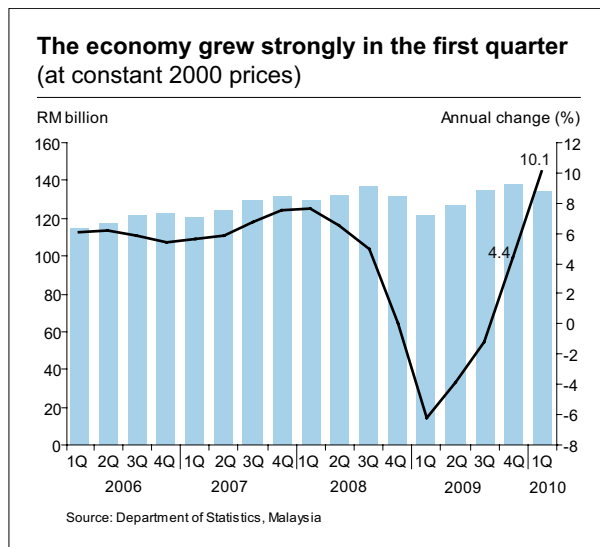


ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2010

OVERVIEW

The Malaysian economy grew strongly in the first quarter

The Malaysian economy registered a strong growth of 10.1% in the first quarter of 2010, led by continued expansion in domestic demand and stronger external demand. The expansion in domestic demand was supported by higher private consumption and sustained public sector spending. The robust external demand provided further impetus to domestic growth through its spill-over effects on production, employment and overall sentiments. On the supply side, all economic sectors recorded positive growth during the quarter, led by strong growth in the manufacturing and services sectors.



During the quarter, domestic demand expanded by 5.4% (4Q 09: 2.8%), due mainly to higher private consumption and sustained public sector spending. Private consumption spending grew by 5.1% (4Q 09: 1.6%), supported by continued improvement in labour market conditions amidst an environment of low inflation and improved consumer sentiment. The public sector continued to provide additional impetus to growth, with public consumption registering an expansion of 6.3% during the quarter, due mainly to higher expenditure on emoluments as well as supplies

and services. Gross fixed capital formation continued its positive growth momentum, growing by 5.4% (4Q 09: 8.2%), supported by sustained public sector capital spending and a modest recovery in private sector business spending activity. Private investment activity benefited from the significant increase in production and external demand, which led to improvements in both capacity utilisation and business sentiments. Public sector capital spending continued to provide support to the domestic economy with the bulk of the development expenditure channelled into education, transportation, and agriculture and rural development.

On the supply side, all economic sectors registered positive growth during the first quarter, with strong performance in the manufacturing and services sectors. The recovery momentum in the manufacturing sector strengthened further, with the sector registering a strong growth of 16.9% (4Q 09: 5.0%). Similarly, the services sector recorded a higher growth of 8.5% (4Q 09: 5.2%), with strong performance across all sub-sectors. The agriculture sector expanded further, supported mainly by strong rubber production amid higher prices. The construction sector continued to expand at a strong pace of 8.7% during the quarter (4Q 09: 9.3%), supported by the implementation of construction-related projects under the second fiscal stimulus package and the Ninth Malaysia Plan. The mining sector turned around to register a positive growth of 2.1% (4Q 09: -2.8%), largely reflecting the strong pick up in natural gas production.

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), increased to 1.3% on an annual basis in the first quarter (4Q 09: -0.2%). The increase in consumer prices was attributed mainly to the price increase in *food and non-alcoholic beverages* (1Q 10: 1.4%; 4Q 09: 0.9%).

In the external sector, the trade surplus increased to RM39 billion in the first quarter

(4Q 09: RM32.4 billion). Both gross exports and imports grew strongly by 30.8% and 35.1% respectively (4Q 09: 5.1% and 6.7% respectively), as global conditions improved and domestic demand strengthened. The higher growth in exports reflected mainly increased demand for E&E products, especially from the regional countries, and a strong turnaround in the export of commodities. Meanwhile, the substantial increase in gross imports was led by a sharp increase in intermediate imports (37.9%; 4Q 09: 0.1%), in tandem with the recovery in manufacturing activity. In addition, capital and consumption imports also registered positive growth, reflecting the strengthening of domestic demand.

On a cash basis, FDI inflows remained broad-based while portfolio investments recorded a net inflow in the first quarter. Gross inflows of foreign direct investment (FDI)¹ amounted to RM4.6 billion in the first quarter (4Q 09: RM10.1 billion), channelled mainly into the manufacturing, services, and oil and gas sectors. Meanwhile, net direct investment abroad by Malaysian companies was lower at RM2.3 billion (4Q 09: -RM5.2 billion), arising from lower net extension of inter-company loans to subsidiaries abroad and lower outflows of equity capital. The bulk of these investments was undertaken by companies in the services sector, particularly those in the finance and insurance, business services and telecommunication sub-sectors. Portfolio investments turned around to record a net inflow of RM3.9 billion (4Q 09: -RM2.6 billion), mainly into the domestic debt market. The inflows reflected improved investor sentiments on the stronger growth prospects of the Malaysian economy.

The international reserves of Bank Negara Malaysia amounted to RM311.7 billion (equivalent to USD95.3 billion) as at 31 March 2010, and RM313.9 billion (equivalent to USD96 billion) as at 30 April 2010. The reserves position is sufficient to finance 8.5

months of retained imports and is 4.4 times the short-term external debt.

Monetary policy continues to support economic activity

The Overnight Policy Rate (OPR) was raised by 25 basis points on 4 March 2010. The adjustment reflected the change in the economic outlook as well as the need to normalise monetary conditions to prevent the build-up of financial imbalances that would be detrimental to the long-term sustainable growth of the Malaysian economy. The overall stance of monetary policy, however, remains supportive of growth.

Following the increase in the OPR, the average overnight interbank rate traded higher and interbank rates of other maturities also rose accordingly. In terms of lending rates, both the average base lending rate and the average lending rate were adjusted upwards. Despite the increase in interest rates, retail lending rates remain near historic lows. The average fixed deposit rates also rose in tandem.

Financing conditions remain supportive of economic activity, underpinned by the sound banking system and well-functioning capital market, as well as the availability of ample liquidity. Gross financing raised by the private sector through the banking system and the capital market was sustained at RM190.2 billion in the first quarter. The high level of gross financing was on account of steady loan disbursements. Financing to both the business and household sectors expanded at a higher rate during the first quarter.

Net funds raised in the capital market by both the public and private sectors amounted to RM22.6 billion in the first quarter (4Q 09: RM29.6 billion). The bulk of funds were raised by the public sector. In the private sector, fund-raising activity was mainly from the equity market.

¹ The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

Monetary aggregates continued to grow at a sustained pace in the first quarter. M3, or broad money, expanded at an annual growth rate of 8.7% at end-March 2010 (end-December 2009: 9.2%).

During the quarter, the ringgit appreciated by 4.6% against the US dollar, broadly in tandem with regional currencies. This was due mainly to investor optimism on the growth prospects of the regional economies. The ringgit also appreciated against the euro (12.2%), pound sterling (11.5%) and Japanese yen (5.9%). Against regional currencies, the ringgit appreciated within the range of 1.4% to 4.6%. Between 1 April and 12 May 2010, the ringgit appreciated against the US dollar (1.6%), euro (7.7%), pound sterling (2.8%) and Japanese yen (0.8%). Against regional currencies, the ringgit appreciated between 0.4% and 2.1%.

The financial sector exhibited continued resilience

The banking sector remained resilient with strong capital buffers, stable asset quality and strong liquidity position. The financial institutions continued to record profits in the first quarter of 2010 backed by stronger demand for financing and insurance protection as well as favourable conditions in the financial markets.

As at end-March 2010, the risk-weighted capital ratio and core capital ratio of the banking system remained strong at 14.9% and 13.2% respectively, with more than RM60 billion worth of capital buffer. The net non-performing loans ratio (inclusive of impaired loans) was stable at 1.8%. Loan loss provisions were also high at more than 90%. Beginning from the financial year 2010, the financing portfolio of banks is reported in accordance to "FRS 139 Financial Instruments: Recognition and Measurement". The implementation of FRS 139 has had manageable impact with years of progressive preparation by banks for its implementation. Pre-tax profit for the quarter was sustained,

supported by higher net interest income from financing portfolio, resulting in return on equity of 15.2% and return on assets of 1.4% by banks.

The insurance industry maintained strong level of capital with Capital Adequacy Ratio of 241.9% (4Q 09: 230%). Strong demand from individuals and businesses for insurance protection in an environment of improving business conditions saw insurance and takaful operators recording profit totalling RM3.4 billion.

Growth of the domestic economy to be sustained going forward

The recovery of the global economy continued to gather pace in the first quarter, with stronger growth performance across most regions, particularly the Asian economies. Economic activity was sustained in the advanced economies amid continued policy support, stabilisation of financial systems and improved business and consumer confidence. Meanwhile, the regional economies continued their robust expansion in the first quarter, supported by sustained domestic demand and strong export growth. Going forward, considerable uncertainties remain due to the ongoing sovereign debt problems in Europe and the diminishing support from policy stimulus. Despite these developments and the potential destabilising effects on financial markets, the assessment is that it would generally have limited effects on emerging market economies.

The strong and broad-based expansion of the domestic economy in the first quarter affirms that the recovery of the Malaysian economy is firmly established. Going forward, growth is expected to be sustained, supported by the continued expansion in domestic and external demand. Expansion in domestic demand is expected to be supported by the favourable employment conditions, improving consumer and business confidence and an accommodative policy environment, while external demand will be supported by stronger regional trade and the global upturn in the E&E cycle.

DEVELOPMENTS IN THE FIRST QUARTER OF 2010

INTERNATIONAL ECONOMIC ENVIRONMENT

Continued rebound in the global economy but at varying pace

The global economy continued to expand in the first quarter of 2010. Most economies registered stronger growth, with the emerging economies in Asia leading the global recovery. The improvement in economic activity in these economies was attributed to better consumer and business sentiments, leading to increases in consumption and investment. Conditions in the international financial markets continued to improve following massive policy support by the authorities and higher investor tolerance of risk. Inflationary pressures across most economies had begun to emerge, albeit moderately, due primarily to higher energy and food prices.

In the **US**, real GDP grew by a slower annualised rate of 3.2% in the first quarter (4Q 09: 5.6%), marking the third consecutive quarter of positive growth. The expansion in economic activity was mainly contributed by stronger private consumption growth following the improvement in job prospects. Employment registered a gain of 283,000 jobs in the first quarter (4Q 09: -269,000). In addition, households have shown more willingness to consume by drawing down their personal savings. Growth was also supported by inventory restocking in response to growing demand. Fixed investment grew moderately, due to strong increases in business investment in equipment and software that offset the declines in residential and non-residential investment. Government spending contracted by 1.8% (4Q 09: -1.3%), reflecting the larger decline in state and local government spending despite the increase in federal spending. On the inflation front, headline CPI rose by 2.3% during the quarter (4Q 09: 1.4%), driven by higher energy and food prices.

The **Japanese** economy remained on its recovery path, supported by sustained improvement in trade and private consumption. Exports rebounded strongly by 43.2% in the first quarter (4Q 09: -5.8%), registering the fastest pace of expansion in more than 30 years, largely

due to robust demand from Asia, especially from PR China. On the domestic side, private consumption continued to recover, supported by various government transfers and subsidy schemes. This was further supported by better employment prospects as the unemployment rate declined to 4.9% (4Q 09: 5.2%). On the inflation front, deflationary pressures eased as core consumer prices (excluding fresh food) declined at a slower rate of 1.2% (4Q 09: -1.7%) due to higher energy prices.

The economic recovery in the **euro area** continued to be gradual, sustained by the pick-up in external demand. Major euro area economies such as Germany and France recorded strong improvements in exports. The rebound in exports, driven by both intra-regional demand and demand from China, has also supported the improvement in industrial production. On the other hand, private consumption growth remained moderate as the effect of fiscal stimulus began to wane. On the inflation front, consumer prices increased by 1.1% during the first quarter (4Q 09: 0.4%) due mainly to higher energy prices. Meanwhile, the **UK** economy recorded its second consecutive positive quarter-on-quarter growth of 0.2% in the first quarter (4Q 09: 0.4%). On an annual basis, the economy recorded a smaller contraction of 0.3% (4Q 09: -3.1%). The improvement in growth was broad-based across all sectors following firmer consumer spending as well as higher exports. Meanwhile, inflation rose to 3.3% in the first quarter (4Q 09: 2.1%), due to the reversal of the reduction in value added tax and higher energy prices.

In light of the normalisation in the international financial markets, central banks in most major advanced economies have begun to allow for the expiry of several quantitative easing programmes that were introduced during the crisis. In the **US**, while the federal funds rate was maintained at 0 - 0.25%, the **Federal Reserve** (Fed) raised the discount rate by 25 bps to 0.75% on 19 February in an effort to normalise lending facilities. Furthermore, the Fed ended the purchase programmes for

Industrial Countries: Real GDP Growth

	2009			2010	Key contributing factors for 1Q growth
	1Q	4Q	Year	1Q	
	Annual change (%)				
US ¹	-6.4	5.6	-2.4	3.2 ^a	Growth contributed by private consumption, investment in equipment and software and inventory restocking.
UK	-5.3	-3.1	-4.9	-0.3 ^p	Smaller contraction due to improvement in business services and manufacturing sectors.

¹ Annualised basis
^a Advance estimate
^p Preliminary

Source: National authorities

USD1.25 trillion agency mortgage-backed securities and USD175 billion agency debt at the end of the first quarter. In addition, the purchases of loans backed by all types of collaterals were also ended in March, except for new-issue commercial mortgage-backed securities under the Term Asset-Backed Securities Loan Facility, which will end on 30 June 2010. In the euro area, the **European Central Bank** (ECB) continued to gradually phase out its non-standard liquidity measures by ending the fixed rate offered for the 6-month loans in March and the 3-month loans in April 2010. The ECB also reiterated its stance on ending its purchases of €60 billion worth of covered bonds by June 2010. The **Bank of England** (BoE) kept the official Bank Rate at 0.5% and maintained the size of the asset purchase programme at £200 billion. In contrast, the persistent threat of deflation in Japan prompted the **Bank of Japan** (BoJ) to expand its quantitative easing measures on 17 March by doubling the size of its credit programme to ¥20 trillion from the original ¥10 trillion.

From late April to early May, the escalation of the sovereign debt problems in Greece has heightened the contagion risk on other European economies with similar weak fiscal position as the global financial markets came under intense pressure and volatility. In response, on 9 and 10 May 2010, in co-ordination with the €750 billion joint EU-IMF financial stabilisation mechanism, the ECB announced three measures to restore confidence in the financial markets. First, the ECB will intervene in the euro area public and private debt securities secondary markets to

restore the functioning of the affected markets. Second, the ECB will provide emergency liquidity to the banks in the form of unlimited funds for three- and six-month lending operations at a fixed rate. Third, the ECB reactivated the US dollar swap line with the Fed alongside the BoJ, BoE, Bank of Canada and Swiss National Bank to ease the shortage of US dollar in the markets.

In the first quarter, global **crude oil prices**² declined to a four-month low of USD71 per barrel on 5 February, weighed down by the expectation of weaker global growth prospects following China's credit tightening measures as well as a build-up in inventories. The trend reversed in the latter part of the quarter following investors' renewed optimism of a sustained recovery in global demand, with global crude oil prices reaching an 18-month high of USD82 per barrel by the end of the quarter. For the whole quarter, crude oil prices averaged USD79 per barrel (4Q 09: USD76 per barrel).

In the **Asian region**, all economies continued their robust expansion in the first quarter, driven by sustained domestic demand and strong export growth. Private consumption and investment activity in the region remained strong, supported by favourable labour market conditions and lending activities. The acceleration in export growth was due to continued expansion in intra-regional trade, a gradual improvement in demand from the advanced economies, the upturn in the global electronics cycle and the low base effect. **PR China's** economy expanded at a robust annual pace of 11.9% in the first quarter (4Q 09: 10.7%), supported by strong expansion in fixed

² Refers to West Texas Intermediate one-month futures on NYMEX.

Regional Countries: Real GDP Growth

	2009			2010	Key contributing factors for 1Q growth
	1Q	4Q	Year	1Q	
	Annual change (%)				
Singapore	-9.4	4.0	-2.0	13.1 ^a	Sharp rebound in the manufacturing sector, especially in electrical and electronics and pharmaceuticals sub-sectors, as well as improved performance in the services sector.
PR China	6.2	10.7	8.7	11.9	Strong expansion in fixed asset investment, driven by both infrastructure spending related to fiscal stimulus and real estate investment.
Korea	-4.3	6.0	0.2	7.8 ^a	Improvement in the manufacturing sector, especially in the production of electrical and electronic equipment.
Indonesia	4.5	5.4	4.5	5.7	Supported by private consumption, exports and investment activities.

^a Advance estimate

Source: National authorities

asset investment, driven by both infrastructure spending related to the fiscal stimulus and real estate investment. Similarly, **Singapore's** economy grew by 13.1% in the first quarter (4Q 09: 4.0%), due mainly to the sharp rebound in the manufacturing sector, particularly in the electrical and electronics and pharmaceutical sub-sectors, as well as the services sector. **Korea's** economy expanded by 7.8% in the first quarter (4Q 09: 6.0%) supported by improvement in the manufacturing sector, especially in the production of electrical and electronic equipment. In **Indonesia**, the economy grew by 5.7% in the first quarter (4Q 09: 5.4%) boosted by private consumption, exports and investment activity while government spending declined for the first time since the third quarter of 2005.

With inflationary pressures gradually increasing, emanating from higher food and commodity prices, coupled with strong growth prospects, several central banks in Asia have stepped up their efforts in normalising policy rates.

The **Reserve Bank of India** increased its repurchase rate to 5.25% by 25 basis points each time in March and April to contain rising inflation. Similarly, the **Monetary Authority of Singapore** re-centered the exchange rate policy band and shifted its policy stance towards a "modest and gradual appreciation" in April from the previous "zero percent appreciation" stance. While keeping its key policy rate unchanged, the

People's Bank of China tightened regulations on the loan-to-value ratio and increased reserve requirements on banks, in an attempt to slow the growth of bank lending. Similarly, **Bangko Sentral ng Pilipinas** raised the rate of its short-term lending facility under the rediscount window in February as its first step towards unwinding the liquidity-enhancing measures introduced during the crisis.

In the **foreign exchange market**, the euro and pound sterling weakened steadily against the dollar to a 10-month low, reflecting market concerns over the uncertainty surrounding the proposed financial aid to Greece by the other euro economies and the International Monetary Fund. The heightened investor risk aversion over sovereign debt problems benefited the yen, which strengthened against the US dollar, particularly in the first two months of the quarter. Most regional currencies continued to strengthen against the US dollar during the quarter following optimism over growth prospects of the Asian economies.

Going forward, considerable uncertainties remain due to the ongoing sovereign debt problems in Europe and the diminishing support from policy stimulus. Despite these developments and the potential destabilising effects on financial markets, the assessment is that it would generally have limited effects on emerging market economies.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Strong growth in the first quarter

The Malaysian economy registered a strong growth of 10.1% in the first quarter of 2010 (4Q 09: 4.4%), contributed by continued expansion in domestic demand and stronger external demand. Domestic demand expanded further due mainly to higher private consumption and sustained support from public sector spending. The stronger external demand, which benefited from higher regional demand, had also provided further impetus to growth through its spill-over effects on employment, production and overall sentiments. On the supply side, all economic sectors recorded positive growth, led by strong performance in the manufacturing and services sectors.

Domestic demand expanded further

Domestic demand expanded by 5.4% in the first quarter (4Q 09: 2.8%), driven mainly by higher private consumption and sustained public sector spending. Gross fixed capital formation continued to improve, supported by sustained public sector capital spending and a modest recovery in private sector investment.

	2009			2010
	1Q	4Q	Year	1Q
	Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	3.1	2.8	-0.5	5.4
Consumption	-0.3	1.4	1.2	5.4
<i>Private sector</i>	-0.6	1.6	0.7	5.1
<i>Public sector</i>	1.6	0.7	3.1	6.3
Gross Fixed Capital Formation	-11.2	8.2	-5.6	5.4
Net Exports	36.9	-4.7	5.0	-12.9
<i>Exports of Goods and Services</i>	-15.5	6.0	-10.4	19.3
<i>Imports of Goods and Services</i>	-23.0	7.0	-12.3	27.5
GDP	-6.2	4.4	-1.7	10.1

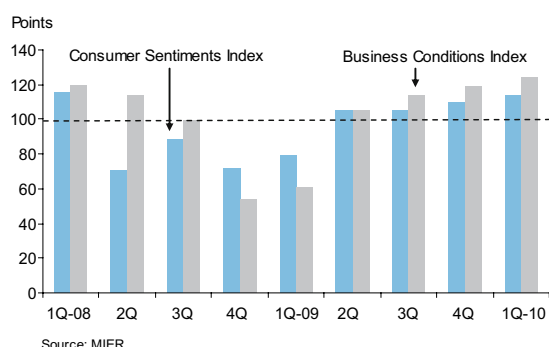
Source: Department of Statistics, Malaysia

Private consumption expanded by 5.1% in the first quarter (4Q 09: 1.6%), supported by improvement in the labour market and the low inflation. Higher consumer spending was reflected in the strong performance of major consumption indicators. These include credit card spending, sales of passenger cars, wages in the manufacturing sector, loans disbursed to households and imports of consumption goods. The MIER Consumer Sentiments Index increased to 114.2 points in the first quarter (4Q 09: 109.6 points), supported by households' improved outlook on the domestic economy.

Public consumption registered a growth of 6.3% during the quarter (4Q 09: 0.7%) due mainly to higher expenditure on emoluments as well as supplies and services.

Gross fixed capital formation increased by 5.4% in the first quarter (4Q 09: 8.2%), supported by sustained public sector capital spending and a modest recovery in private sector investment activity. The latter benefited from the significant increase in domestic production and exports, which led to improvements in both capacity utilisation and business sentiments. Major investment indicators such as imports of capital goods, sales of commercial vehicles, bank lending to businesses and manufacturing sales of construction-related materials expanded, pointing to improved private sector capital spending activity. Similarly, business sentiments improved further in the first quarter, as reflected by the increase in the MIER Business Conditions Index to 124 points (4Q 09: 118.8 points). Meanwhile, public sector capital spending continued to provide support to the domestic economy, with the bulk of the development expenditure channelled into education, transportation, and agriculture and rural development.

Business and consumer sentiments improved



Quarterly GDP by Economic Activity (at constant 2000 prices)

	2009			2010
	1Q	4Q	Year	1Q
	Annual change (%)			
Agriculture	-4.4	5.9	0.4	6.8
Mining	-5.2	-2.8	-3.8	2.1
Manufacturing	-17.9	5.0	-9.4	16.9
Construction	1.2	9.3	5.8	8.7
Services	-0.2	5.2	2.6	8.5
Real GDP				
(Annual Change)	-6.2	4.4	-1.7	10.1
Real GDP				
(Preceding Change)	-7.6	2.0	-1.7	-2.6

Source: Department of Statistics, Malaysia

All sectors recorded positive growth

On the supply side, all economic sectors recorded positive growth during the quarter, led by strong performance in the manufacturing and services sectors. In the manufacturing and services sectors, all clusters and sub-sectors registered strong growth following improvements in both domestic and external demand conditions. The construction sector continued to expand at a strong pace of 8.7% during the quarter (4Q 09: 9.3%), supported by the implementation of construction-related projects under the second fiscal stimulus package and the Ninth Malaysia Plan. Meanwhile, the turnaround in the mining

sector largely reflected a strong pick-up in natural gas production. The agriculture sector expanded further, supported mainly by higher rubber production and a moderate increase in palm oil production.

Strong growth in the services sector

The **services sector** registered a higher growth of 8.5% in the first quarter (4Q 09: 5.2%). Growth in almost all sub-sectors strengthened, in line with continued improvements in both domestic and external demand conditions. The services sector remained the largest contributor to growth, with a contribution of 4.9 percentage points to overall GDP growth.

The **finance and insurance** sub-sector grew by 6.4% (4Q 09: 10.5%), following continued expansion in bank lending and favourable increase in fee-based income. Growth in the insurance segment was sustained, reflecting higher premium income. Meanwhile, the **real estate and business services** sub-sector recorded a higher growth of 14.2% (4Q 09: 7.2%), supported by strong capital market-related activity and higher property transactions during the quarter.

Growth in the **wholesale and retail trade** sub-sector also registered a higher growth of 9.6% (4Q 09: 3.6%), due to improved household consumption spending, including for durable goods such as motor vehicles. The **communication** sub-sector continued to record high growth amidst strong demand for broadband and mobile data services, spurred by the competitive packages offered by the telecommunication service providers.

The **transport and storage** sub-sector grew strongly by 9.2% (4Q 09: 2.6%), as the marked increase in trade activities resulted in more demand for cargo-related services. Growth in the **utilities** sub-sector also strengthened further, reflecting higher demand for electricity by the manufacturers during the quarter.

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

	Share 2009 (%)	2009			2010
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	43.6	-0.4	8.0	3.4	8.6
Finance & insurance	20.4	1.9	10.5	5.1	6.4
Real estate & business services	9.4	-6.2	7.2	2.4	14.2
Transport & storage	6.6	-4.0	2.6	-2.8	9.2
Communication	7.2	4.9	7.1	6.0	6.8
Final Services	56.4	0.0	3.3	2.0	8.5
Wholesale & retail trade	23.2	-1.9	3.6	1.2	9.6
Utilities	5.2	-8.1	9.1	0.4	16.6
Accommodation & restaurant	4.3	2.1	2.2	2.8	4.9
Government services	13.2	1.9	0.4	2.0	8.1
Other services	10.5	5.1	4.2	4.4	4.4
Total Services	100.0	-0.2	5.2	2.6	8.5

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2009				2010
	1Q	2Q	3Q	4Q	1Q
	Index				
MIER Consumer Sentiment Index	78.9	105.8	105.4	109.6	114.2
MIER Retail Trade Index	52.3	76.3	100.7	111.0	106.9
MIER Tourism Market Index	78.1	75.8	88.7	114.1	120.5
	Annual change (%)				
Tourist arrivals	2.2	4.7	12.4	9.5	1.4 ¹
Total passenger traffic at all airports	-4.6	5.2	10.4	15.8	20.3
Total consumption credit outstanding	8.5	6.8	6.6	7.7	9.5
Loans outstanding to the wholesale & retail trade, hotels & restaurants	3.5	-1.8	-4.1	-1.1	4.9
Imports of consumption goods	-4.3	-8.3	-4.4	6.3	18.5
Total sales of motor vehicles	-8.1	-11.1	-3.5	17.6	22.7
Container cargo handled (Port Klang and PTP)	-10.6	-6.4	-1.7	11.8	22.5

¹ January 2010

Source: Various sources

Very strong growth in the manufacturing sector

The recovery momentum in the manufacturing sector strengthened in the first quarter, with the sector registering a very strong growth of 16.9% (4Q 09: 5.0%). The continued recovery was broad-based, with all clusters registering better growth in line with the expansion in both external and domestic demand.

Growth in the **export-oriented industry** was led by the E&E cluster, which recorded a very strong growth of 37.2% (4Q 09: 1.8%), driven

in particular by higher regional demand for semiconductors and audio-visual products. Meanwhile, growth in the primary-related cluster continued to be driven by demand for chemical and rubber products.

Growth in the **domestic-oriented industry** also strengthened further, driven primarily by strong expansion in the construction-related cluster, particularly in the metal manufacturing industry. Production in the consumer-related cluster also expanded favourably, especially in transport equipment, due to the robust recovery in domestic motor vehicle sales.

Performance in the Manufacturing Sector

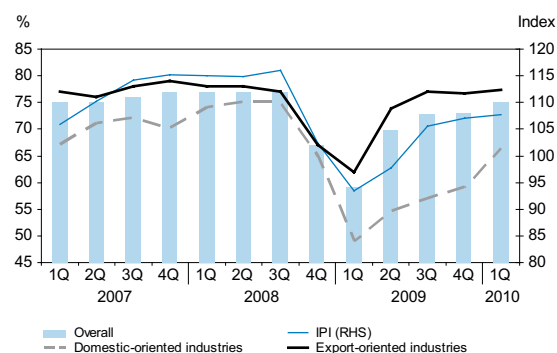
	2009			2010
	1Q	4Q	Year	1Q
	Annual Change (%)			
Value Added (at constant 2000 prices)	-17.9	5.0	-9.4	16.9
Overall Production¹	-18.8	4.4	-10.0	15.2
Export-oriented industries	-20.4	4.1	-11.1	14.6
Electronics and electrical products cluster	-35.4	1.8	-22.8	37.2
<i>Of which:</i>				
Electronics	-36.3	0.8	-24.6	25.5
Electrical products	-33.2	4.0	-18.8	65.2
Primary-related industry cluster	-10.8	5.5	-3.5	4.1
<i>Of which:</i>				
Chemicals and chemical products	-17.6	19.5	-1.7	24.0
Petroleum products	2.9	-6.9	-0.8	-22.1
Rubber products	-21.2	16.2	-3.0	36.1
Off-estate processing	-8.0	8.5	-2.1	4.3
Domestic-oriented industries	-12.4	5.5	-5.7	17.6
Construction-related cluster	-21.3	2.5	-11.4	21.4
<i>Of which:</i>				
Construction-related materials	-29.3	-2.5	-18.1	27.3
Fabricated metal products	-7.6	10.1	-1.1	13.8
Consumer-related cluster	-5.4	7.8	-1.2	15.1
<i>Of which:</i>				
Transport equipment	-10.7	-8.3	-12.4	37.3
Food, beverage & tobacco products	-4.8	12.0	1.5	1.8

¹ Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Overall capacity utilisation rate in the manufacturing sector increased to 75% in the first quarter (4Q 09: 73%), reflecting the improving production levels in the sector. The export- and domestic-oriented industries were operating at 77% and 66% of total capacity respectively (4Q 09: 77% and 59% 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 2000 to value-add in year 2005

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

Higher growth in the commodities sector

The **agriculture sector** expanded by 6.8% in the first quarter (4Q 09: 5.9%), supported mainly by higher production of industrial crops. Higher output of forestry and logging reflected increased production throughout the country, including in Sabah and Sarawak. The steady increase in rubber prices during the quarter to historical highs, due partly to concerns over the effects of adverse weather conditions, encouraged increased tapping activity resulting in higher rubber production, especially among smallholders. Growth in crude palm oil production, however, moderated following unfavourable weather conditions and the replanting exercise in 2009. The **mining sector** turned around to register a positive growth of 2.1% (4Q 09: -2.8%), due to the surge in the production of natural gas.

Performance of the Agriculture Sector

	2009			2010
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2000 prices)	-4.4	5.9	0.4	6.8
Industrial Crops	-13.9	5.4	-4.5	8.0
Food Crops	9.1	6.6	7.5	5.6
Production				
<i>Of which:</i>				
Crude palm oil	-3.9	6.4	-1.0	1.9
Rubber	-39.3	19.6	-20.2	30.1 ¹
Fish	13.2	0.6	6.7	4.4
Livestock	0.2	13.0	7.6	-5.2

¹ Jan-Feb 2010

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

Performance of the Mining Sector

	2009			2010
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2000 prices)	-5.2	-2.8	-3.8	2.1
Production				
<i>Of which:</i>				
Crude oil and condensates	-5.6	-5.0	-4.4	-2.5
Natural gas	-7.2	0.4	-4.0	8.8

Source: PETRONAS
Department of Statistics, Malaysia

Indicators for the Construction Sector				
	2009			2010
	1Q	4Q	Year	1Q
	Annual change (%)			
New sales and advertising permits	-25.5	100.8	12.3	32.0
Housing approvals	-30.2	111.6	4.2	13.7
Production ¹ of construction-related materials	-21.3	2.5	-11.4	21.4
Loans approved for construction	-48.2	14.6	-19.1	40.5
Imports of construction materials and mineral products	-20.5	11.1	-5.6	48.1 ²

¹ Industrial Production Index (2005=100)
² Jan-Feb 2010
Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Sustained growth in the construction sector

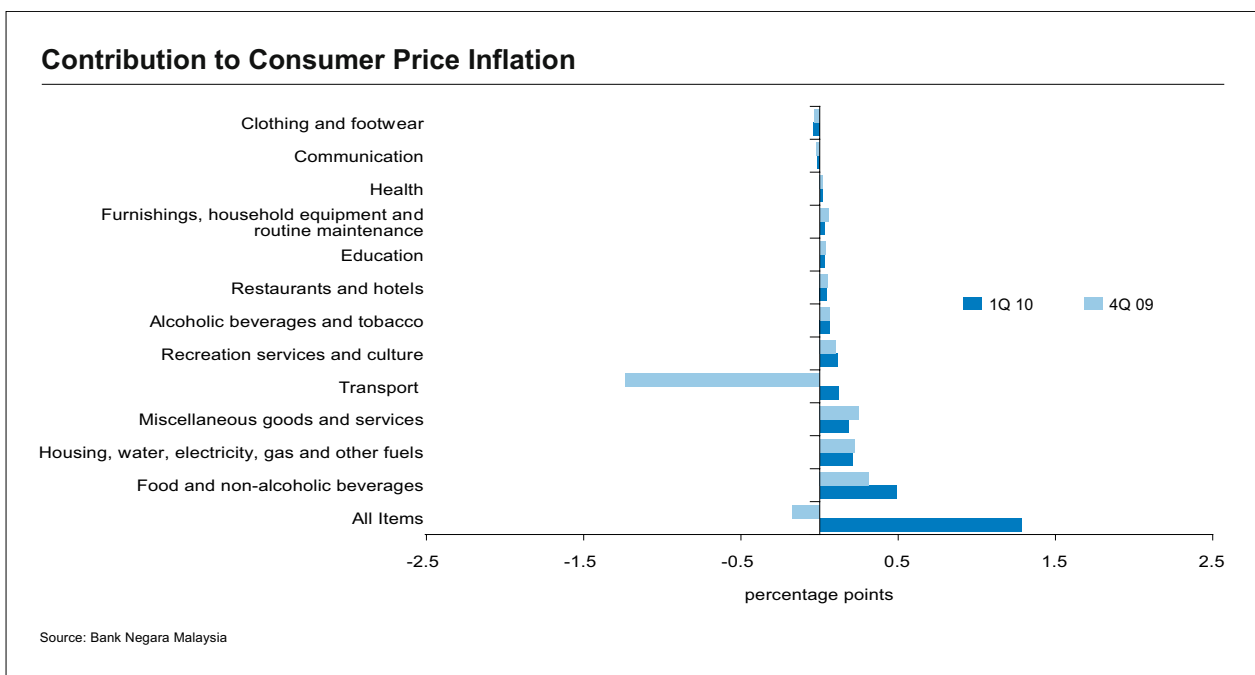
The **construction sector** expanded at a strong pace of 8.7% during the quarter (4Q 09: 9.3%), supported by the implementation of construction-related projects under the second fiscal stimulus package and the Ninth Malaysia Plan. The projects include road upgrading, repairs of schools and Government quarters, the double-track rail project, the second Penang Bridge and the new Low Cost Carrier Terminal (LCCT). Growth in the non-residential sub-sector also reflected the ongoing construction of office and retail spaces, especially in the Klang Valley. Meanwhile,

the residential sub-sector continued to expand, supported by better consumer sentiment and low interest rates.

Inflation turned positive in the first quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), increased by 1.3% on an annual basis in the first quarter (4Q 09: -0.2%). The increase in consumer prices was attributed mainly to the price increase in *food and non-alcoholic beverages* (1Q 10: 1.4%, 4Q 09: 0.9%). The rate of the price increase in the *transport* category turned from negative to positive (1Q 10: 0.7%, 4Q 10: -7.0%), following the lapse of the high base effect caused by the upward adjustments to retail fuel prices in 2009. These price increases, however, were partially mitigated by declining prices in the *clothing and footwear* category amidst the Chinese New Year sales.

The Producer Price Index³ (PPI) increased to 6.4% on a yearly basis in the first quarter of 2010 (4Q 09: 0.1%). This was mainly the outcome of the 18.4% increase in the prices of commodity-related components (4Q 09: 0.3%). Prices in the non commodity-related components of the PPI also increased by 3.2% (4Q 09: 0.1%).

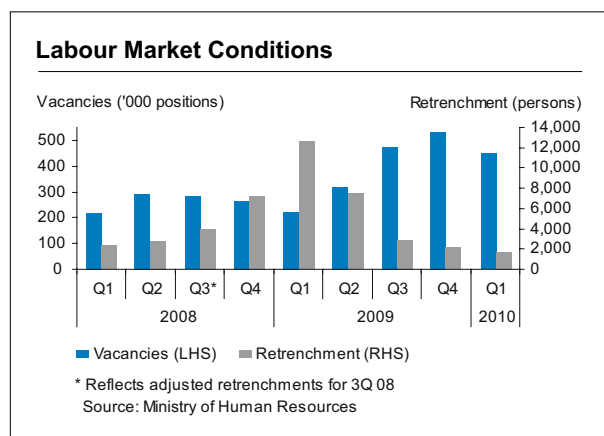


³ The Producer Price Index (PPI) has been rebased to year 2005 from 2000 previously, following the revision of the PPI basket

In terms of composition, both the local and imported components contributed to the higher PPI inflation. Prices in the local component of the PPI increased by 8.4% (4Q 09: -0.6%), while prices in the imported component of the PPI increased by 2.2% (4Q 09: 1.4%).

Improvement in labour market conditions

Conditions in the labour market improved in the first quarter as the number of retrenchments declined by 19.3% from the preceding quarter to 1,714 persons. Although the bulk of the retrenchments continued to be in the manufacturing sector (37%), the number of layoffs in this sector declined significantly in the first quarter (639 persons; 4Q 09: 1,354 persons) following a more upbeat outlook for the E&E industry. Likewise, retrenchments in the services sector also declined (362 persons; 4Q 09: 741 persons), particularly in the wholesale and retail trade, accommodation and restaurant sub-sector.



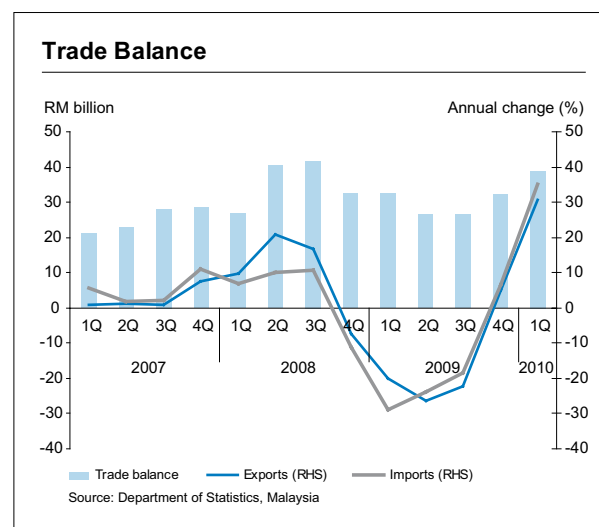
During the quarter, the number of vacancies posted in the JobsMalaysia Portal remained high at 450,042 positions (4Q 09: 531,694), with higher job openings in the agriculture, mining and construction sectors. Meanwhile, real wage per worker in the manufacturing sector increased by 15.4% (4Q 09: 5.9%), reflecting the effect of some salary increments as well as higher wages following the longer working hours instituted to meet the increase in production orders.

Strong expansion in exports and imports

The trade account surplus increased to RM39 billion in the first quarter (4Q 09: RM32.4 billion). Both gross exports and imports

expanded strongly, growing by 30.8% and 35.1% respectively (4Q 09: 5.1% and 6.7% respectively), reflecting the improvement in global conditions and strengthening of domestic demand, and to some extent, the low base of the same period last year.

The higher growth in **gross exports** reflected improvement in all product segments. Manufactured exports increased by 32.7% (4Q 09: 11.8%), led mainly by the E&E products, particularly exports of semiconductors to the region. Exports of non-E&E products also expanded further, following higher commodity prices and sustained demand from regional countries for resource-based products. Likewise, commodity exports turned around to register a double-digit growth, supported by the higher commodity prices as well as larger export volumes for both agriculture and minerals.



Trade Account

	2009 ¹			2010 ¹
	1Q	4Q	Year	1Q
	Annual change (%)			
Gross Exports	-20.0	5.1	-16.6	30.8
Manufactured	-19.1	11.8	-12.5	32.7
E&E	-19.1	17.2	-11.0	34.6
Non-E&E	-19.0	4.7	-14.4	30.3
Commodities	-19.2	-14.2	-27.8	30.1
Agriculture	-28.9	8.2	-21.6	52.2
Minerals	-11.1	-27.2	-32.6	15.6
Gross Imports	-29.0	6.7	-16.6	35.1
Capital goods	-7.8	17.4	-5.9	9.6
Intermediate goods	-34.9	0.1	-21.6	37.9
Consumption goods	-4.3	6.3	-2.7	18.5
Trade balance (RM billion)	32.7	32.4	118.4	39.0

¹ Malaysia's trade classification has been revised in April 2008 to reflect the revisions of the international trade codes i.e. Harmonised System (HS), ASEAN Harmonized Tariff Nomenclature (AHTN) and Standard International Trade Classification (SITC)

Source: MATRADE and Department of Statistics, Malaysia

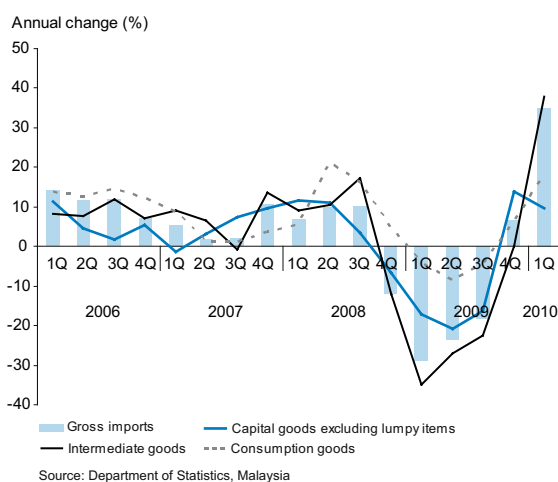
Malaysia: Direction of Exports

	2009			2010	2009			2010
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Annual change (%)				Share of total exports (%)			
United States	-31.0	-7.4	-26.8	10.6	11.1	10.6	10.9	9.4
European Union (EU)	-28.0	0.9	-19.9	29.1	10.7	11.1	10.8	10.6
Selected ASEAN countries ¹	-26.8	11.7	-16.8	38.5	24.4	25.7	25.5	25.9
North East Asia	-5.9	42.4	-1.5	47.1	22.3	24.6	23.8	25.1
People's Republic of China	-1.8	61.0	6.4	67.9	10.2	12.8	12.2	13.1
Hong Kong SAR	3.5	37.8	1.9	36.8	4.7	5.2	5.2	4.9
Chinese Taipei	-18.4	24.7	-11.1	50.8	2.4	2.6	2.6	2.8
Korea	-14.2	15.2	-18.5	12.5	5.0	4.0	3.8	4.3
West Asia	-12.7	-10.2	-18.0	17.0	3.7	3.4	3.9	3.3
India	-14.9	-27.6	-31.3	17.3	3.7	2.8	3.1	3.3
Total exports	-20.0	5.1	-16.6	30.8	100.0	100.0	100.0	100.0

¹Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Import Growth



The significant increase in **gross imports** was due to the strong growth in intermediate imports, coupled with a pick-up in the import of consumption goods and sustained capital imports. The import of intermediate goods registered a sharp growth of 37.9% (4Q 09: 0.1%), moving in tandem with the recovery in manufacturing activity. Meanwhile, the positive growth in capital and consumption imports reflected the strengthening of domestic demand amidst improving business and consumer sentiments.

FDI inflows remained broad-based while portfolio investment recorded a net inflow

On a cash basis, gross inflows of **foreign direct investment (FDI)**⁴ amounted to RM4.6 billion in the first quarter (4Q 09: RM10.1 billion). FDI inflows continued to be channelled mainly into the manufacturing, services, and oil and gas sectors. FDI in the manufacturing sector was mainly for E&E and petroleum and petrochemical industries. Meanwhile, inflows of FDI into the services sector were directed largely to the finance and insurance as well as transport and communication sub-sectors. **Net FDI** recorded an outflow of RM1.5 billion (4Q 09: +RM4.4 billion) as the net repayments of inter-company loans more than offset the net inflows of equity capital.

Net direct investment abroad (DIA) by Malaysian companies amounted to RM2.3 billion in the first quarter (4Q 09: -RM5.2 billion), attributed to lower net extension of inter-company loans to subsidiaries abroad and lower outflows of equity capital. The bulk of these investments was undertaken largely by companies in the services sector, particularly those in the finance and insurance, business services and telecommunication sub-sectors.

⁴ The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

Meanwhile, **portfolio investment** turned around to record a net inflow of RM3.9 billion in the first quarter (4Q 09: -RM2.6 billion). The inflows of portfolio funds largely reflected stronger foreign participation in the domestic debt market. The inflows reflected improved investor sentiments on a stronger growth prospect of the Malaysian economy.

External debt declined

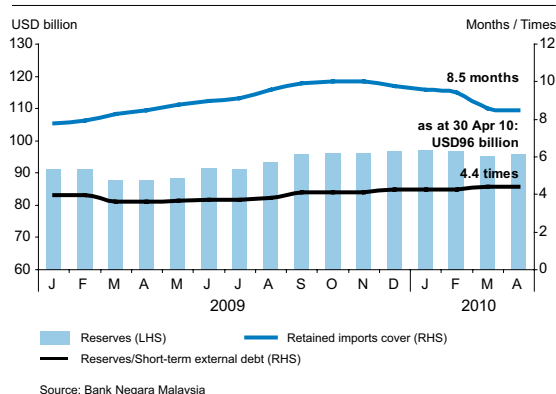
As at end-March 2010, Malaysia's total external debt declined to RM218 billion or USD66 billion (end-December 09: RM233.1 billion or USD67.4 billion), equivalent to 30% of GNI. The **medium- and long-term external debt** declined to RM147.3 billion, reflecting mainly the strengthening of the ringgit against the USD during the quarter (+4.6%). The lower medium- and long-term debt was also attributable to net repayments by both the public and private sectors. The Federal Government and the private sector continued to record net repayments. This decline in drawdown was also evident in the NFPEs, which registered a marginal net repayment for the quarter.

As at end-March 2010, the total **short-term external debt** declined to RM70.8 billion or USD21.4 billion. The short-term external debt accounted for only 32.5% of total external debt and was 22.7% of the net international reserves.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM311.7 billion (equivalent to USD95.3 billion) as at 31 March 2010. The reserves level had taken into account the quarterly adjustment for foreign exchange revaluation loss, following the strengthening of the ringgit against all major currencies during the quarter. As at 30 April 2010, the reserves position amounted to RM313.9 billion (equivalent to USD96 billion), sufficient to finance 8.5 months of retained imports and is 4.4 times the short-term external debt.

Net International Reserves (as at end-period)



External Debt Outstanding

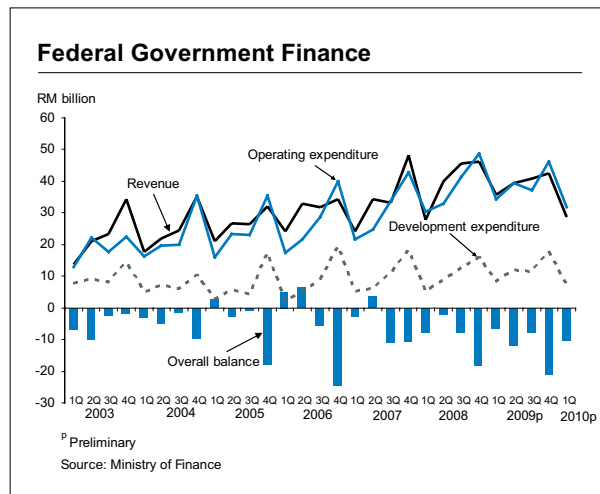
	2009		2010
	1Q	4Q	1Q*
	RM billion		
Medium- and long-term debt	158.5	155.4	147.3
Public sector	84.0	85.4	80.9
Private sector	74.4	70.0	66.4
Short-term debt ¹	88.1	77.8	70.8
Total external debt	246.6	233.1	218.0
USD billion equivalent	66.8	67.4	66.0

¹ Excludes currency and deposits held by non-residents with resident banking institutions
* Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Larger fiscal deficit due to lower revenue

The Federal Government recorded a fiscal deficit of RM10.2 billion or 5.6% of GDP in the first quarter. Revenue declined at an annual rate of 19.9%, due mainly to the higher base effect as there was a one-off investment income received in the first quarter of 2009. In terms of spending, the Federal Government's total expenditure remained significant and was mainly channelled to the education, health and defence sectors. The fiscal deficit was fully financed from domestic borrowings. As at end-March 2010, total outstanding debt of the Federal Government amounted to RM378.3 billion or 50.6% of the estimated 2010 GDP.



Federal Government Finance^p

	2009			2010
	1Q	4Q	Year	1Q
	RM billion			
Revenue	35.9	42.6	158.6	28.7
% growth	28.3	-8.0	-0.7	-19.9
Operating expenditure	34.4	46.2	157.1	31.9
% growth	12.9	-5.4	2.3	-7.1
Current account	1.5	-3.6	1.6	-3.2
% of GDP	1.0	-2.0	0.2	-1.7
Gross development expenditure	8.2	17.6	49.5	7.3
% growth	55.4	9.5	15.6	-11.4
Overall balance	-6.7	-20.9	-47.4	-10.2
% of GDP	-4.3	-11.3	-7.0	-5.6
Memo item:				
Total gross expenditure	42.6	63.8	206.6	39.2
% growth	19.2	-1.7	5.2	-8.0
Total Federal Government debt (as at end-period)	317.1	362.4	362.4	378.3
% of GDP	47.0	53.7	53.7	50.6
Domestic debt	297.0	348.6	348.6	365.6
% of GDP	44.0	51.7	51.7	48.9
External debt	20.2	13.8	13.8	12.7
% of GDP	3.0	2.0	2.0	1.7

^p Preliminary

Source: Ministry of Finance

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates adjusted upwards in response to the increase in the OPR

The Overnight Policy Rate (OPR) was raised by 25 basis points on 4 March 2010. The adjustment reflected the change in the economic outlook as well as the need to normalise monetary conditions to prevent the build-up of financial imbalances that would be detrimental to the long-term sustainable growth of the Malaysian economy. However, the overall stance of monetary policy remains accommodative and supportive of growth.

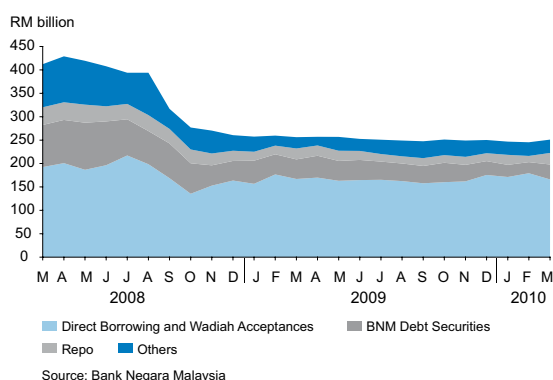
The daily weighted average overnight interbank rate (AOIR) traded higher in the first quarter, to reflect the increase in the OPR. From the period 1 January – 28 February, the AOIR moved within a narrow range of 1.99% - 2.00%. Interbank rates of other maturities were also stable during the period. Subsequently, between 1 and 4 March 2010, the AOIR traded lower and close to the floor rate of the corridor for the Overnight Policy Rate (OPR). This was due mainly to exceptional interest by market participants for overnight placements with the Bank ahead of the March Monetary Policy Committee meeting. Following the increase in the OPR from 2.00% to 2.25% on 4 March, the daily weighted average overnight interbank rate traded higher within a range of 2.16% - 2.24% from 5 to 30 March 2010. Interbank rates of other maturities also rose accordingly. Market conditions remained orderly as the financial institutions transitioned to the new interest rate level.

Retail deposit rates adjusted quickly to the increase in the OPR. The average quoted fixed deposit (FD) rate for the 1 month tenure increased by 25bps, while average FD rate for the 12 month tenure was higher by 17 bps. As a result, the

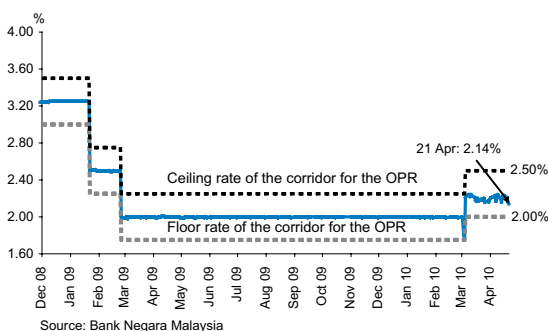
average quoted FD rates for tenures between 1 to 12 months were at a higher range of 2.25% and 2.67% respectively as at end-March.

Similarly, retail lending rates were also revised upwards. As at end-March, the average base lending rate of commercial was increased by 25bps to 5.76%, while the average lending rate on loans outstanding trended higher to 4.96%. Despite the increase in interest rates, retail lending rates remain near historic lows.

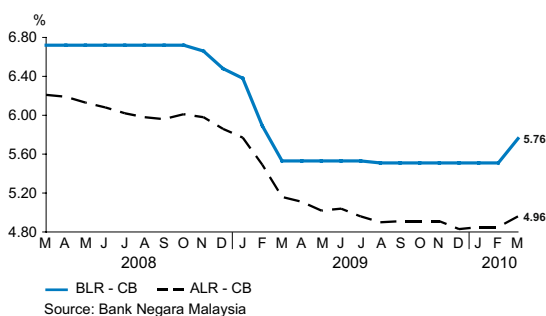
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



Daily Weighted Average Overnight Interbank Rate



Lending Rates of Commercial Banks (Average for the period)



Interest Rates

	2009		2010
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.00	2.00	2.25
Interbank rates			
Overnight	2.00	1.99	2.18
1-month	2.06	2.07	2.35
Base lending rates (BLR)			
Commercial banks	5.53	5.51	5.76
Average lending rates (ALR)			
Commercial banks	5.16	4.83	4.96
Fixed deposit rates			
Commercial banks			
3-month	2.04	2.03	2.28
12-month	2.52	2.50	2.67

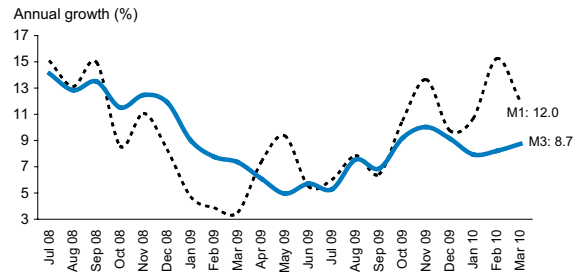
Source: Bank Negara Malaysia

M3 continued to increase

Monetary aggregates continued to grow at a sustained pace in the first quarter. M1 or narrow money, increased by RM0.3 billion during the quarter. On an annual basis, M1 expanded at a faster annual growth rate of 12.0% as at end-March 2010 (end-December 2009: 9.8%). M3, or broad money, expanded at an annual growth rate of 8.7% at end-March (end-December 2009: 9.2%). On a quarter-on-quarter basis, M3 increased by RM15.1 billion.

Both domestic and external factors contributed to the growth in broad money during the quarter. On the external side, net foreign assets was expansionary on M3 as Malaysia continued to register net foreign inflows, reflecting the external trade surplus and higher portfolio inflows. However, a part of the portfolio inflows was used to purchase Bank Negara Malaysia and Government securities from the banking system, as reflected by the decline in the *net claims on Government and other influences* category. As such, the net impact of the inflows on broad money expansion was smaller. Meanwhile, financing by the banking system to the private sector registered a larger increase in the first quarter. This also contributed to the expansion in broad money.

Monetary Aggregates



Source: Bank Negara Malaysia

Private sector financing remained robust

Financing conditions remain supportive of economic activity, underpinned by the sound banking system and well-functioning capital markets, as well as the reasonably low cost of borrowing and ample liquidity. Gross financing raised by the private sector through the banking system and the capital market was sustained at RM190.2 billion in the first quarter (4Q 09: RM216.1 billion, 1Q 09: RM157.4 billion). The high level of gross financing was primarily an outcome of steady loan disbursements. On a net basis, banking system loans and PDS outstanding rose at a higher rate of 9.5% as at end-March (end-2009: 8.5%).

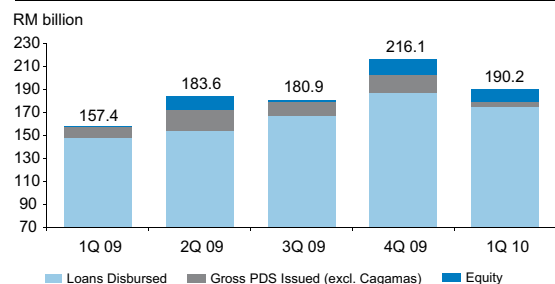
Determinants of Broad Money, M3

	Change during the period			
	2009			2010
	1Q	4Q	Year	1Q
	RM billion			
M3	17.4	41.8	85.3	15.1
Net claims on Govt	5.7	13.5	25.7	-2.0
Claims on private sector	5.3	20.0	51.6	16.9
Loans	4.5	15.4	47.2	20.0
Securities	0.8	4.6	4.5	-3.1
Net foreign assets ¹	3.7	6.6	11.8	11.3
BNM	-4.4	1.7	-3.4	1.3
Banking System	8.1	4.8	15.1	10.0
Other influences	2.7	1.7	-3.8	-11.1

¹Pre-revaluation

Source: Bank Negara Malaysia

Gross Private Sector Financing through Banking System and Capital Market



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2009	1Q 09	4Q 09	1Q 10	2009	4Q 09	1Q 10
Gross total financing	738.0	157.4	216.1	190.2	7.2	29.3	20.8
Loans disbursed*	655.8	148.2	186.4	174.7	2.4	18.1	17.9
Gross PDS (excl. Cagamas)	56.1	9.0	16.4	4.4	30.9	83.7	-50.8
Equity	26.0	0.1	13.2	11.0	375.5	5,818.5	7,530.8
Net total financing (A)+(B)	83.5	7.8	30.4	18.5	8.5	8.5	9.5
Banking system	57.2	8.7	19.8	19.4	7.3	7.3	8.5
Loans outstanding (A)	57.0	7.3	19.8	22.4	7.8	7.8	9.8
Holding of PDS	0.2	1.4	0.0	-3.0	0.4	0.4	-6.5
PDS outstanding (B)	26.5	0.5	10.6	-3.9	10.5	10.5	8.8
Memorandum item							
Gross PDS (incl. Cagamas)	58.6	9.3	16.4	4.7	20.4	106.8	-49.5

*Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2009	1Q 09	4Q 09	1Q 10	2009	1Q 09	4Q 09	1Q 10
Total								
Loan applications	518.7	107.5	138.6	130.0	9.3	-3.4	36.5	20.8
Loan approvals	286.8	58.0	80.4	70.0	-1.5	-19.3	32.0	20.6
Loan disbursements	655.8	148.2	186.4	174.7	2.4	-2.2	18.1	17.9
Loan repayments	593.8	138.0	161.8	154.9	4.5	-0.6	12.8	12.2
Change in loans outstanding*	57.0	7.3	19.8	22.4	7.8	10.9	7.8	9.8
Of which:								
Business enterprises**								
Loan applications	237.7	52.0	61.2	60.0	-2.8	-6.3	19.2	15.3
Loan approvals	127.6	26.1	37.1	29.2	-13.8	-31.8	25.8	11.7
Loan disbursements	439.3	100.9	125.8	117.3	-3.6	-5.2	11.7	16.3
Loan repayments	406.9	93.6	112.4	105.4	0.9	-4.0	10.3	12.6
Change in loans outstanding*	7.9	-1.2	4.9	4.7	2.7	9.5	2.7	4.7
SMEs**								
Loan applications	104.5	20.2	29.7	27.9	4.1	-16.3	49.2	38.1
Loan approvals	45.3	8.9	12.7	12.9	-16.3	-31.0	10.3	45.7
Loan disbursements	143.4	34.7	38.3	35.5	-12.0	-11.7	-3.2	2.4
Loan repayments	132.2	32.3	34.8	33.5	-9.1	-9.4	-3.7	3.7
Change in loans outstanding*	-5.5	-6.8	-0.1	2.5	-4.4	-0.4	-4.4	3.2
Large corporations								
Loan applications	133.2	31.8	31.5	32.1	-7.5	1.4	0.2	0.8
Loan approvals	82.3	17.2	24.4	16.3	-12.3	-32.2	35.7	-5.7
Loan disbursements	295.9	66.2	87.5	81.8	1.1	-1.4	19.8	23.6
Loan repayments	274.7	61.3	77.6	71.9	6.5	-0.9	18.0	17.2
Change in loans outstanding*	13.4	5.6	5.1	2.2	7.8	17.3	7.8	5.7
Households								
Loan applications	281.0	55.5	77.4	69.9	22.0	-0.5	54.2	26.0
Loan approvals	159.2	32.0	43.3	40.8	11.3	-5.2	37.9	27.8
Loan disbursements	216.5	47.3	60.7	57.4	17.3	4.9	33.8	21.3
Loan repayments	187.0	44.4	49.4	49.5	13.4	7.2	19.0	11.4
Change in loans outstanding*	38.6	5.8	12.1	14.1	9.8	9.3	9.8	11.8

* The annual growth is for end-period.

** Include loans to individual businesses.

Source: Bank Negara Malaysia

The major loan indicators remained strong in the first quarter. Although loan applications and approvals moderated in February due to fewer working days on account of the Chinese New Year festivities, there was a significant rebound in March. Reflecting the continued improvement in economic activity, loan demand from the business sector remained high, with loan applications coming mainly from the *construction, wholesale and retail, restaurants*

and hotels and manufacturing sectors. The bulk of the loans was to finance working capital requirements. With steady loan disbursements, business loans outstanding expanded by RM4.7 billion in the first quarter (4Q 2009: +RM4.9 billion). On an annual basis, business loans outstanding rose at a higher rate of 4.7% as at end-March (end-2009: 2.7%). The increase in business loans outstanding was broad-based across all major sectors.

Loans by Sector

	Loans disbursed				Loans out-standing	
	During the period			Share of total	Share of total	
	2009	1Q 09	4Q 09	1Q 10		
	(RM billion)			(%)		
Business enterprises	439.3	100.9	125.8	117.3	67.1	44.7
<i>Large corporations</i>	295.9	66.2	87.5	81.8	46.8	29.6
<i>SMEs*</i>	143.4	34.7	38.3	35.5	20.3	15.1
<i>Selected sectors</i>						
Agriculture, hunting, forestry and fishing	20.8	4.2	7.0	9.2	5.3	2.4
Mining and quarrying	2.3	0.7	0.5	0.8	0.4	0.3
Manufacturing	128.4	30.2	34.9	33.4	19.1	9.7
Construction	40.5	8.7	12.2	9.3	5.3	4.4
Real estate	20.6	5.2	6.5	5.2	3.0	4.2
Electricity, gas and water supply	8.5	1.0	3.3	0.8	0.5	1.1
Wholesale, retail, restaurants and hotels	105.5	24.5	28.4	28.1	16.1	7.7
Transport, storage and communication	22.5	5.6	6.7	5.4	3.1	3.5
Finance, insurance and business services	44.5	11.4	12.1	13.4	7.7	6.5
Households	216.5	47.3	60.7	57.4	32.9	55.3
Purchase of residential properties	55.6	11.7	16.8	15.0	8.6	25.6
Consumption credit	132.6	29.7	36.1	33.6	19.2	21.2
Of which:						
<i>Credit cards</i>	70.5	16.2	19.5	18.4	10.5	3.3
<i>Purchase of passenger cars</i>	32.8	7.6	8.2	8.8	5.0	13.2
Others	28.4	6.0	7.8	8.9	5.1	8.5
Total	655.8	148.2	186.4	174.7	100.0	100.0

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Similarly, financing to the household sector remained robust. Applications, approvals and disbursement expanded strongly on an annual basis. Demand for loans was mainly for the purchase of residential property and passenger cars. Accordingly, household loans outstanding expanded by RM14.1 billion to increase at a higher annual growth rate of 11.8% as at end-March (end-2009: 9.8%).

Fund-raising activity in the capital market remained strong

Net funds raised in the capital market during the quarter remained high amounting to RM22.6 billion (4Q 09: RM29.6 billion). The bulk of funds was raised by the public sector through the issuances of the 3.5-year and 5.5-year Government Investment Issues (GII), the 5.5-year and 7.5-year Malaysian Government Securities (MGS), as well as the re-opening of the 10-year MGS. After adjusting for redemptions, net funds raised by the public sector amounted to RM15.5 billion.

In the private sector, fund-raising activity was concentrated mainly in the equity market (70% of gross funds raised by the private sector). This was due mainly to two large rights issues by firms involved in the transport industry and a large initial public offering by a firm in the technology industry.

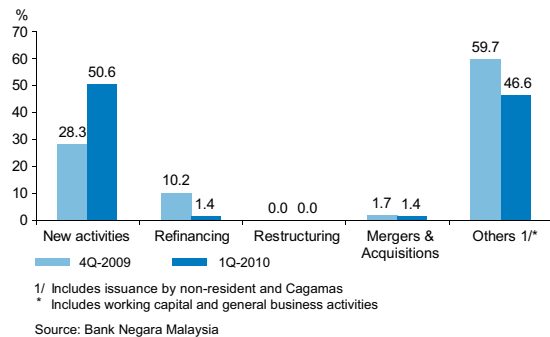
Meanwhile, gross funds raised through private debt securities (PDS) amounted to RM4.7 billion (4Q 09: RM16.4 billion). About half of the funds raised through PDS were to finance new activity, and the other half were to fund working capital and for general purpose use. Overall, net funds raised by the private sector totalled RM7.1 billion for the quarter. The amount raised by the private sector had been larger in the previous quarter as a very large initial public offering and several substantial PDS issuances were recorded during that quarter.

Funds Raised in the Capital Market

	2009			2010
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	10.8	5.6	57.8	15.5
Government securities, <i>net</i>	8.8	5.7	53.3	15.6
<i>Malaysian Government Securities</i>	20.5	13.5	61.3	12.6
<i>Government Investment Issues</i>	6.0	3.5	28.5	6.5
<i>Less: Redemptions</i>	17.7	11.4	36.5	3.5
Khazanah Bonds, <i>net</i>	-	-	(2.4)	-
Savings Bonds, <i>net</i>	2.0	(0.1)	6.9	(0.1)
By Private Sector	0.8	24.0	52.6	7.1
Shares	0.1	13.2	26.0	11.0
Debt securities, <i>net</i>	0.7	10.8	26.5	(3.9)
<i>Private Debt Securities</i>	9.3	16.4	58.6	4.7
<i>Cagamas</i>	-	-	-	-
<i>Less: Redemptions</i>	8.6	5.6	32.0	8.6
Total	11.6	29.6	110.3	22.6

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)

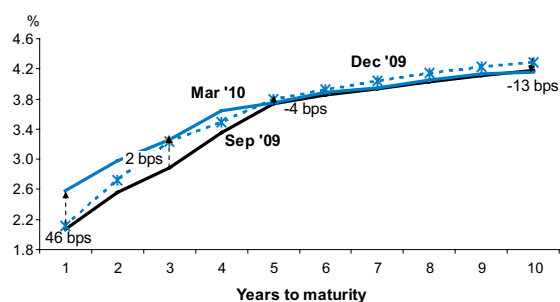


Long-term yields remained stable

MGS yields recorded mixed trends in the first quarter. Yields of shorter maturities began to increase at end-January on expectations of adjustments to the policy rate, following the release of the Monetary Policy Statement in January. The 1-year MGS rose by 46 basis points during the quarter. Meanwhile, benign inflationary expectations kept long-term yields stable. Increased demand by non-residents for long-term securities also contributed to lower yields. As a result, the 5-year and 10-year MGS yields declined by 4 and 13 basis points respectively. This led to a flattening of the yield curve at the longer maturities.

In the PDS market, the 5-year corporate bond yields recorded a marginal increase in the first quarter of 2010. Increases in PDS yields were offset by the reduction in risk premiums following improved credit conditions as prospects for economic recovery strengthened.

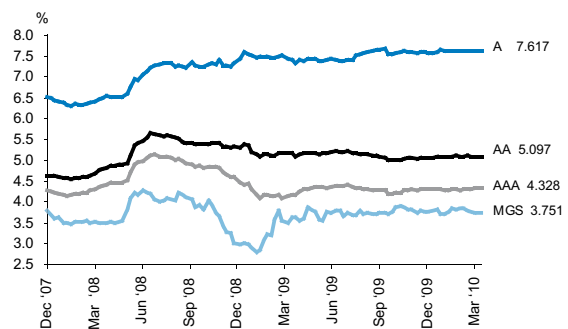
Trend in MGS Yields



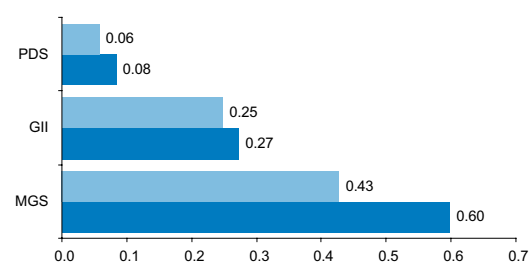
Secondary trading in the bond market increased

Total trading in the secondary market increased to RM188 billion during the quarter (4Q 09: RM134 billion). The presence of fresh market drivers, such as expectations of an increase in interest rates and increased demand from non-residents contributed to the increase in trading during the quarter. Government securities (MGS and GII) accounted for 90% of the total trade. The improvement in liquidity was across the board, with MGS, GII and PDS securities recording higher liquidity ratios. MGS remained the most liquid paper, registering a liquidity ratio of 0.60.

5-year MGS and 5-year Corporate Bond Yield



Liquidity Ratio: Turnover / Outstanding

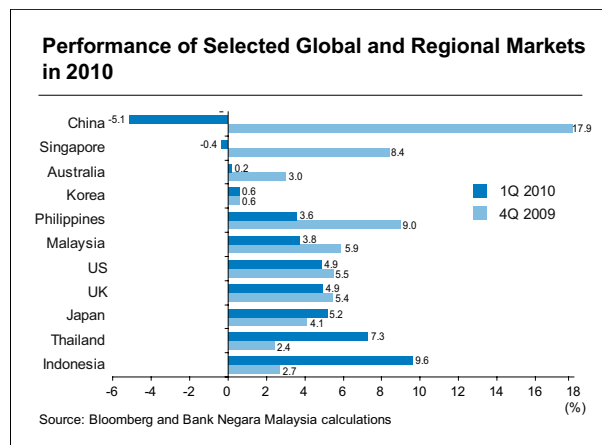


KLCI continued to strengthen in the first quarter

The FBM KLCI ended the first quarter higher at 1,320.6 (since 4Q 09: +3.8%), driven mainly by the finance and construction sectors. The index was supported by announcements of good corporate earnings for 4Q 2009 and stronger economic growth prospects. Improved fundamentals also attracted foreign participation, providing further impetus to the market. Market capitalisation rose to RM1.06 trillion at end-March 2010 (4Q 09: RM999.5

billion) and the daily average turnover was higher at 1.05 billion units (4Q 09: 915.2 million units) during the quarter.

On 11 May 2010, the KLCI closed higher at 1,340.7 points (since end-2009: +5.3%) with market capitalisation of RM1.06 trillion (since end-2009: + 6.5%).



Bursa Malaysia: Selected Market Indicators

	As at end			
	2009			2010
	1Q	4Q	Year	1Q
Price Indices				
Composite	872.6	1,272.8	1,272.8	1,320.6
FBM30 ¹	5,598.5	-	-	-
FBMEMAS ²	5,701.1	8,507.6	8,507.6	8,957.2
FTSE Second Board ³	3,872.4	-	-	-
FTSE Mesdaq ⁴	2,942.7	4,299.6	4,299.6	4,209.0
Average daily turnover				
Volume (million units)	454.5	915.2	1,000.2	1,046.6
Value (RM million)	688.4	1,210.3	1,220.9	1,532.4
Market capitalisation (RM billion)	662.1	999.5	999.5	1,061.1
No. of companies listed	969	960	960	961

¹FBM30 stands for FTSE Bursa Malaysia 30 Index

²FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

³From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

⁴From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2009						2010	
	1Q		4Q		Year		1Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	26,360	39,927	57,655	76,246	248,061	302,788	61,749	90,410
Of which:								
Main Board	22,657	39,075	48,324	73,719	210,327	292,600	52,363	88,115
Of which								
Consumer Products	675	2,096	3,821	3,786	11,316	14,527	2,815	3,740
Industrial Products	3,798	2,401	10,147	9,462	44,521	35,975	12,365	14,055
Construction	2,508	2,936	2,458	4,663	15,744	22,354	3,146	4,933
Trading/Services	8,261	14,423	15,367	27,694	70,507	105,636	16,101	28,833
Finance	1,903	8,095	4,207	15,090	17,057	56,559	4,203	20,839
Properties	2,984	1,895	4,596	3,491	29,349	19,418	6,449	3,863
Plantations	1,085	4,332	1,118	4,411	5,888	21,543	1,454	6,448
Infrastructure	629	2,405	1,608	1,783	5,659	10,319	1,058	1,736
Second Board ¹	1,647	498	-	-	10,823	4,040	-	-
Mesdaq ²	798	193	5,592	1,406	16,696	3,426	5,446	1,152

¹From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

²From 3 August 2009, Mesdaq market was replaced with ACE Market

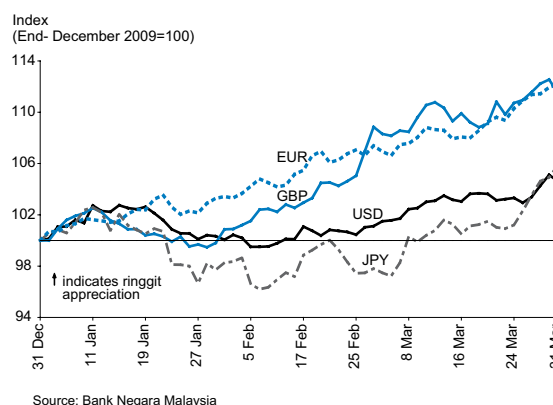
Source: Bursa Malaysia

The ringgit appreciated against major and regional currencies

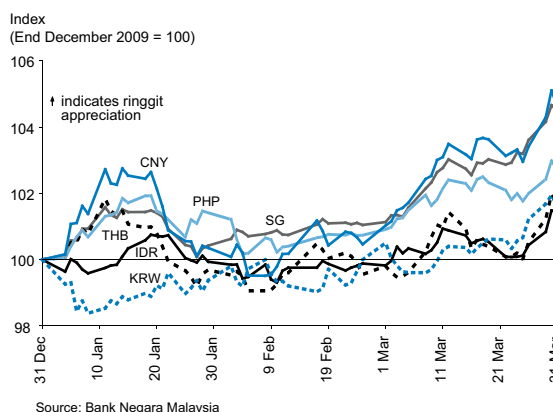
During the quarter, the ringgit appreciated by 4.6% against the US dollar, broadly in tandem with regional currencies. This was due mainly to the prospect of the regional economies leading the global economic recovery contributing to a favourable investor outlook for the regional financial markets. Regional currencies were also supported by expectations of an appreciation of the Chinese renminbi that could potentially lead to the strengthening of regional currencies. However, these developments were periodically counterbalanced by market risk aversion among investors following concerns over China's liquidity management measures and sovereign credit issues in several countries in the euro area. The ringgit also appreciated against the euro (12.2%), pound sterling (11.5%) and Japanese yen (5.9%). Against regional currencies, the ringgit appreciated within the range of 1.4% to 4.6%.

Between 1 April and 12 May 2010, the ringgit appreciated against the US dollar (1.6%), euro (7.7%), pound sterling (2.8%) and Japanese yen (0.8%). Against regional currencies, the ringgit appreciated between 0.4% and 2.1%.

Ringgit Performance Against Major Currencies

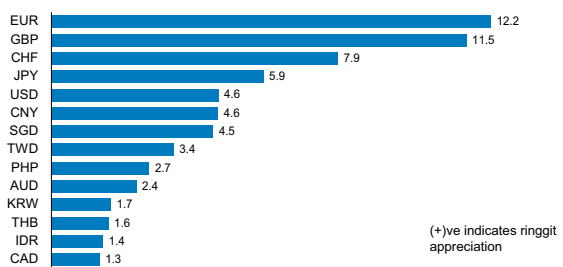


Ringgit Performance Against Regional Currencies



Summary of Ringgit Performance Against Selected Currencies

Percent Change (1 January- 31 March 2010)



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 09	4Q 09	1Q 10	21 Jul 05	1Q 09	4Q 09
US dollar	3.8000	3.6470	3.4245	3.2730	16.1	11.4	4.6
Euro	4.6212	4.8348	4.9191	4.3850	5.4	10.3	12.2
Pound sterling	6.6270	5.2203	5.5001	4.9326	34.4	5.8	11.5
100 Japanese yen	3.3745	3.7091	3.7076	3.5017	-3.6	5.9	5.9
Singapore dollar	2.2570	2.4008	2.4401	2.3354	-3.4	2.8	4.5
100 Thai baht	9.0681	10.266	10.271	10.111	-10.3	1.5	1.6
100 Philippine peso	6.8131	7.5343	7.4196	7.2236	-5.7	4.3	2.7
100 Indonesian rupiah	0.0386	0.0315	0.0364	0.0359	7.6	-12.4	1.4
100 Korean won	0.3665	0.2630	0.2937	0.2889	26.9	-9.0	1.7
Chinese renminbi	0.4591	0.5335	0.5016	0.4795	-4.2	11.3	4.6

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

Source: Bank Negara Malaysia

DEVELOPMENTS IN THE BANKING AND INSURANCE SECTORS

Developments in the banking sector

The banking sector remained resilient with high capital buffers, stable asset quality and strong liquidity position. Financial intermediation function remained orderly and supportive of the economy. The banking system has strong capital buffer to withstand any potential economic and financial shocks.

Banking System			
	2009		2010
	1Q	4Q	1Q
Capital position			
Risk-weighted assets (RM billion)	886.7	928.5	946.0
Capital base (RM billion)	120.4	142.6	140.8
Risk-weighted capital ratio (%)	13.6	15.4	14.9
Core capital ratio (%)	11.6	13.8	13.2
Profit before tax (RM million)			
Annualised return on equity (%)	16.7	16.1	15.2
Annualised return on assets (%)	1.4	1.5	1.4

Source: Bank Negara Malaysia

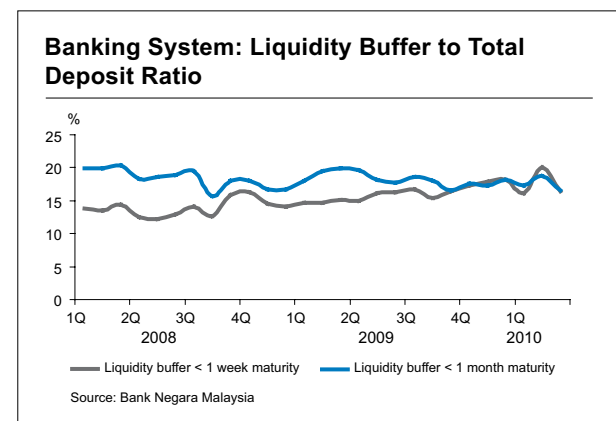
The level of capitalisation of the banking system remained strong albeit slightly lower than the end of 2009 position due largely to seasonal dividend payments by several banking institutions. The high quality of capital remained intact with Tier-1 capital comprising 76.5% of total capital. Capital buffers remained at a comfortable level of RM61.3 billion. Pre-tax profit for the quarter was sustained, supported by increase in net interest income from financing portfolio in tandem with the stronger loan demand and higher economic activities.

Banking System: Non-Performing Loans (NPL)¹			
	2009		2010
	1Q	4Q	1Q
Net NPL (RM million)	16,032.9	13,787.9	14,486.8
	%		
Net NPL ratio	2.2	1.8	1.8
Gross NPL ratio	4.6	3.7	3.5
Large Businesses	4.8	4.1	4.5
Small & Medium Enterprises	6.8	5.6	5.5
Households	4.1	3.1	2.8

¹ Beginning January 2010, loans are reported based on FRS 139. The adoption of FRS 139 requirement is based on the financial year of the banks. For banks that have adopted FRS 139, the level on NPLs reflects impaired loans.

Source: Bank Negara Malaysia

The quality of loan portfolio remained relatively stable during the quarter attributable to prudent underwriting practices and persistent active management of collection and recoveries. Beginning from the financial year 2010, the financing portfolio of banks is reported in accordance to FRS 139 Financial Instruments: Recognition and Measurement. The adoption of FRS 139 has manageable impact as banks have progressively been preparing for its implementation. The amount of impaired loans was slightly higher, particularly in the large business segment. Meanwhile, the quality of SMEs and household loans continued to strengthen, contributing to the stable overall NPL ratio. Loan loss coverage remained high at more than 90%.



The banks maintained sufficiently ample liquidity to meet demands for deposit withdrawals and other liquidity obligations. The liquidity buffer of the banking system for the maturity buckets of up to one week and one month remained comfortable at 16.4% and 16.5% of total deposits respectively (4Q 09: 18.1% and 18.2%). Meanwhile, loan-to-deposit ratio remained satisfactory at 79.2% (4Q 09: 77.9%).

Developments in the insurance and takaful sector

The insurance and takaful sector remained resilient with strong Capital Adequacy Ratio of 241.9% (4Q 09: 230%) and excess capital of RM23.3 billion. The profitability of the sector improved driven by broad-based increase in premium income as well as the favourable returns from investment activities given the positive conditions in the financial markets.

Excess income over outgo of life insurers improved to RM2.9 billion (1Q 09: RM2.0 billion) with improvements registered across all business

segments. Operating profits for the general business also rose from corresponding period in 2009 on account of higher income from motor and personal accident businesses and lower claims incurred.

Insurance and Takaful Sector: Profitability

	2009			2010
	1Q	4Q	Year	1Q
RM million				
Life/family business				
Excess of income over outgo	2,007.8	3,194.7	12,567.2	2,924.1
General business				
Operating profit	311.7	821.9	2,092.9	509.8

Source: Bank Negara Malaysia

Financial Inclusion Advisers Programme, Kuala Lumpur, 18 January 2010

Welcoming Remarks by

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

It is my pleasure to welcome you to the Financial Inclusion Advisers (FIA) Programme. While the global financial landscape is experiencing fundamental changes and as the discussions for financial reforms are being deliberated, of equal importance is the due attention to the financial inclusion agenda. This is vital to achieve balanced sustainable economic growth and broad based job creation.

Bank Negara Malaysia is most honoured to host and to jointly organise this Financial Inclusion Advisers Programme with the Japan International Cooperation Agency (JICA). This programme aims to provide practitioners from the financial services industry with a platform to share experiences in the development of successful business models for financial inclusion. It is also an opportunity for regulators to share knowledge and the experience on how to improve the enabling environment for financial inclusion including the institutional arrangements and ensuring its soundness and stability, thereby ensuring its sustainability.

Challenges in Achieving Financial Inclusion

The global financial crisis and the consequent global economic slowdown in 2009 had implications on the financial inclusion agenda. Disruptions in the functioning of financial markets has brought the focus of attention on financial stability issues. In addition, the collapse in demand following the financial crisis in the major economies resulted in a contraction in world trade. The synchronized recession which ensued has made it even more urgent not only to ensure that our financial systems are resilient and able to absorb external shocks but that sufficient attention and resources are also available for achieving the financial inclusion agenda.

We are now entering a period of improved international economic and financial conditions. However, even in times of economic stability, financial inclusion is a demanding endeavour. Firstly, the outreach needs to be comprehensive to include the low income and underserved segments, given that they are generally geographically dispersed and have low levels of financial literacy. Secondly, micro finance institutions need to generate sufficient sustainable returns to cover the high costs involved in providing such services and the lack of potential for economies of scale so as to remain viable. Thirdly, such financial institutions also face the challenges of obtaining sustainable and competitive funding.

Recognising the challenges in addressing these issues to achieve financial inclusion, this programme, which started more than two years ago, is an outcome of a proposal I made at the Langkawi Commonwealth Partnership for Technology Management (CPTM) Heads of Government meeting in 2007, which discussed the subject of poverty eradication through human capital development. The purpose of the Financial Inclusion Advisers programme was to provide practitioners and regulators in the area of financial inclusion with practical ideas via the sharing of knowledge and experiences on developing institutional structures, creating an enabling environment and enhancing financial literacy. The ideas and experiences shared could then be contextualised to the prevailing local conditions to enhance financial inclusion. This proposal was welcomed by the members and resulted in the first Financial Inclusion Advisers programme conducted in Lusaka, Zambia in April 2009. The success of this inaugural programme hosted led us to this second programme hosted here in Malaysia with the support of JICA. JICA has long been involved in capacity building in the African

continent, and we look forward to collaborating in the future in this area of building more inclusive financial systems.

The Malaysian Experience on the Financial Inclusion Agenda

In Malaysia, the commitment to the financial inclusion agenda is reflected in the new Central Bank of Malaysia Act 2009 which incorporates financial inclusion as an objective of the Central Bank. With the enactment of the Act in November of 2009, the Central Bank has imbedded in the legislation the financial inclusion agenda to ensure that future generation of central bankers will continue to direct efforts to building an inclusive financial system. Additionally, the Central Bank in the process of formulating a new blue print for the financial sector for the next decade. This blueprint would also ensure the development of a more inclusive financial system.

The results of the financial inclusion measures thus far have shown positive results. In 2009, the penetration of deposit accounts and loan accounts in Malaysia are 3,300 deposit accounts per 1,000 adults and 1,100 loan accounts per 1,000 adults respectively, which is amongst the highest in the world. This high level of financial inclusion is the result of conscious policies to build a progressive and inclusive financial system. The strategies implemented have generated six characteristics of the financial system.

First, a business environment that allows a diverse range of financial service providers to thrive and compete. This environment has led to the creation of commercial financial institutions with differentiated strategies based on their strengths and the delivery of a broader range of products and services that meet the diverse needs of consumers and businesses. The financial system also includes foreign financial institutions through a series of sequenced liberalisation measures as well as development financial institutions, cooperatives and Government agencies that complement the domestic commercial banking institutions. This approach leverages on the innovation and the implementation capabilities of the private sector and the diversity and dynamism of competitive

markets. At the same time, it has allowed the Government to have a complementary role in serving the segments that are under served by the private sector.

Second, basic banking products and services that are made available at reasonable costs. In February 2005, Bank Negara Malaysia issued a guideline that required all banks to provide such basic banking services. This guideline provided the definition of the features of basic savings and basic current accounts that had to be made available by the commercial banking institutions. This was aimed at ensuring that all segments of society had access to basic deposit and transaction services at a reasonable cost. Further, a framework for microfinance was also formulated to enable the provision of micro financing by financial institutions to micro enterprises. Micro financing rates are not capped to allow for it to be commensurate with the higher administrative costs involved in providing such services to micro borrowers. This is to allow financial institutions to remain viable and to remain sustainable.

Third, a diverse set of delivery channels have been introduced to ensure widespread access to financial services. The Central Bank's branching policy has encouraged financial institutions to establish an extensive branch network across the country to ensure widespread physical access to financial services. In 2008, there were 9 bank branches per 1,000 square kilometres and 24 ATMs per 1,000 square kilometres in Malaysia. In comparison, the global median is 7 bank branches per 1,000 square kilometres and 15 ATMs per 1,000 square kilometres respectively. Financial institutions are also encouraged to apply technology to further enhance the delivery of financial services. The increased usage of internet and mobile banking has also accelerated the migration to electronic payments and has widened the access of financial services in the more remote areas.

Fourth, is the enhanced financial literacy and consumer protection. With greater financial literacy and awareness, consumers will be protected from being exploited by predatory lending and investment scams, and will

be able to make better informed financial decisions. To protect the rights of consumers, a Consumer Protection Framework has been developed to enhance the disclosure standards of financial products and services, the various dispute resolution mechanisms and to institute fair practice amongst the financial service providers. The Central Bank has also established a one-stop service centre for the public, providing advisory services on financial matters. Finally, a Credit Counselling and Debt Management Agency has been established to provide counselling related to credit and debt management for individuals as well as to inculcate responsible money management habits.

Fifth, the supporting financial infrastructure to facilitate the operations of financial institutions is an important feature of the financial system. A hurdle to access to financing is the lack of credit history. In this regard, credit bureaus have been established to enhance access to financing by encouraging borrowers to build such credit records. In Malaysia, the Central Credit Reference Information System or CCRIS, has provided credit information via an on-line system since 2001. More recently in July 2008, the SME Credit Bureau commenced operations to assist SMEs to build track records thereby providing a balanced profile of the credit standing of SMEs thus, enhancing access to financing on more favourable terms.

Sixth, sufficient well trained finance professionals is vital to the performance of the financial sector. Financial services is an industry that is dynamic and complex, with rapid product innovation. To excel and produce results in a more challenging environment, practitioners of financial services need to be highly qualified and equipped with technical finance calibre and knowledge. Recognising the importance of human capital development in the industry, the Central Bank has established several centres of excellence for learning for the overall financial services sector, including covering the areas of corporate governance, leadership development and Islamic finance.

Conclusion

Let me conclude my remarks. This Financial Inclusion Advisers programme is an example of the smart partnership advocated by the CPTM movement. I would like to take this opportunity to thank CPTM and JICA as well as the participating resource institutions - Bank Rakyat Indonesia, National Bank for Agriculture and Rural Development (NABARD) of India, Amanah Ikhtiar Malaysia (AIM), SIRIM Berhad, Agro Bank and the Non-Aligned Movement - Centre for South-South Technical Cooperation (NAM-CSSTC) for contributing to this event. I also wish to welcome the members of the microfinance community from Kenya, Malawi, Tanzania, Uganda and Zambia to this programme.

Global Launch of Thomson Reuters Islamic Finance Gateway, Kuala Lumpur, 22 February 2010

Keynote Address by

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

"A milestone towards a more efficient and internationally integrated global Islamic financial system"

In this more challenging global economic and financial environment, Islamic finance has remained dynamic with a steady pace of innovation and fast growing as its expansion gains further momentum. This has demonstrated not only its viability and resilience but also its ability to remain competitive. This decade has also seen the increased internationalisation of Islamic finance as it extends its outreach to serve the global community. The accelerated development of the Islamic financial markets and the supporting international Islamic financial architecture as well as the trend towards greater liberalisation have increased the integration of Islamic finance into the international financial system.

Today's launch of the Islamic Finance Gateway by Thomson Reuters is indeed a welcome development. The timely access to a broad range of key information on Islamic finance including on the products terms, structures and Shariah rulings will contribute to enhanced transparency in the Islamic financial markets. As a platform that allows for price discovery, it will contribute towards the more efficient functioning of the various Islamic financial markets across the world. It will also foster a greater international understanding of Islamic financial practices in the various Islamic financial markets.

I have been informed that this Gateway will also include in its content, the Shariah resolutions database of the International Shariah Research Academy (ISRA) following the signing of the memorandum of understanding between Thomson Reuters and ISRA that is scheduled today. ISRA was established in 2008 to

provide a platform for greater engagement amongst practitioners, scholars, regulators, academicians in the area of Shariah and to promote applied research contemporary issues in Islamic finance. Their efforts have contributed to the harmonisation of Shariah interpretations and thus the standardisation of Shariah applications and practices in Islamic finance. ISRA has now become an important repository of knowledge for Shariah views or fatwas. The Reuters Islamic Finance Gateway thus has the potential to become an important vehicle for worldwide dissemination of high quality information on Islamic finance.

In performing the function as an aggregator of information on Islamic finance, the Gateway will showcase the dynamic pulse of the global Islamic financial services industry. This increased information flow across borders in real time will also reinforce the trend of the internationalisation of Islamic finance. There is already an increasing level of foreign participation in the Islamic financial markets resulting in the increase of cross border flows in the international Islamic financial system. The increased information flow would allow for the raising of funds in different jurisdictions and for the investor base to be broadened further. Liberalisation has also brought greater foreign institutional presence in national jurisdictions resulting in diversity of players in the Islamic financial systems. Cumulatively, these developments have strengthened further the international financial linkages between different jurisdictions and have contributed towards the more efficient allocation of resources across borders.

This recent global financial crisis has highlighted the risks associated with financial globalisation. Equally important in the process of internationalisation is therefore the quality

of this financial globalization in Islamic finance. Let me touch on two aspects of the financial globalisation of Islamic finance. Firstly, that Islamic finance has been more inclusive in terms of its outreach to not only the participation from the developed world but also from the emerging world, particularly from Asia and the middle-East. This leads to diversification and avoids risk arising from over concentration in particular jurisdiction. Moreover, with the relatively better growth prospects in the emerging world, strengthening the economic and financial inter-linkages among the emerging world would mutually reinforce these prospects. The increasing role of Islamic finance in bringing together different parts of the emerging world, and enhancing its links with the developed world would facilitate further this globalisation process.

The second aspect relates to the current increased global engagement by the international community to drive the financial reform agenda. As part of this process, it is important for this engagement to be extended

to the prudential standard setting entities for Islamic finance as Islamic finance becomes a growing component of the international financial system. While there needs to be recognition of the prudential standards that have been issued by the Islamic Financial Services Board, there also needs to be awareness by the international community of the implications of the new standards that is being introduced on the Islamic financial system. This is important given the common interest of global financial stability.

Let me conclude by saying that today's launch of the Islamic Finance Gateway by Thomson Reuters marks another important milestone in the international development of Islamic finance. Such a comprehensive information and trading portal for foreign and domestic participation in the Islamic financial system will contribute towards its efficiency and effectiveness as a form of financial intermediation. On this note, I wish to congratulate Thomson Reuters on the occasion of the official global launch of this Islamic Finance Gateway.

Office Monetary and Financial Institutions Forum (OMFIF) Global Lecture, Frankfurt, 1 March 2010

Opening Remarks by

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

It is my great pleasure to be here in Frankfurt to participate in this inaugural OMFIF meeting, and to speak at this evening's inaugural lecture at the Goethe University.

These are significant times for policymakers and the financial industry. As we come out of the worst international financial crisis in decades, there still remain some unresolved issues that need to be addressed. The recovery has prompted focus on exit strategies and on the search for more permanent solutions that will put the financial system on a more solid foundation. These issues are however being considered during a period of exceptional conditions. Of concern, is that this might significantly influence the direction of the reform agenda with its medium and long term implications which could be counter to solutions that would lead us to a path of stability and sustainable growth.

My remarks this evening will focus on three trends that are gaining significance in the global economy and the international financial system and their implications as we progress forward in this post crisis era. The first, is the increasing significance of Asia in the global economy; second, the extensive international regulatory reforms that is being envisaged by the international community; and third, the rapid growth of Islamic finance and its integration into the international financial system. These trends are set to become significantly more pronounced in the aftermath of this global financial crisis.

Asia and the global economy

After one of the worst economic crises in modern history, the global economy is now on the path of recovery but with a pace that is set to be uneven. There is now a global shift taking place arising from an increasing growth divergence between the advanced and emerging economies resulting in a change in the configuration of the

global economy. This is not only a consequence of the crisis related factors but also due to structural factors prevailing prior to the crisis.

We have seen extraordinary and unprecedented measures been taken by the advanced economies to restore stability and the functioning of the financial systems, and to contain the effects of the financial crisis on the economy. While a catastrophe has been averted, the recovery in the advanced world continues to be reliant on policy support, with structural factors yet to be addressed. The IMF's projection is for growth in the advanced economies for the period 2009 and 2014 to be 1.3% per annum, which is half of what was registered during the period 2000 to 2008.

The emerging economies, in general, and the Asian region in particular, have emerged with stronger growth. Several key factors have enabled this faster and stronger rebound. Firstly, is the policy flexibility to implement the monetary and fiscal stimulus. Strong fiscal positions and relatively low public debt levels have allowed many Asian governments to implement larger fiscal stimulus measures. Second, the financial sector in the region is in good shape, avoiding any disruption of credit flows to the private sector. The region has benefited from the decade long of financial reforms and development of the domestic financial infrastructure. The financial systems in Asia have remained resilient throughout this global financial turmoil. This will be an important factor in sustaining the economic recovery to support domestic private sector economic activity when the fiscal measures are gradually withdrawn. Third, households and the corporate sectors are not over-leveraged, and thus better positioned to sustain consumption and investment activity. Fourth, increased intra-regional trade in Asia has supported the recovery in regional trade activity. This has been reinforced by the strengthening of

the domestic demand in the region.

While domestic sources of growth have gained significance, trade will continue to be important but with a distinct change in the pattern of trade. Trade among the emerging economies has already increased, with this trend being most evident among the emerging economies in Asia. Intra-regional trade in Asia has already risen from 32% of total exports in 1995 to an average of 50% in 2008. Rapid trade liberalisation across Asia has improved market access. Rising incomes in the Asian region where more than half of the world population resides has generated a huge cumulative market. This increase in consumption demand has led to the development of an extensive modern retail sector across the region.

Supported by stronger economic fundamentals, emerging economies are expected to grow at higher rates over the next five years compared to the period prior to the crisis in 2000 to 2008. The IMF projects that emerging economies in Latin America, the Middle East, Africa and Asia will, on the average, grow by 6.1% in the period 2010 - 2014, higher than compared to the period 2000 - 2009. Asia's prospects during this period will be sustained by several structural factors. First, Asia has a favourable demographic structure with a relatively young population with a higher propensity to consume. The high savings rate in Asia also allows for higher consumption demand with more than adequate surplus to finance the required investments activity. In addition, financial intermediation in Asia is progressively deepening to meet the new financing needs of households and businesses.

In this more recent decade, greater financial integration is taking place. This financial integration will result in a more efficient recycling of Asian savings into investments within Asia. It has been estimated that Asia needs to invest about USD 8 trillion in infrastructure development over the next ten years. The effective channelling of Asia's large pool of savings into such productive investment activity in the region will certainly support more rapid growth and development in Asia. Economic and financial linkages are also being established with other emerging economies in other parts of the world thereby mutually reinforcing the prospects

for growth in the global economy. This will in turn contribute towards the rebalancing of global growth. The concentration of economic power in the global economy will become more dispersed.

International regulatory reforms

Let me now turn to the issue of financial regulatory reform.

The enormous scale, scope and costs of the global financial crisis has led governments, and regulatory and supervisory authorities from around the world to mount one of the most aggressive agendas of reform to financial regulation seen in recent times. The extent of these reforms has been almost as dramatic as the events that led to their creation. In particular, the potential impact that these reforms will have in re-defining the financial landscape in the future are significant, with broader implications for competition, innovation and ultimately, on the overall economic activity.

Certainly, strengthening financial regulation is an important goal. And the need to improve the design of financial regulation is not a point of contention. For many emerging economies - certainly in Asia - strengthening financial regulation and supervision and the development of the financial system has been an important priority, particularly in this recent decade and well before the onset of this crisis. Our resolve on this agenda has not changed since the crisis. On the contrary, it has served to sharpen our focus in contemplating measures to place our financial systems on a firmer foundation.

This crisis has focused attention on some important issues that calls for wide ranging regulatory responses. The degree of consensus on the spectrum of recommended reforms by the international community has however been mixed. Nevertheless, on some areas there has been a clear consensus. There is agreement that the regulatory framework needs to be more responsive to risk. Equally, there is agreement on the need to materially improve risk management in financial institutions, and to strengthen the role of supervisors in the oversight of financial institutions. The need to enhance safety nets, in particular, in the liquidity support arrangements and deposit insurance,

has also been widely acknowledged, as is the need for greater disclosure and transparency, particularly on off-balance sheet exposures. These have also been the areas of focus of most of the authorities in emerging Asia as we set to modernise our financial systems post the Asian financial crisis.

In other areas, there has been substantial debate by the international community. The first concerns the degree of balance of regulation. This crisis has shown that market discipline needs to be complemented by regulation. The question however has centred on how far the pendulum should swing towards greater regulation. Should regulatory constraints be imposed on size, leverage and activities of financial institutions? This would have significant implications on the role of the financial sector in the overall economy. The main reservation with such reforms has been whether they will in fact deliver greater financial stability beyond more basic and well designed changes to the regulatory architecture. It also raises the question as to whether it would significantly raise the cost of financial intermediation.

A central piece of the ongoing international debate on the regulatory reform agenda is the proposal on limiting the size of institutions. Whether this in itself will effectively reduce systemic risks has yet to be demonstrated. The experiences of Australia and Canada which have highly concentrated banking systems suggest that the control of systemic risk has less to do with size, and more to do with the effectiveness of risk management and supervision of the large institutions.

Malaysia shares this view. Following the Asian financial crisis, measures were taken to prompt the consolidation of our banking sector, thus creating larger institutions with enhanced capabilities not only to operate effectively in the domestic financial system but also beyond domestic borders. The focus is to emphasise on the investment in the risk management capabilities of not only management but also the board of the institutions. It is plausible that artificial restrictions on size or scope could result in a shift of systemic risks to closely inter-connected networks of smaller institutions which collectively pose a similar degree of systemic risk.

Emerging economies have great interest in the direction of these reforms. For the emerging economies in Asia, the banking system remains the largest component of the financial system. Regulatory, supervisory and legal reforms have generally focussed on effective governance and commensurate risk management capabilities. In Malaysia, the banking system leverage ratio is less than 11 times while the banking system risk-weighted capital ratio is 14.1% with tier-1 capital at 13.6%.

Equally important is the incentive structure in place for such financial institutions, the level of transparency and disclosure, effective surveillance and forward looking oversight by the authorities and the institutional arrangement for effective resolution of problem institutions that will facilitate the orderly exit of such institutions.

Ultimately, the consideration of appropriate reforms should not overlook the main goal of regulation. It needs to be recognised that achieving financial stability is a means to an end. The ultimate objective is sustainable growth and a shared prosperity. High regulatory costs and the increased burden on the intermediation process would materially affect economic activity while doing little to alter the risk taking behaviors which was a major factor causing the crisis. There needs to be an understanding of the impact of the proposed measures from the many dimensions including how they ultimately influence institutional behaviours. The challenges of carrying out such an assessment on a global scale is daunting, but the policy response must rise to the challenge in order to avoid unintended consequences that will be difficult to roll back without adding further burdens on the financial system.

The second key area of debate concerns the design of the institutional framework for financial stability. The main issues have tended to centre on the role of the central bank in financial stability and as to whether there should be a single or multiple supervisory authorities. Given that the central bank is the lender-of-last-resort in a crisis, the central bank is invariably in the frontline of action to restore stability. While there is no general

agreement on the optimal structure for the supervision function, it is recognised that financial systems have become increasingly complex and interconnected and whether a country adopts an integrated model or a model that is organized along sectoral lines, effective coordination is critical to support assessments of the overall risk exposures in the financial system. Moreover, the potential for regulatory arbitrage should be avoided.

A further case made for central banks to assume the banking supervision function is the informational efficiencies particularly for effective crisis management. The insights gained from the economic analysis and market operations performed by central banks for monetary policy objectives also contributes significantly towards more informed financial supervision. This includes providing a better understanding of the potential for macro-prudential measures as part of the supervisory responses. The chosen supervisory structure needs to credibly demonstrate that it is able to respond and adapt effectively to the fast-changing environment. Additionally, the capacity and capability of the authority in terms of the calibre, skills and expertise needs to be continuously reinvented to keep pace with the new and more complex developments. For most emerging economies, the largest concentration of talent generally resides in the central bank.

Malaysia has adopted an institutional arrangement in which the Central Bank is responsible for banking and insurance supervision. This arrangement has significantly benefited Malaysia, both during normal times and in crises, as demonstrated during the Asian financial crisis and during the recent market turbulence. During the episodes of crises, this arrangement has enabled the Bank to quickly harness the diverse set of critical skills, experience and information that resides in the Bank and allowed for prompt decisions and actions. The Bank has also been able to leverage on the established internal processes, structures and relationships that are already in place during normal times as part of performing our integrated surveillance function.

Islamic finance, global growth and stability

While these issues continue to be decided by the international community, the sustained and largely uninterrupted expansion of global growth in Islamic finance has drawn significant interest. Today, Islamic finance has evolved to become a viable and competitive component of the international financial system. Following the global financial crisis, discussions have increasingly turned to the prospects of the potential role and relevance of Islamic finance in contributing to global financial stability and in support of overall economic growth.

Islamic finance is predicated on Shariah, the Islamic law which requires that an Islamic financial transaction be supported by an underlying economic activity, thus ensuring that there is a close link between financial and productive flows. This fundamental principle is all about the basic banking function of providing financial services that adds value to the real economy. Financial flows in Islamic finance are therefore accompanied by the expansion of genuine productive activity. Under this arrangement it also avoids over-exposure to risks associated with excessive leverage. Secondly, Islamic finance is based on profit-sharing and therefore risk sharing. Islamic financial transactions, clearly defines the arrangements at the onset, and provides the incentive for the Islamic financial institutions to undertake appropriate due diligence to ensure that the profits are commensurate with the risks being assumed. Aspects of governance and risk management are therefore strongly emphasised in the arrangements. In particular, such contracts demand higher standards of disclosure and transparency to be observed which, in turn, act to strengthen market discipline and minimise informational asymmetries. There are also clear value propositions in Islamic finance for both investors and issuers. For investors, Islamic financial products offer portfolio diversification and new investment opportunities as they avail themselves to this new asset class. For issuers, Islamic finance allows access to a new source of funds and liquidity in addition to providing new risk management options.

As part of ongoing measures to further strengthen the resilience of Islamic finance, the Islamic Development Bank (IDB) in collaboration with the Islamic Financial Services Board (IFSB) has formed a Task Force on Islamic Finance and Global Financial Stability in 2008 to analyse and propose specific recommendations on the role and contribution of Islamic finance in promoting global financial stability and to outline the areas for strengthening the Islamic financial infrastructure including for putting in place the building blocks for liquidity and crisis management in the Islamic financial system.

In this recent decade, the increasing internationalisation of Islamic finance is being accompanied by new emerging global patterns of financial and economic interlinkages. This can be observed in the strengthening of ties in recent years between Asia and the Middle East in trade and investments in a wide range areas. Both Asia and the Middle East are increasingly recognised as dynamic growth regions in the global economy. The two regions have a history of strong trade ties that flourished on the old Silk Road, which served as a major global conduit between the ancient civilisations in the East and West until about the 14th century. Islamic finance today has revitalised these economic ties with the strengthening of the financial linkages between Asia and the Middle East, a trend that will generate mutually reinforcing growth prospects. The emergence of these new financial centres in Asia and the Middle East and their increased integration has paved the foundations for a New Silk Road. It has also opened up the prospects for developed economies to forge stronger financial linkages with these dynamic growth regions of Asia and the Middle East.

Islamic finance is well positioned to be a vehicle on the New Silk Road as the enabling supporting infrastructure is already in place. The required regulatory and legal frameworks for Islamic finance have also been established, not only growing in a number of countries in Asia and the Middle East, but also at the international level. It was with the establishment of the prudential standard-setting body, the IFSB in 2002 based in Malaysia that efforts to enforce common prudential standards have significantly progressed. Efforts towards the harmonisation

of Shariah interpretations and issues concerning mutual recognition are also at an advanced stage.

Today, Malaysia has a comprehensive and well-developed Islamic financial system, including a vibrant banking and takaful sector, and well-developed Islamic capital and money markets that operates in parallel with the conventional system. Our sukuk market is the largest in the world. The Islamic financial system in Malaysia is also well-supported by comprehensive Shariah, legal and regulatory and supervisory framework to ensure the soundness and stability of the Islamic financial system. We have also invested in human capital development to ensure a deep pool of talent and expertise to support the development of Islamic finance. For this purpose, Malaysia has established the International Centre of Education in Islamic finance (INCEIF) and The International Shariah Research Academy (ISRA) to support advanced education and research in Islamic finance.

With this now more developed Islamic financial services industry in Malaysia that includes the advanced development of Islamic financial institutions and markets, more aggressive liberalisation initiatives have been made in this sector to strengthen our interlinkages with financial markets in other parts of the world. This has also been reinforced by the further liberalisation of the capital account of the balance of payments and the implementation of tax neutrality measures. These initiatives are aimed at supporting the strengthening of trade and cross border investment activities through Islamic finance.

Concluding remarks

Let me conclude my remarks on these three major trends occurring in the world economy and the international financial system. Asia's role in the global economy, the international regulatory reform agenda and the development and expansion of Islamic finance is likely to have a growing influence on the global economy and financial system going forward. As we participate in this rapidly evolving environment, these new trends need to be taken into account in creating a global economic and financial order that is profoundly better than the one we have today.

CALENDAR OF EVENTS January – March 2010

18 January 2010

The Bank and Japan International Cooperation Agency (JICA) jointly organised the Financial Inclusion Advisers (FIA) Programme from 18-22 January in Kuala Lumpur. The programme focuses on developing human capital in the area of sustainable microfinance and provides a platform for regulators and microfinance practitioners to share experiences in enhancing financial inclusion. In her welcoming remarks, Governor Dr. Zeti highlighted that Malaysia is committed in ensuring that all segments of society continue to have access to financial services. The commitment to financial inclusion agenda is reflected in the new Central Bank of Malaysia Act 2009, which incorporates financial inclusion as an objective of the Bank. She also noted that the high level of financial inclusion in Malaysia is a result of conscious policies in building a sound, progressive and inclusive financial system that has supported the nation's balanced growth.

26 January 2010

At its first meeting for 2010, the Bank's Monetary Policy Committee (MPC) decided to leave the Overnight Policy Rate (OPR) unchanged at 2.00%. The MPC stated that recent economic indicators suggested the Malaysian economy had expanded favourably in the fourth quarter of 2009 and that the economic recovery is gaining strength. It added that the future thrust of monetary policy would remain accommodative to ensure that the economic recovery is well entrenched while at the same time prevent financial imbalances that could arise from interest rates being kept too low for a prolonged period of time.

24 February 2010

The Bank announced that the Malaysian economy registered a positive growth of 4.5% in the fourth quarter of 2009, amid strengthened domestic and external demand. Sustained growth in private consumption and increased public sector spending contributed to higher domestic demand. The implementation of the fiscal stimulus measures had gained further momentum during the quarter, providing an additional impetus to growth. Malaysia's export performance benefited from improvements in external demand, particularly regional economies and from stronger commodity prices. On the supply side, all economic sectors registered positive growth, with the exception of the mining sector. For the year as a whole, the Malaysian economy contracted by 1.7%. The headline inflation rate declined at a more moderate annual rate of 0.2% in the fourth quarter.

1 March 2010

In her speech at the Inaugural Official Monetary and Financial Institutions Forum (OMFIF) Global Lecture in Frankfurt, Governor highlighted three trends that are gaining significance in the global economy and the international financial system in the post crisis era. The first, is the increasing significance of Asia in the global economy; second, the extensive international regulatory reforms that is being envisaged by the international community; and third, the rapid growth of Islamic finance and its integration into the international financial system. She added that going forward, these trends are likely to have a growing influence on global economy and financial system and need to be taken into account in creating a better global economy and financial order.

3 March 2010

The Bank was once again awarded the “Best Central Bank in Promoting Islamic Finance” at the Islamic Finance news Awards 2009 Ceremony held at Mandarin Oriental Hotel, Kuala Lumpur. This is the fifth consecutive year that the Bank had won the award. In the second and third place were the Central Bank of Bahrain and the Central Bank of UAE, respectively.

4 March 2010

At its second meeting for 2010, the Bank’s MPC raised the OPR to 2.25%. The MPC noted that the stronger growth performance in the fourth quarter of 2009 affirms that the economic recovery is firmly established. Going forward, growth is expected to strengthen further, supported by domestic demand and continued improvement in external demand, particularly from the regional economies. Given this improved economic outlook, the MPC decided to adjust the OPR towards normalising monetary conditions and preventing the risk of financial imbalances that could undermine the economic recovery process. The MPC added that at the new level of the OPR, the stance of monetary policy continues to remain accommodative and supportive of economic growth.

5 March 2010

Following the Government announcement to provide a basic motor insurance coverage for third party bodily injury and death (TPBID) during the Budget 2010 Announcement, the Bank announced that it has been working closely with relevant authorities in formulating the proposed new TPBID scheme. The Bank will be engaging with relevant stakeholders, which include consumer, trade and industry associations as well as professional bodies, to obtain feedback prior to submitting the proposal to the Government for consideration.

24 March 2010

The Bank released its Annual Report and the Financial Stability and Payment Systems Report for 2009. At the press conference, Governor highlighted the swift implementation of the fiscal stimulus measures and the accommodative monetary policy that supported continued access to financing for households and businesses. These measures had contributed to the economic recovery in second half of 2009, resulting in an economic contraction of only 1.7% for the whole year. On the financial system, Governor noted that the Malaysian financial system stability was preserved throughout the year despite the challenging operating environment. Policy responses instituted at the early phase of the global crisis contributed to the stability of the financial system.

On the same day, the Finance Ministers and Central Bank Governors of the ASEAN Members States, China, Japan and Korea (ASEAN+3) and the Monetary Authority of Hong Kong, China, announced the Chiang Mai Initiative Multilateralisation (CMIM) Agreement that came into effect. The CMIM is a multilateral currency swap contract developed from the current CMI bilateral swap network to facilitate prompt and simultaneous currency swap transactions by participating countries through establishing a common decision making mechanism under a single contract. The total size of the CMIM currently is USD 120 billion.