</b>	<b>150.8</b>	<b>543.5</b>	<b>68.6</b>	<b>44.9</b>
<i>Large corporations</i>	84.8	336.0	88.8	102.3	363.6	46.6	29.7
<i>SMEs*</i>	39.8	147.2	47.0	48.5	179.9	22.1	15.3
<i>Selected sectors</i>							
Agriculture, hunting, forestry and fishing	5.3	24.6	5.3	6.1	22.9	2.8	2.2
Mining and quarrying	1.2	3.5	1.6	1.3	5.1	0.6	0.5
Manufacturing	36.8	144.0	44.9	47.4	175.6	21.6	9.2
Construction	11.9	42.8	10.8	14.0	45.1	6.4	4.0
Real estate	7.5	23.7	8.9	9.6	33.3	4.4	5.1
Electricity, gas and water supply	2.6	5.3	1.6	1.4	5.6	0.6	1.0
Wholesale, retail, restaurants and hotels	30.9	122.8	37.2	38.0	139.7	17.3	7.3
Transport, storage and communication	4.3	19.7	4.6	6.4	19.7	2.9	3.0
Finance, insurance and business services	17.8	59.5	13.0	16.4	63.0	7.5	7.2
<b>Households</b>	<b>64.3</b>	<b>241.4</b>	<b>66.2</b>	<b>68.9</b>	<b>267.7</b>	<b>31.4</b>	<b>55.1</b>
Purchase of residential properties	15.1	57.8	16.8	17.0	64.5	7.8	25.5
Consumption credit	39.9	149.4	40.3	41.6	162.9	18.9	19.9
Of which:							
<i>Credit cards</i>	23.4	83.1	22.7	23.6	93.7	10.7	3.2
<i>Purchase of passenger cars</i>	9.1	37.2	8.8	9.3	35.7	4.3	11.6
Others	9.3	34.1	9.1	10.3	40.3	4.7	9.7
<b>Total</b>	<b>188.9</b>	<b>724.6</b>	<b>202.1</b>	<b>219.7</b>	<b>811.3</b>	<b>100.0</b>	<b>100.0</b>

\*Include loans to individual businesses.

Source: Bank Negara Malaysia

## Fund raising in the capital market increased in the fourth quarter

Net funds raised in the capital market increased to RM19.4 billion during the quarter (3Q 11: RM12.7 billion). Of this amount, net funds of RM15.9 billion was raised by the public sector. Gross funds raised were RM19 billion (3Q 11: RM24.8 billion) but redemptions by the public sector were significantly lower at RM3.1 billion during the quarter (3Q 11: RM23.2 billion). Funds were raised through the re-opening of a 3-year, 5-year and 10-year Malaysian Government Securities (MGS), as well as a 3-year and 7-year Government Investment Issue (GII).

In the private sector, new PDS issuances amounted to RM17.4 billion (3Q 11: RM19.1 billion). As with the previous quarter, funds were mostly used for working capital and general corporate purposes. There was also an increase in funds raised for new activities, refinancing and mergers and acquisitions. The equity market

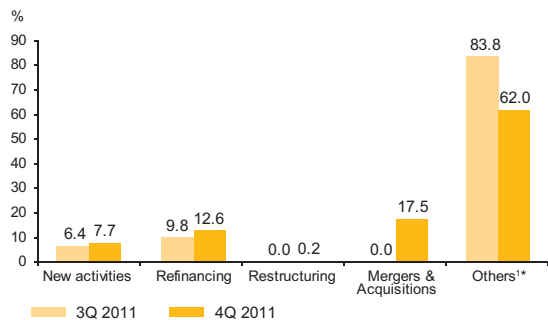
raised RM3.8 billion during the quarter. The bulk of funds was raised through rights issues (RM3.1 billion), and the remaining was raised via initial public offerings (RM0.7 billion). After adjusting for redemptions, net funds raised by the private sector amounted to RM3.5 billion.

## Net Funds Raised in the Capital Market

	2010		2011		
	4Q	Year	3Q	4Q	Year
	RM billion				
<b>By Public Sector</b>	<b>7.1</b>	<b>37.0</b>	<b>1.6</b>	<b>15.9</b>	<b>45.6</b>
Government securities, <i>net</i>	7.1	34.9	1.6	15.9	47.1
<i>Malaysian Government Securities</i>	6.6	37.7	14.0	12.9	58.8
<i>Government Investment Issues</i>	3.0	21.0	10.8	6.1	36.4
<i>Less: Redemptions</i>	2.5	23.9	23.2	3.1	48.1
Khazanah Bonds, <i>net</i>	-	-	-	-	-
Savings Bonds, <i>net</i>	(0.1)	2.2	(0.0)	(0.0)	(1.6)
<b>By Private Sector</b>	<b>23.4</b>	<b>50.5</b>	<b>11.1</b>	<b>3.5</b>	<b>37.1</b>
Shares	14.7	32.1	3.8	3.8	12.6
Debt securities, <i>net</i>	8.7	18.4	7.3	0.3	24.5
<i>Private Debt Securities</i>	18.3	52.1	19.1	17.4	69.6
<i>Less: Redemptions</i>	9.6	33.8	11.8	17.7	45.1
<b>Total</b>	<b>30.5</b>	<b>87.5</b>	<b>12.7</b>	<b>19.4</b>	<b>82.7</b>

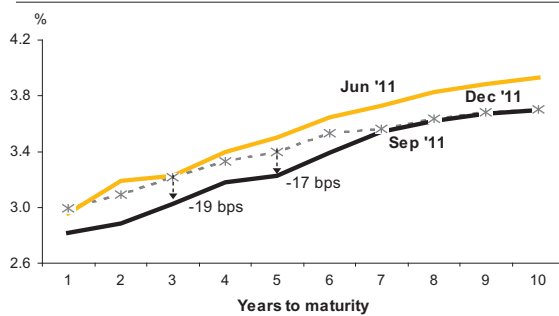
Source: Bank Negara Malaysia and Bursa Malaysia

### Private Debt Securities Issued by Purpose (% of total)



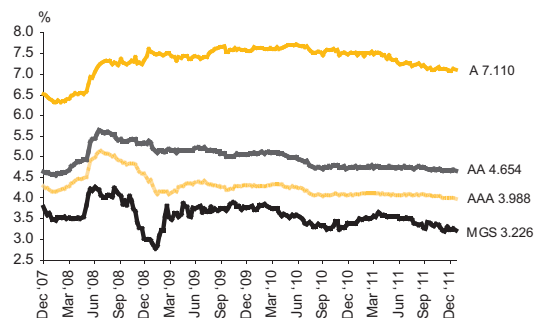
<sup>1</sup> Includes issuance by non-residents and Cagamas  
\* Includes working capital and general business activities  
Source: Bank Negara Malaysia

### Trend in MGS Yields



Source: Bank Negara Malaysia

### 5-year MGS and 5-year Corporate Bond Yields



Source: Bank Negara Malaysia

## Bond yields declined

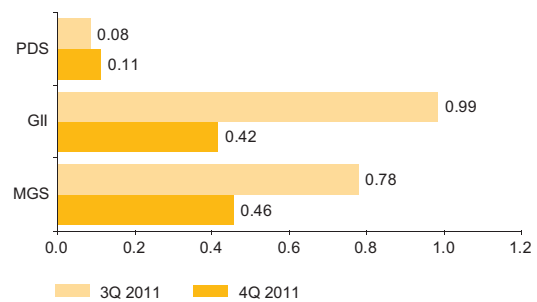
MGS yields on the short and medium term tenures continued to decline in the fourth quarter. Despite the volatility in international financial markets, non-resident interest in the domestic bond market was sustained. The benchmark 3-year and 5-year MGS recorded a decline of 19 and 17 basis points respectively in fourth quarter of 2011.

In the PDS market, corporate bond yields also recorded a slight decline, in line with MGS yields. The 5-year AAA, AA and A-rated papers declined by 8, 3 and 3 basis points respectively.

## Secondary trading in the bond market declined in the fourth quarter

Total trading in the secondary market declined to RM209 billion during the quarter (3Q 11: RM344 billion), due to the year-end holiday season. Both the MGS and GII segments registered lower liquidity ratios of 0.46 and 0.42 respectively. This however was partially mitigated by the PDS segment, which registered a marginally higher liquidity ratio of 0.11.

### Liquidity Ratio: Turnover / Outstanding



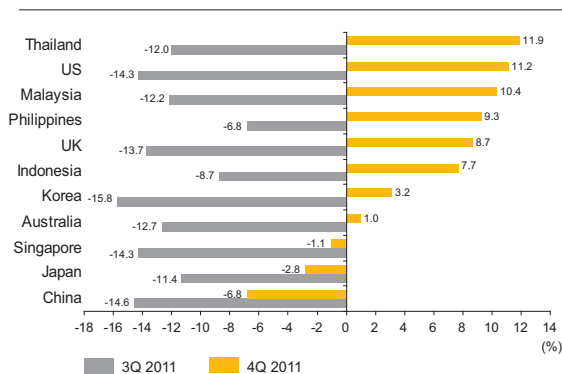
Source: Bank Negara Malaysia

## KLCI rose in the fourth quarter

The FBM (FTSE Bursa Malaysia) KLCI rose by 143.6 points, ending the fourth quarter at 1,530.7 (end-September: 1,387.1). The index increased 10.4% in the fourth quarter (3Q 11: -12.2%) as the market recovered from the sell-off experienced in the previous quarter. Optimism surrounding better-than-expected economic data for Malaysia and the country's major trading partners lifted investor confidence and renewed interest in domestic equities. As a result, market capitalisation

increased to RM1.28 trillion at end-December (end-September: RM1.17 trillion) while the daily average turnover increased to 1.62 billion units (3Q 11: 1.02 billion units) during the quarter. Open interest in the FBM KLCI futures increased to 23,505 contracts as at end-4Q 2011 (3Q 11: 21,447). On 13 February 2012, the KLCI ended higher at 1,562.8 points (since end-December: +2.10%), with market capitalisation of RM1.34 trillion (since end-December: +4.7%).

**Performance of Selected Global and Regional Equity Markets in 2011 (% growth QoQ)**



Source: Bloomberg and Bank Negara Malaysia calculations

## Bursa Malaysia: Selected Market Indicators

	2010		2011		
	As at end				
	Dec	Year	Sep	Dec	Year
Price Indices					
Composite	1,518.9	1,518.9	1,387.1	1,530.7	1,530.7
FBMEMAS <sup>1</sup>	10,375.0	10,375.0	9,397.6	10,489.1	10,489.1
ACE Market <sup>2</sup>	4,347.6	4,347.6	3,598.0	4,068.6	4,068.6
Market capitalisation (RM billion)	1,275.3	1,275.3	1,172.3	1,284.5	1,284.5
No. of companies listed	957	957	952	941	941
	During the quarter				
	4Q	Year	3Q	4Q	Year
Average daily turnover					
Volume (million units)	1,276.5	1,021.2	1,018.9	1,615.5	1,343.8
Value (RM million)	2,002.5	1,573.9	1,887.4	1,411.7	1,566.1

<sup>1</sup>FBMEMAS stands for FTSE Bursa Malaysia EMAS Index  
<sup>2</sup>From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

## Bursa Malaysia: Market Turnover

	2010				2011					
	4Q		Year		3Q		4Q		Year	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	79.1	124.2	268.0	413.0	63.2	117.0	98.5	86.1	329.2	438.2
Of which:										
Main Board	65.7	121.1	225.5	403.3	47.4	114.4	68.3	81.6	249.3	424.5
Of which										
Consumer Products	3.6	5.5	15.3	19.3	2.9	4.9	8.1	6.0	19.1	21.3
Industrial Products	15.4	22.7	47.6	58.9	7.9	12.9	14.6	10.7	51.8	60.5
Construction	4.5	8.7	16.4	29.0	3.3	6.1	2.7	4.1	13.5	25.1
Trading/Services	19.3	40.0	68.2	140.2	15.7	42.6	20.1	28.2	86.4	153.4
Finance	4.6	22.7	17.7	86.2	5.7	31.1	6.0	15.5	20.9	92.1
Properties	11.5	8.8	33.1	21.6	6.8	7.8	8.4	6.7	34.3	31.4
Plantations	2.3	7.9	6.1	25.5	1.9	5.6	2.0	4.9	7.4	23.9
Infrastructure	1.7	2.4	5.8	8.9	0.9	2.2	1.3	2.6	4.0	9.3
ACE Market <sup>1</sup>	5.6	1.3	20.3	3.9	9.8	1.5	18.7	2.7	47.7	7.5

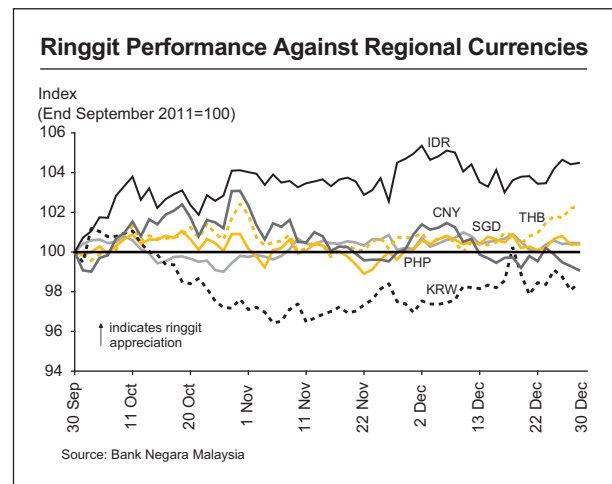
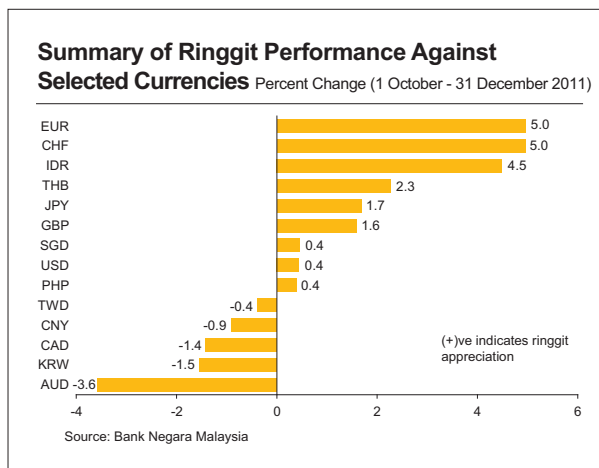
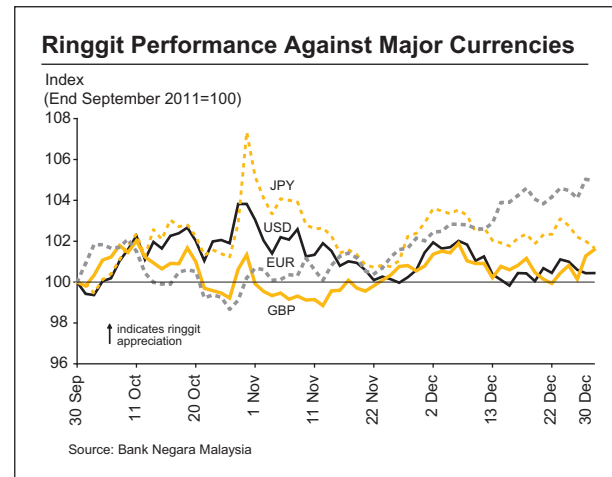
<sup>1</sup>From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

## Ringgit strengthened against major currencies

The global foreign exchange markets remained volatile in the last quarter of the year as uncertainty surrounding the European sovereign debt crisis continued to influence investor sentiments towards emerging market assets. In general, exchange rate performance was largely news-driven, as markets reacted to developments in Europe. For the quarter as a whole, however, ringgit appreciated against the US dollar, mainly due to optimism surrounding better-than-expected economic data, especially in the US and PR China. Announcements of coordinated central bank measures on 30 November 2011 to enhance liquidity support to the global financial system also helped to restore market confidence and encouraged greater demand for emerging market assets. Overall, in line with the regional trend, the ringgit appreciated by 0.4% against the US dollar in the fourth quarter. Against other major currencies, the ringgit appreciated against the euro (5.0%),

Japanese yen (1.7%) and the pound sterling (1.6%). Against regional currencies, the ringgit strengthened against the Indonesian rupiah (4.5%), Thai baht (2.3%), Singapore dollar (0.4%) and the Philippine peso (0.4%) but depreciated against the Chinese renminbi (-0.9%) and Korean won (-1.5%).



During the period 1 January - 13 February 2012, the ringgit appreciated against the Japanese yen (5.1%), US dollar (5.0%), euro (2.6%) and

the pound sterling (2.5%). The ringgit broadly strengthened against regional currencies, appreciating in the range of 1.3% and 4.9%.

#### Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	4Q 10	3Q 11	4Q 11	21 Jul 05	4Q 10	3Q 11
US dollar	3.8000	3.0835	3.1910	3.1770	19.6	-2.9	0.4
Euro	4.6212	4.0804	4.3160	4.1118	12.4	-0.8	5.0
Pound sterling	6.6270	4.7817	4.9738	4.8962	35.3	-2.3	1.6
100 Japanese yen	3.3745	3.7869	4.1663	4.0975	-17.6	-7.6	1.7
Singapore dollar	2.2570	2.3859	2.4537	2.4427	-7.6	-2.3	0.4
100 Thai baht	9.0681	10.227	10.236	10.009	-9.4	2.2	2.3
100 Philippine peso	6.8131	7.0400	7.2746	7.2468	-6.0	-2.9	0.4
100 Indonesian rupiah	0.0386	0.0344	0.0362	0.0347	11.5	-0.9	4.5
100 Korean won	0.3665	0.2707	0.2703	0.2746	33.5	-1.4	-1.5
Chinese renminbi	0.4591	0.4662	0.4988	0.5034	-8.8	-7.4	-0.9

\* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia

## MANAGING RISKS TO FINANCIAL STABILITY

### Financial stability remained intact

Financial stability was sustained despite persistent uncertainties and a challenging external environment. Well-capitalised financial institutions and orderly functioning of the financial markets continued to provide support for financial intermediation activities in the domestic economy. Financial markets continued to demonstrate the capacity to withstand external shocks and intermediate higher financial flows and volatility against the backdrop of further escalation of sovereign risk concerns in the euro area.

During the quarter, several key initiatives were introduced by the Bank. The Financial Sector Blueprint 2011-2020 was released on 21 December 2011. Themed “Strengthening Our Future”, the Blueprint charts the future direction and initiatives to develop the financial sector to best serve the economy and to facilitate the economic growth and transformation over the next ten years. The Blueprint is expected to facilitate the creation of a world-class financial system that would enable the country to transition towards a high value-added and high-income economy. To achieve this objective, efforts will be focused on the following nine key areas: effective intermediation for a high value-added and high-income economy; developing deep and dynamic financial markets; financial inclusion for greater shared prosperity; strengthening regional and international financial integration; internationalisation of Islamic finance; regulatory and supervisory regime to safeguard the stability of the financial system; electronic payments for greater economic efficiency; empowering consumers; and talent development to support a more dynamic financial sector.

Empowering and safeguarding consumers remained an important agenda for the Bank. In November 2011, the Bank introduced the Guidelines on Responsible Financing to promote prudent, responsible and transparent retail financing practices. The guidelines complement other prudential measures introduced by the Bank that aim to create a sustainable retail credit market for consumers.

Similar guidelines were also issued by Suruhanjaya Koperasi Malaysia to be observed by cooperatives involved in financing activities.

The Money Services Business Act 2011 came into force on 1 December 2011. It aims to support the development of a more dynamic, competitive and professional money services business industry, while strengthening safeguards against money laundering, terrorist financing and illegal activities. It provides a more integrated regulatory framework for the conduct of money changing, remittance and wholesale currency businesses, and strengthened provisions for the effective surveillance and oversight of the money services business industry.

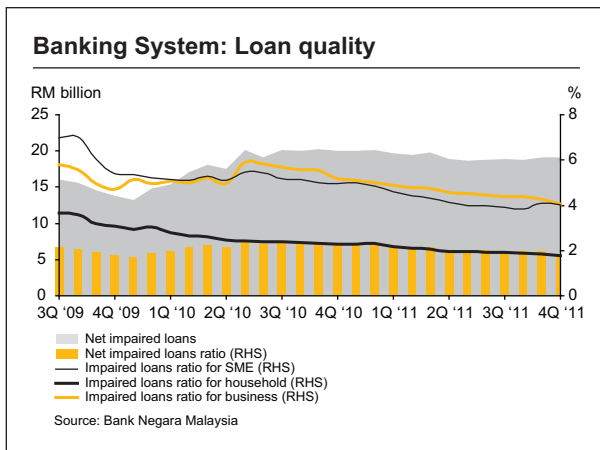
Overall risks to financial stability were contained. The credit risk outlook of the banking system remained stable against the backdrop of strong economic fundamentals and institutional soundness and resilience. Asset quality of the banking system improved with total impaired loans ratio at 1.8% (3Q 11: 2.0%) of net loans and loans-in-arrears (for duration of one to less than three months) at 2.6% (3Q 11: 2.8%) of gross loans.

In the household segment, growth in financing for the purchase of residential properties extended by the banking system moderated marginally to 3.2% (3Q 11: 3.3%). Nonetheless, the moderation was outpaced by higher credit card balances and personal financing during the quarter, resulting in a higher growth in total household debt outstanding (4Q 11: 3.3%; 3Q 11: 2.9%). Overall, total impaired loans for household financing remained unchanged at 1.8% during the quarter (3Q 11: 1.9%).

The domestic banking system continued to support business expansions. Credit to the business sector grew by 3.6% (3Q 11: 2.5%). The risk of delinquency, as measured by the expected default frequency, for businesses moderated further to 0.68% (3Q 11: 0.79%), supported by the sustained debt servicing capacity of businesses. Repayment-to-disbursement ratio moderated slightly to 84% (3Q 11: 92%) due to higher loan disbursement

during the quarter. Total impaired loans of the business sector improved to account for 4.1% of gross business loans (3Q 11: 4.4%).

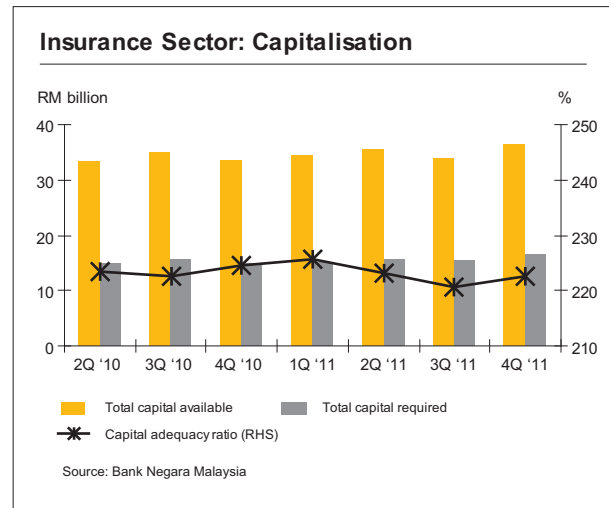
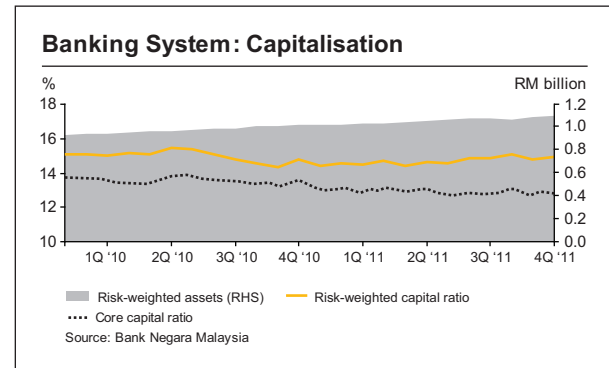
The domestic financial markets continued to remain orderly and exhibited strong capacity to intermediate the volatile flows despite heightened investor risk aversion over the escalation of sovereign risk concerns in the Euro area. The bid-ask spreads and turnover ratios in the debt and equity markets remained close to historical averages of normal times. The impact of the increased volatility in the financial market on the risk exposures of the Malaysian financial institutions remained manageable. The banking system's exposures to equity risk remained well contained at 0.9% of capital base (3Q 11: 0.7%), while the insurance sector's exposures to equity risk went up slightly to 6.9% (3Q 11: 6.6%) of capital base. Interest rate risk exposures remained stable at 4.9% of capital base for the banking system while that of the insurance sector accounted for 3.8% of capital base (3Q 11: 3.4%).



### The financial sector exhibited resilience against challenging environment

The level of capitalisation of the financial sector remained sound. The core capital ratio and risk-weighted capital ratio of the banking system remained firm at 12.9% (3Q 11: 12.6%) and 14.9% (3Q 11: 14.8%) respectively. Of significance, 86.8% of total capital is of high quality Tier-1 capital, comprising paid-up capital and reserves. Capital in excess of the minimum 8% regulatory requirement remained high at

RM71.4 billion. The banking system is therefore well positioned to withstand any unexpected losses under potential adverse financial and economic conditions. Similarly, the insurance sector also maintained a sound capital adequacy ratio of 222.5% (3Q 11: 220.7%) and excess capital buffer of RM20.1 billion.

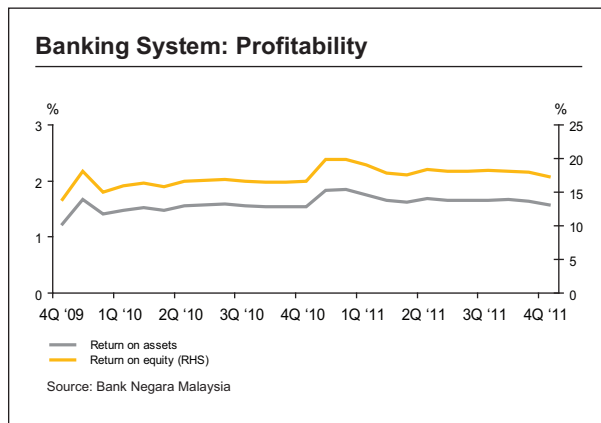


The banking sector continued to record sustained profitability. Pre-tax profit of the banking system stood at RM5.9 billion (3Q 11: RM6.7 billion). The higher income from financing activities and lower funding costs were partly offset by increased in overhead and staff costs and higher provisions for impaired loans (net of recoveries) by one banking institution as part of its balance sheet strengthening exercise.

The life insurance and family takaful businesses recorded higher excess of income over outgo of RM4.3 billion (3Q 11: RM1.3 billion) due primarily to sustained business underwriting as well as gains arising from improved market valuations of investments in the capital market.

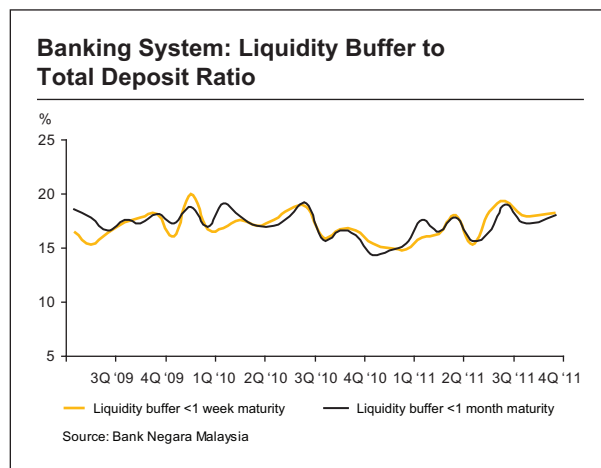
Meanwhile, the general insurers and general takaful operators registered an underwriting loss of RM142.9 million (3Q 11: underwriting profit of RM181.7 million) due mainly to higher provisions on reinsurers' exposures to natural disasters including the recent floods in Thailand. As a result, operating profit was lower at RM234.3 million (3Q 11: RM441.7 million). The 'motor act' business continued to pose a drag on profitability with a higher claims ratio of 300% (3Q 11: 289.2%).

The resilience of the banking system is also reinforced by ample liquidity in the financial system. Overall liquidity buffers stood at 18% of total deposits for liquidity needs maturing within one month, well above prudent levels to meet demands for withdrawals and liquidity obligations.



Insurance and Takaful Sector: Indicators					
	2010		2011		
	4Q	Year	3Q	4Q	Year
RM million					
<b>Life insurance &amp; family takaful</b>					
Excess of income over outgo	3,233.5	14,095.5	1,315.0	4,314.5	12,641.7
<b>General insurance &amp; general takaful</b>					
Operating profit	563.7	2,144.4	441.7	234.3	1,787.1
%					
Claims ratio (as at end position)	62.1		62.5		65.8

Source: Bank Negara Malaysia



**Islamic Financial Intelligence Summit (IFIS) 2011**  
**“The New Islamic Finance Landscape”**  
**Kuala Lumpur, 15 November 2011**

Keynote Address by

**Tan Sri Dato’ Sri Dr. Zeti Akhtar Aziz**  
Governor, Bank Negara Malaysia

This decade has witnessed dramatic changes in the Islamic financial landscape. As a dynamic industry, Islamic finance is responding to the forces of change emanating from the changing requirements of the real economy, the changing pattern and pace of globalisation and the wide spread financial reforms being undertaken at both the international and national levels. This transformation of the Islamic financial system is also taking place during the most challenging of times as the world enters the fifth year of the global financial crisis. A central aspect of the new Islamic financial landscape is also the increased focus on financial stability to enhance further its potential as a form of financial intermediation in an increasingly more challenging environment.

It is my great pleasure to join this Islamic Financial Intelligence Summit organised by ‘The Banker’ held this year in Kuala Lumpur, in association with Bank Negara Malaysia to speak on the subject on the ‘New Islamic Financial Landscape’. This event which is being held for the first time outside London brings together practitioners from the financial community from different parts of the world. While the focus of this Summit will be on Islamic finance, it is inevitable that the discussions today will touch on the recent developments in Europe, given the potential impact it may have on the rest of the world and the need to implement strategies and policies for coping with the consequences of these developments.

While the financial solutions being implemented in managing the crisis and the measures being introduced to mitigate the impact of the crisis by the rest of the world is important, it can only provide temporary relief. It is the structural policies and reforms that are more challenging to undertake that will ensure fundamental financial stability and a long lasting self sustaining economic recovery.

My remarks today will focus on the changes in the Islamic financial landscape and its increased potential to contribute to sustainable growth, increased international connectivity following the increased pace of internationalisation of Islamic finance and new developments to achieve financial stability in the Islamic financial system. The changing financial landscape and the accelerated expansion in Islamic finance have also resulted in changes in the nature of the supporting ancillary services, including education that is being provided for the business and financial sectors.

**Islamic Finance and Fostering Sustainable Growth**

As the Islamic financial system evolves to become more diversified and more comprehensive to meet the changing requirements of the real economy, it is increasing its potential to fostering sustainable growth. Given that the inherent principle of Islamic finance requires that financial transactions be accompanied by underlying economic activity, it already ensures the close link between the expansion in financial assets with the real economy. As the Islamic financial system transitions from being banking centric to becoming more diversified and comprehensive, it has been able to provide the spectrum of financial products and services to the range of activities in the economy, as required by small businesses to conglomerates, and by households to the high networth individuals.

The development of intermediaries that previously was dominated by banks now comprises the range of financial institutions that also includes investment banking, specialised banking institutions, takaful, capital market intermediaries and microfinancial institutions. Financial markets, including the Islamic money and sukuk markets have been instrumental

in intermediating funds in the Islamic financial system. The Islamic money market not only facilitates liquidity management but also the implementation of monetary policy. The sukuk market has facilitated the raising of funds by businesses, while providing investors with a range of instruments for investment, thereby facilitating the mobilisation and allocation of funds to productive economic activity.

Accompanied by research and development, innovation has intensified. Islamic finance however has the governance arrangements which require the approval process by the Shariah advisories. This ensures avoidance of the creation of financial instruments that have its origins from other financial instruments. A further principle of profit sharing and hence risk sharing also ensures a high degree of transparency and disclosure, thereby a greater shared responsibility on the viability of the products.

The rapid expansion of Islamic finance is reflected in more than 600 Islamic financial institutions operating in more than 75 countries in centres that are now beyond Muslim jurisdictions. Indeed, Islamic finance is increasingly becoming part of the growth strategies of an increasing number of global financial institutions. New horizons are also fast emerging following legislative and regulatory changes in several non-traditional markets that have now emerged as the fastest growing segment in the international financial system. In fact, the Banker's latest 2011 Top 500 Islamic Financial Institutions report being released at this Summit shows that the global Islamic finance industry continues to experience double digit growth of 21%, with the Shariah compliant assets now breaching the USD1 trillion mark. The rapid expansion of Islamic finance essentially reflects its ability to meet the changing requirements of the global financial community and its competitiveness. The elements of checks and balances in Islamic finance that promote accountability and transparency enhances its potential as a stable form of financial intermediation. There is also a growing recognition that the inherent tenets of Islamic finance are aligned with the sustainable dimensions of ethical finance and responsible financing.

As the new financial landscape emerges, it has also been accompanied by the development of ancillary support services that include legal, accounting, taxation and Shariah advisory. In addition, there is the development of Islamic indices, information repositories and consultancy services. In the areas of human capital development there is a proliferation of programmes and certifications that focus on Islamic finance. Malaysia is committed in this pursuit and has put in place a comprehensive talent infrastructure in Islamic finance with the aim of meeting the increased demand for practitioners by the global Islamic finance industry. Dedicated institutions of learning such as the International Centre for Education in Islamic Finance (INCEIF) and the Islamic Banking and Finance Institute (IBFIM) have been established to focus on education in Islamic finance.

### **Increased International Connectivity and Islamic Finance**

Despite the continued strains experienced in the economy and the international financial system, it is important to recognise the fundamental long-term global transformation that is taking place. In this recent decade, the concurrent rise of the emerging economies is resulting in a fundamental realignment in the global landscape. This transformation is characterised by the shifting balance of global economic strength to the emerging economies, with its significant implications on the global economic and financial flows. The international financial landscape will also be inevitably transformed with the distribution of financial centres becoming more dispersed. Increasingly, new centres of financial activities will likely to emerge. In addition, financial system inter-linkages - particularly among the emerging economies - will deepen, supported by the increased global trade and investment that is already taking place. With considerable capacity to meet large investment requirements, opportunities therein lie in the more effective and efficient channelling of the sizeable surplus funds towards the vast productive investment opportunities within and across the emerging economies.

These trends are being reinforced by the rapid expansion of financial institutions in emerging economies that have ventured beyond national borders. Financial institutions from the emerging economies have grown significantly in size and strength in this recent decade to now account for almost half of worldwide financial industry market value. Eight out of the twenty largest global banks, including the top two, are emerging market financial institutions. As the emerging market financial institutions continue to regionalise and internationalise, their role and importance can be expected to further expand. Another key development is the integration of financial markets amongst emerging economies, driven in part by the increased economic inter-linkages and the increased liberalisation trend in the financial sector.

The rapid internationalisation of Islamic finance is reinforcing this trend and has enhanced the economic and financial connectivity between the emerging economies. The high level of savings and wealth accumulation in several of the emerging economies, including in Asia and the Middle East, need to be effectively channelled towards productive investments including for large infrastructure development. In this environment, Islamic finance has emerged as a viable and attractive form of intermediation including financing of large scale infrastructure projects. Recent examples include the USD500 million Islamic Infrastructure Fund established in 2009 by the Asian Development Bank (ADB) and Islamic Development Bank (IDB) to meet the Shariah-compliant financing needs in the member countries.

In addition, the advancements achieved in the sukuk market also provide evidence on the ability of Islamic finance in meeting the requirements of the differentiated demands of the modern economy. The recent issuance of the world's first offshore RMB sukuk by Khazanah Nasional in Malaysia reflects the growing trend of multi currency sukuk issuances in Asia. Growing at an average annual rate of 40 percent, the global sukuk market has demonstrated its ability to effectively intermediate funds across borders, allocating funds efficiently in the international financial system and fast becoming an important financing and capital raising option.

## Islamic Finance and Financial Stability

An important aspect of the new financial landscape is the increased focus on financial stability. The more market oriented systems with market-based finance activities, the creation of new financial instruments and an increasing number of market participants with global reach, and more interconnected financial systems has expanded the potential for, and channels through which, financial shocks are transmitted to the economy and across borders. Indeed, recent experiences with crises have also shed new insights into the complex web of relationships that exist between sovereign, financial and economic risks, and underscored the critical importance of strengthening the pillars of financial stability that can serve to contain the impact of a crisis.

The increased focus on financial stability has several implications for the new financial landscape. The most significant will be the fundamental changes in the regulatory environment. These include changes to institutional arrangements for oversight of the financial system - both at the international level and within national borders in a number of countries, significantly strengthened prudential standards with a focus on building stronger capital and liquidity buffers, increased transparency in financial transactions and exposures, and enhanced options to resolve failed financial institutions.

Much progress has already been made by the Islamic Financial Services Board in promulgating an extensive set of prudential standards for the Islamic financial services industry since its establishment in 2002. The IFSB has already introduced standards for capital adequacy, risk management, corporate governance and Shariah governance. This important work has been significant in promoting international uniformity of the regulatory framework and international best practices for the Islamic financial system in different jurisdictions. The IFSB has also established a facilitative platform to promote overall financial stability through the Islamic Financial Stability Forum (IFSF) that serves as an avenue for cross-border engagement amongst regulators.

The important goal of strengthening the foundation of the global Islamic financial system has also been reinforced further following the recent global financial crisis, through the work of the IFSB-IDB Task Force of Islamic Finance and Global Financial Stability. In its report that was released in 2010, **eight building blocks** were identified to manage potential risks and vulnerabilities to the Islamic system. These include steps that need to be taken for the implementation of the prudential standards; the development of a liquidity management infrastructure; the introduction of strong financial safety nets; the development of an effective crisis management and resolution framework; the development and implementation of accounting, auditing and disclosure standards; the formulation of an effective macro prudential framework; the development of credible credit rating institutions and processes; and finally, to strengthen efforts for capacity building and talent development for the Islamic financial services industry.

Following these recommendations, this year, the International Islamic Liquidity Management Corporation (IILM) was established to strengthen the liquidity management of Islamic financial institutions. This initiative represented a collaboration between 10 Central Banks and 2 multilateral development institutions. Its aim is to enhance the availability of liquid Shariah-based Islamic financial market instruments - a crucial step in promoting more efficient cross-border liquidity management for Islamic financial institutions to support increased cross-border flows.

Cumulatively, these efforts will build a solid foundation for the orderly growth and development of Islamic financial system that will contribute to its continued resilience and the overall stability of the global financial system in a way that better serves households and businesses.

Going forward, it is important that the international standard setting process allows and continues to promote the more effective integration and exchange of perspectives between Islamic and conventional finance to ensure a coherent global framework that is consistent across similar risks, promotes a better understanding of risk interactions between conventional and Islamic finance activities, and accelerates progress towards best practices based on the sharing of research, experiences and frameworks.

### Conclusion

Let me conclude with a statement from this year's Per Jacobsson Lecture given by Sir Andrew Crockett on what should guide us in our "efforts to devise a new and stronger financial system". "It should be global, it should be robust, it should be an effective servant of the real market economy". This is what the new Islamic financial landscape has evolved to achieve. With its inherent close links to the economy and its trend towards internationalization and the robust institutional arrangements and regulatory standards being introduced and implemented, it will indeed enhance the potentials for Islamic finance to not only serve the economy but to achieve sustainability in this more challenging environment.

**Launch of the Financial Sector Blueprint at Sasana Kijang:  
“Strengthening Our Future”  
Kuala Lumpur, 21 December 2011**

Speech by

**Tan Sri Dato’ Sri Dr. Zeti Akhtar Aziz**  
Governor, Bank Negara Malaysia

It is my great honour to welcome you to Sasana Kijang for the launch of Bank Negara Malaysia’s Financial Sector Blueprint. On behalf of Bank Negara Malaysia and the financial services industry, Yang Amat Berhormat Dato’ Sri, I wish to express our appreciation to you for your presence here this afternoon to launch the Financial Sector Blueprint. This Blueprint marks a new phase in the development of the financial system. It focuses on new areas that will strengthen the competitiveness and efficiency of the financial sector and its potential role in facilitating our ongoing economic transformation and greater regional economic and financial integration and thus to enhance Malaysia’s long term economic growth potential.

The Blueprint themed “Strengthening Our Future” builds on and reinforces the solid foundations that has been achieved in this decade. Malaysia has benefited from a well developed, more competitive and well regulated financial system. The financial system emerged from the global financial crisis strong and resilient, and has continued to support our domestic economy even during these most challenging of times.

The recommendations in the Blueprint has taken into account the expected changes in the international and domestic environment and its consequent demands on the financial system in this next decade. It also takes into account Malaysia’s aspirations to become a high value-added, high income economy.

Within the global economic landscape, emerging economies will assume a more significant role. While emerging economies will continue to be affected by global developments, most are able to demonstrate resilience and

are expected to remain on a growth trajectory. By 2030, emerging economies are projected to account for 60% of total world output, from the current 40%.

At the same time, the economies and financial markets in the global economy and international financial system have become more interconnected as a result of greater cross-border trade and financial flows. The continued development and deepening of our financial markets and increased financial liberalisation in emerging economies will reinforce this trend towards greater interconnectivity.

More recently, the financial sector has been the target of a renewed focus and priority by the international community. Wide ranging financial reform measures have been introduced in the aftermath of the global financial crisis to address the weaknesses that have surfaced during the crisis.

Several changes are also transforming the domestic environment. New domestic sources of growth, the greater role of the private sector in the economy, demographic changes, rising incomes and a growing middle class, and the accelerated pace of urbanisation cumulatively will significantly change the demands on the financial sector. These trends will also be affected by initiatives taken by the Government to transform the economy in this next decade into a high value-added, high-income economy, the greater leverage on the advances of technology and the acceleration of the pace of regional financial integration in Asia.

The Malaysian financial system enters this new environment from a position of strength. The successful implementation of the first Financial Sector Masterplan in this recent decade

has produced a financial system that is well positioned to respond to the new imperatives of the decade before us. Our financial institutions are well capitalised with strong buffers and improved risk management and governance practices. Significant efficiency gains have also reduced intermediation costs in an environment of greater competition. This is largely arising from the cumulative efforts to building strong institutions, the development of the financial infrastructure, and the strengthening of the regulatory and supervisory framework.

This decade has also seen the enactment of wide ranging legislation that has given greater certainty and predictability in the financial system. This includes the Central Bank of Malaysia Act 2009 and the Financial Services Act expected to be tabled in Parliament in 2012 has strengthened the legal framework for the financial sector. It will also enhance the Bank's capacity to manage risks from financial intermediation activities that occur outside the banking system and provide enhanced powers for timely intervention actions.

The enhanced intermediation during this decade has benefitted access to financing, particularly for small and medium enterprises, has also improved, both in volume and efficiency. By leveraging on the distribution networks of commercial banks, enhanced product and risk management capabilities, access to financing by this sector has increased at an annual rate of almost 20% since 2005.

The financial infrastructure in Malaysia has also been significantly strengthened. Malaysia has an effective financial safety net that includes a comprehensive deposit insurance system and institutional arrangements that provide avenues for advisory, redress and rehabilitation. Innovations in payment systems and instruments as well as infrastructure for the issuance, trading and settlement of debt securities and the access improved market information has contributed to greater efficiency and has also enhanced the overall price discovery process. To support our liberalisation measures our payment infrastructure has also been enhanced to support cross-border trade settlements in local currency and cross-border liquidity support arrangements for financial institutions.

Today, Malaysia also has a deep and vibrant bond market which is the largest in South East Asia, and a comprehensive Islamic financial system that is recognised as among the most advanced in the world. The bond market comprising of the conventional and sukuk market has trebled in size, providing businesses with alternative access to financing solutions including in multicurrency to meet a diverse range of risk and maturity preferences. The strengthened Islamic financial institutions, the establishment of key financial infrastructure for Islamic finance including the regulatory and supervisory framework have positioned Malaysia at the frontier of Islamic finance.

The recommendations in the Blueprint aim to build on this progress towards resulting in the development of a financial sector that will meet the economic and financial realities of this new decade. The financial system envisaged

- will be firmly anchored in the real economy in providing financial services that contribute positively to growth;
- that offers a diverse range of products, services and institutions that cater to the financial needs of a broader spectrum of Malaysian households and businesses;
- will be reinforced by deep, liquid and efficient foreign exchange and money markets to complement the bond market;
- that is more engaged with the region and other parts of the world;
- that can contribute meaningfully to Malaysia's economic transformation; and finally,
- a financial system that is inclusive in reaching Malaysians across all social, geographic and economic stratas.

It is envisaged that by 2020, the financial system is expected to expand from the current 4.3 times to six times of GDP. Correspondingly, the financial sector contribution to nominal GDP is projected to rise from 8.6% to between 10 to 12% in 2020. More than half of total financing in 2020 will be raised through financial markets, while Islamic finance will continue to increase in prominence, growing at a faster pace to account for 40% of total financing.

The Blueprint has adopted an integrated approach that reflects a financial sector that has increasing linkages between the various sub-sectors in the financial system. The recommendations, in the Blueprint are thus centred on achieving nine major areas: (i) effective intermediation for a high value-added, high-income economy; (ii) the development of deep and dynamic financial markets; (iii) greater shared prosperity through financial inclusion; (iv) strengthening regional and international financial integration; (v) internationalisation of Islamic finance; (vi) safeguarding the stability of the financial system; (vii) achieving greater economic efficiency through electronic payments; (viii) empowered consumers; and (ix) talent development for the financial sector.

A strong focus in the Blueprint is on developing the financial ecosystem to enhance funding for innovation which represents a key transformative agenda in our new economic model. Ten initiatives in the Blueprint are devoted directly to nurturing sources of financing for innovative enterprises in all sectors and at various stages of development. Over the next ten years, steps will be taken to achieve a wider range of funding sources for new ideas, including new conduits for financing and investments in innovative industries.

With the foundations now in place for greater liberalisation, the Blueprint extends this path by assuming a more regional and international complexion. This will entail positioning our financial sector to participate more effectively in the mobilisation of regional surplus funds to productive investments in the region. The financial sector will also advance the country's external orientation by serving Malaysian corporations in their regional and international operations, as well as facilitating greater participation of international and regional corporations in our economy. Malaysia will also continue to spearhead the internationalisation of Islamic finance to facilitate greater cross-border Islamic financial activities. The Blueprint will also pave the way for the integration of the existing national-level Shariah Councils into a single apex authority on Shariah matters to be established for all institutions offering Islamic financial services in Malaysia.

In the Blueprint, financial liberalisation will be pursued in the best interests of Malaysia. The goals for financial liberalisation are twofold. Firstly, to improve allocative efficiency to productive economic activities, to increase the operational efficiency and lower further the intermediation costs, and to encourage greater financial innovation. Secondly, to strengthen further Malaysia's economic and financial linkages with the region and other parts of the emerging world. Key recommendations in the Blueprint include more flexible limits on foreign participation in financial institutions, the issuance of new licenses to financial institutions with specialised expertise that are able to contribute to Malaysia's economic aspirations and financial sector development. In implementing these strategies an assessment will be made on the factors contributing to the best interests of Malaysia. In addition to the prudential criteria that must be met, the presence of strong and well-managed domestic banking groups that will account for a significant share of resident deposits will remain important for the orderly growth and development of the financial sector and of the Malaysian economy.

As our financial sector continues to advance over the next decade, priority will continue to be accorded to ensuring that the regulatory and supervisory regime remains current and continues to foster a sound and stable financial system within a more dynamic landscape. Given the more complex nature of risks stemming from greater convergence in the financial sector, the proposed new financial services legislation will be to promote consistent approaches to regulation and supervision across the financial sector, strengthen the Bank's capacity to manage risks associated with financial intermediation including financial activities that currently outside the regulated system.

A national consumer credit law and improved arrangements for combating financial crime are also included in the recommendations. To ensure that cross-border financial linkages do not propagate risks across borders, the Central bank will intensify its coordination with other regional and international supervisory authorities, focusing in achieving more consistent regulatory and supervisory

standards, timely information exchange and effective supervisory colleges.

An important agenda under the Blueprint will be to accelerate the migration from paper-based payments to electronic-payments to generate significant economic efficiencies from more expedient, secure and cost-effective means of moving funds. A range of measures will be introduced to accelerate the pace of migration towards e-payments, including driving the adoption of the mobile phone banking and payment transactions, increasing the number of point-of-sale terminals, and introducing a pricing structure that incentivises the use of e-payments.

## Conclusion

Let me conclude by expressing the Bank's appreciation for all the valuable contributions received from the industry, Government agencies and other stakeholder groups with whom the Bank engaged over the course of this year to develop the recommendations in the Blueprint. In total, the Blueprint sets out 69 recommendations to achieve the vision for the financial sector in 2020. The Blueprint provides the vision and direction to secure a financial system that will firmly support and drive Malaysia's long-term growth potential and aspirations. It will be our shared commitment that will result in its success.

## CALENDAR OF EVENTS

### October – December 2011

#### 6 Oct 2011

The Labuan Financial Services Authority (Labuan FSA) announced the appointment of Encik Ahmad Hizzad bin Baharuddin as its new Director-General for a three year term effective 3 October 2011. Encik Ahmad Hizzad assumes the position following the retirement of Datuk Azizan Abdul Rahman in September 2011. Prior to this appointment, he was the Director of Bank Negara Malaysia's Islamic Banking and Takaful Department. Encik Ahmad Hizzad who has been with the central bank since 1986 had also served the former Labuan Offshore Financial Services Authority as a Director from 1996 to 1999.

#### 13 - 15 Oct 2011

The Bank hosted the inaugural SEACEN-CEMLA Conference on "The Implementation of Monetary Policy: Lessons from the Crisis and Challenges for Coming Years" at Sasana Kijang from 13 to 15 October 2011. The South East Asian Central Banks Research and Training Centre (The SEACEN Centre) and the Center of Latin American Monetary Studies (CEMLA) collaborated in organising the Conference. The Conference provided a unique opportunity for the sharing of experiences of central banks from the Asian and Latin-American regions, on the lessons learned from monetary policy responses to the recent global financial crisis, as well as identifying the challenges ahead in the formulation and implementation of monetary policy. It also enabled active cross-regional networking and collaboration among central bankers from both regions.

#### 11 Nov 2011

At its final meeting for 2011, the Bank's Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate at 3.00%. In its assessment, the MPC stated that the global economic outlook is expected to be weaker and international financial market conditions will remain highly uncertain and volatile, going forward. While the domestic economy is expected to expand, these external developments could affect the overall growth prospects of the Malaysian economy. The MPC will continue to monitor these developments and assess the risks to the outlook for domestic growth and inflation. The committee also approved the schedule of MPC meetings for 2012.

#### 15 Nov 2011

In her keynote address at the Islamic Financial Intelligence Summit 2011 entitled "The New Islamic Finance Landscape", Governor Dr. Zeti said that the Islamic financial system has evolved to become more diversified and comprehensive to meet the changing requirements of the real economy. She noted that the Islamic finance international connectivity has also increased following the increased pace of internationalisation of Islamic finance. In addition, Governor also highlighted that significant changes in regulatory environment have contributed towards achieving financial stability in the Islamic financial system.

### 18 Nov 2011

The Bank announced that the Malaysian economy registered a growth of 5.8% in the third quarter of 2011, driven by strong domestic demand. The robust domestic demand was driven by an expansion of both the household and business spending as well as higher public sector expenditure. On the supply side, most economic sectors recorded improvements in growth with the services sector supported mainly by domestic driven activity and growth in manufacturing sector, reflecting improvements in supply chain and robust performance of domestic-oriented industries.

On the same day, the Bank also issued guidelines to financial institutions aimed at promoting prudent, responsible and transparent retail financing practices. Under these guidelines, financial institutions are required to make assessments of a borrower's ability to afford financing facilities based on a prudent debt service ratio as inputs to their credit decisions. In addition, the guidelines are also aimed to encourage sound borrowing decisions by consumers through better engagements with financial institutions that will help consumers carefully consider their ability to service all their debt obligations without recourse to further debt or substantial hardship.

In addition, the Bank also announced that the list of eligible collateral that financial institutions can pledge to obtain ringgit liquidity from the Bank will be expanded to include foreign currency denominated securities. The Bank will also be embarking on an initiative to establish reciprocal bilateral operational arrangements with other central banks to enable Malaysian financial institutions operating in foreign countries to obtain liquidity from the foreign central banks by pledging Ringgit denominated securities and vice versa.

### 24 Nov 2011

The Bank issued three types of commemorative coins to commemorate the 50th Anniversary of World Wide Fund for Nature (WWF). The commemorative coins were launched by the Sultan of Perak Darul Ridzuan, DYMM Paduka Seri Sultan Azlan Muhibbuddin Shah, at Sasana Kijang. The coins were issued as Gold Proof, Silver Proof and Nordic Gold Brilliant Uncirculated.

### 28 Nov 2011

The Bank signed a Memorandum of Understanding with the Monetary Authority of Singapore to establish a cross-border collateral arrangement aimed at enhancing liquidity facilities to financial institutions in both countries. This arrangement will facilitate more effective liquidity management by financial institutions in both countries and will reinforce greater regional orientation of the financial institutions which in turn will support the economic potential of the two economies.

### 1 Dec 2011

The Bank announced that the new Money Services Business Act 2011 came into force on 1 December 2011. With that, the Money-Changing Act 1998 was repealed. The new Act supports the development of a more dynamic, competitive and professional money services business industry while strengthening safeguards against money laundering, terrorist financing and illegal activities. In addition, the Act provides a single, uniform regulatory framework for licensees carrying on money changing, remittance and wholesale currency businesses which are currently governed under three separate laws, namely the Money Changing Act 1998, the Payments Systems Act 2003 and the Exchange Control Act 1953.

### 9 Dec 2011

The Bank launched its mobile customer service initiative named MobileLINK to enable greater access and opportunity for public to interface with the Bank. This is a part of the Bank's efforts in promoting financial inclusion by extending the outreach to a wider community. MobileLINK provides advisory services on banking, insurance & takaful, Small and Medium Enterprises (SMEs) financing related matters, information on personal credit through Central Credit Reference Information System (CCRIS) as well as advisory services on other financial related matters under the Bank's purview. The services will be extended to semi-urban and rural areas throughout Malaysia starting with Mersing, Johor on 17 December 2011.

### 16 Dec 2011

A bilateral meeting with Bank Indonesia was held in Jakarta, Indonesia to discuss key areas of cooperation namely on management of capital flows, promoting bilateral trade, cross-border banking supervision and capacity building in Islamic finance. In the meeting, both central bank Governors articulated the importance of pursuing greater regional financial integration, with recognition given to the role of Malaysian and Indonesian banks operating in each others' jurisdiction in achieving regional financial integration to support the already advanced stage of economic integration in the region. In addition, both Governors also discussed and expressed their commitment to collaborate in building a regional safety net arrangement via an eventual execution of a cross border collateral arrangement between the two central banks.

### 21 Dec 2011

The Bank released the new Financial Sector Blueprint and introduced Malaysia's new currency series at a launch ceremony officiated by the Prime Minister. The Blueprint charts the future direction of the Malaysian financial system over the next ten years. In her speech, Governor said that the Blueprint provides the vision and direction to secure a financial system that will firmly support and drive Malaysia's long-term growth potential and aspirations. Themed "Strengthening Our Future", the Blueprint adopts an integrated approach where recommendations are based on shared outcomes applicable to various sub-sectors within the financial sector. The Blueprint also envisions greater participation by the Malaysian financial sector in facilitating regional financial flows, especially in supporting regional trade and investment, regional financial integration, as well as the internationalisation of Islamic finance.

The new currency series (banknotes and coins) themed 'Distinctively Malaysia', draws its inspiration from the distinctive features of Malaysia, incorporating elements of the country's natural treasures, culture and heritage. The banknotes issued are in the denominations of RM1, RM5, RM10, RM20 and RM100 and will be available for circulation in the second half of 2012 (The RM50 denomination banknote for the new currency series is already in circulation). The new series of banknotes also incorporates enhanced security features, in line with the latest advancements in banknote technology. The coins for this series, with denominations of 5 sen, 10 sen, 20 sen and 50 sen, will be in circulation in January 2012.