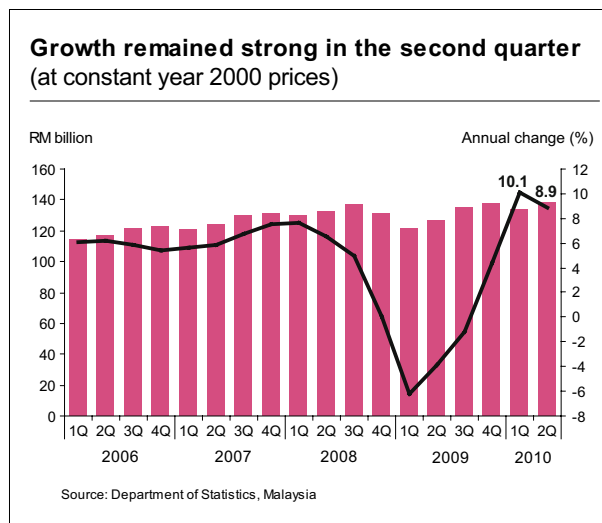


ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE SECOND QUARTER OF 2010

OVERVIEW

The Malaysian economy recorded a strong growth of 8.9% in the second quarter

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2010, driven by sustained expansion in domestic demand and continued robust growth in external demand. The stronger domestic demand was due to higher private and public sector spending, while the expansion in external demand spurred domestic production. On the supply side, major economic sectors continued to record strong growth during the quarter, led by the manufacturing and services sectors.



During the quarter, domestic demand expanded by 9% (1Q 10: 5.3%), due mainly to higher private consumption and continued improvements in both business and public sector spending. Private consumption grew by 7.9% (1Q 10: 5.1%), supported by the favourable labour market conditions, relatively low inflation and a steady increase in income levels amid sustained consumer confidence. The public sector contributed positively to growth, with public consumption expanding by 6.9% during the quarter, following higher expenditure on emoluments. Gross fixed capital formation also increased, registering a stronger growth of 12.9% (1Q 10: 5.4%), supported by further

improvement in private sector investment activity and sustained public sector capital expenditure. Private sector capital spending continued to benefit from the relatively strong increase in domestic production and exports. Public sector capital expenditure provided additional impetus to the domestic economy, with development expenditure disbursed mainly to the education and transportation sectors.

On the supply side, major economic sectors registered strong expansion during the second quarter, driven by the manufacturing and services sectors. The manufacturing sector expanded at a sustained pace of 15.9% (1Q 10: 17%), with broad-based growth across all clusters. The services sector grew strongly by 7.3% (1Q 10: 8.5%), supported mainly by the strong performance of the wholesale and retail trade; finance and insurance; and transport and storage sub-sectors. The construction sector expanded by 4.1% during the quarter (1Q 10: 8.7%), supported mainly by the strong growth in the non-residential sub-sector. Growth in the agriculture sector moderated to 2.4% (1Q 10: 6.8%) due to lower production of industrial crops, while the mining sector registered a growth of 1.9% (1Q 10: 2.1%) supported by higher production of natural gas amid lower production of crude oil.

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), increased by 1.6% on an annual basis in the second quarter (1Q 10: 1.3%). The increase in consumer prices was attributable mainly to the rise in the prices of *food and non-alcoholic beverages* (2Q 10: 2.4%, 1Q 10: 1.4%).

In the external sector, the trade surplus narrowed to RM23.4 billion in the second quarter (1Q 10: RM38.9 billion) as gross imports increased faster than gross exports. Gross exports grew by 21.7% (1Q 10: 30.7%), supported by robust demand for E&E products and sustained demand for non-E&E exports and minerals, particularly from the regional economies. Meanwhile, gross imports expanded at a robust pace of 30.3% (1Q 10: 35.1%),

driven mainly by strong growth of imports of intermediate and capital goods. Intermediate imports rose in tandem with the growth in manufactured exports, while the higher capital imports reflected improved domestic capital spending activity. In addition, the expansion in consumption imports was driven by imports of food and beverages and motor vehicles, in line with the improvement in private consumption.

On a cash basis, gross inflows of foreign direct investment (FDI)¹ amounted to RM4.7 billion in the second quarter (1Q 10: RM4.9 billion). After adjusting for gross outflows due to repayment of inter-company loans, net FDI recorded a larger net inflow of RM1.8 billion (1Q 10: +RM0.2 billion). During the quarter, FDI was channelled mainly into the electrical and electronics as well as petroleum-related industries. Net direct investment abroad by Malaysian companies amounted to RM2.5 billion in the second quarter (1Q 10: -RM3.2 billion), largely for investments in the services and oil and gas sectors. Meanwhile, there were further inflows of portfolio investments of RM6.6 billion in the second quarter (1Q 10: +RM3.8 billion) due to strong foreign participation in debt securities.

The international reserves of Bank Negara Malaysia amounted to RM309.8 billion (equivalent to USD94.8 billion) as at 30 June 2010, and RM310.6 billion (equivalent to USD95 billion) as at 30 July 2010. The reserves position is sufficient to finance 7.9 months of retained imports and is 4.3 times the short-term external debt.

Monetary policy supported economic activity

The Overnight Policy Rate (OPR) was raised by 25 basis points in May 2010, and a further 25 basis points in July 2010. The upward adjustment of the OPR was undertaken to reflect the improved economic outlook and to normalise monetary conditions. At the new level

of 2.75%, the OPR remains accommodative and is considered to be appropriate and consistent with the assessment of growth and inflation.

Subsequent to the increase in the OPR on 4 March and 13 May 2010, the average overnight interbank rate (AOIR) traded higher and interbank rates of other maturities also increased accordingly. In terms of the commercial banks' lending rates, both the average base lending rate and the average lending rate adjusted upwards. The average fixed deposit (FD) rates also rose in tandem.

Financing activity improved further as financing continued to be available to all segments of the economy. The accommodative monetary condition supported financing activity. Furthermore, the continued improvement in domestic economic activity added further impetus to private sector demand for financing. Gross financing raised by the private sector through the banking system and the capital market increased to RM203.4 billion in the second quarter. The high level of gross financing was on account of increased loan disbursements and private debt securities (PDS) issuances. Financing to both the business and household sectors expanded further during the second quarter.

Net funds raised in the capital market by both the public and private sectors amounted to RM17.6 billion (1Q 10: RM22.6 billion). The bulk of funds was raised by the private sector through issuances of PDS. In the public sector, funds were raised through issuances of Malaysian Government Securities (MGS), Government Investment Issues (GII), as well as via issuances of Sukuk.

Monetary aggregates continued to grow at a sustained pace in the second quarter. M3, or broad money, expanded at an annual growth rate of 8.8% as at end-June 2010 (end-March 2010: 8.7%).

¹ The statistics for FDI does not include retained earnings.

During the quarter, the ringgit appreciated by 0.5% against the US dollar as signs of further economic recovery in the region contributed to favourable investor sentiments toward the regional financial markets. The ringgit also appreciated against the euro (10.2%) and pound sterling (0.5%), but depreciated against the Japanese yen (-4.8%). The euro depreciated against most currencies due to concerns over the sovereign debt issues in several of the euro area economies. The ringgit appreciated against most regional currencies in the range of 0.1% to 8.8%.

The financial sector remained resilient

Financial stability remained intact throughout the second quarter supported by well-capitalised financial institutions. Financial intermediation activity remained supportive of domestic economic activity. While the financial market exhibited some increase in volatility following developments related to the sovereign debt crisis in some countries in Europe, the domestic markets remained orderly.

The risk-weighted capital ratio and core capital ratio of the banking system were 14.8% and 12.9% respectively with more than RM60 billion worth of financial buffer. Net non-performing loans (inclusive of impaired loans) accounted for 2.2% of net loans. Loan loss provisions remained ample at more than 90%. Pre-tax profit was sustained for the quarter on account of higher income from financing portfolio and fee-based activities, resulting in returns on equity and assets of 16.5% and 1.5% respectively.

Capital Adequacy Ratio for the insurance industry was 223.5%. Insurance and takaful operators recorded profits totalling RM3.5 billion

supported by continued increase in premium income following strengthened demand for insurance protection in line with improvements in economic activities.

Strengthening domestic demand to support growth in the second half of 2010

The recovery of the global economy was uneven in the second quarter as the sovereign debt crisis in the euro area escalated. Major advanced economies achieved a moderate recovery following improvements in private sector demand, but consumer and business sentiments eased towards the latter part of the quarter given the uncertainties arising from the sovereign debt crisis in several economies. Meanwhile, most regional economies continued to sustain strong growth in the second quarter, supported by robust domestic and external demand. Going forward, there is increased risk of a moderation in the global growth momentum following rising concerns over the ongoing sovereign debt crisis and the planned fiscal consolidation in several advanced economies.

The Malaysian economy recorded a strong and broad-based expansion in the second quarter, supported by improving domestic demand and robust external demand, especially from the regional economies. Going forward, the domestic economy is expected to remain strong, sustained by robust private sector demand. While external developments may result in a moderation in the pace of growth, favourable employment conditions, sustained consumer and business sentiments, moderate inflation and an accommodative policy environment are expected to encourage domestic economic activity, while external demand would continue to be supported by regional demand.

DEVELOPMENTS IN THE SECOND QUARTER OF 2010

INTERNATIONAL ECONOMIC ENVIRONMENT

Uneven recovery in the global economy as the sovereign debt crisis in the euro area escalated

The recovery in the global economy continued to be uneven in the second quarter as the sovereign debt crisis in the euro area escalated. Major advanced economies sustained a moderate recovery due to improvements in private demand but consumer and business sentiments eased towards the latter part of the quarter on the prospects of impending fiscal austerity measures in several economies. After registering an exceptional growth performance in the first quarter, most regional economies continued to sustain strong growth in the second quarter, due to robust domestic and external demand. Conditions in the international financial markets deteriorated as several euro area economies faced difficulties in refinancing their sovereign securities in late April. The crisis culminated in a €750 billion European Financial Stability Facility mechanism and the European Central Bank's emergency measures in early May. However, persistent concerns on the health of the banking sector in the euro area led the authorities to conduct stress tests on 91 banking institutions in the euro area in July. Inflationary pressures across most economies remained moderate during the quarter.

The **US** economy grew at a slower rate of 2.4% in the second quarter (1Q 10: 3.7%). While growth continued to be supported by private consumption, fixed investment, and government spending, the moderation was due to a bigger decline in net exports and lower contribution in inventory build-up. Private consumption showed continued growth as households were supported by higher income and improving labour market conditions as hiring rose by 621,000 in the second quarter (1Q 10: +261,000). However, consumer confidence had begun to trend downwards towards the end of the quarter, reflecting the cautious outlook of households on the economy. The drag to growth also came from higher imports of capital goods which rose in

tandem with private investment. Inflation grew at a slower rate of 1.8% (1Q 10: 2.4%) due to lower energy prices.

The **Japanese** economy expanded at a more moderate pace of 0.4% in the second quarter (1Q 10: 4.4%), supported by strong external demand while domestic demand remained weak. Exports grew by 33.4% in the second quarter (1Q 10: 43.2%), due primarily to robust shipments to Asia. On the domestic side, household spending declined by 0.3% (1Q 10: 1.9%) as government stimulus waned while the unemployment rate rose to 5.2% (1Q 10: 4.9%). On the inflation front, core consumer prices (excluding fresh food) declined by 1.2% (1Q 10: -1.2%), due mainly to government measures which lowered education costs.

Euro area experienced a strong growth of 1.7% on an annual basis (1Q 10: 0.6%) as the expansion in external demand in core economies, especially Germany, outweighed the deterioration in domestic demand in the peripheral economies. Exports rose by 22.6% (1Q 10: 12.1%) on the strength of demand from Asia. On the domestic demand, private consumption indicators remained weak following moderating consumer confidence and deteriorating retail sales growth, particularly in those countries implementing fiscal austerity measures. On the inflation front, consumer prices increased by 1.5% (1Q 10: 1.1%) following higher import prices due to the depreciation of the euro.

In the **UK**, real GDP increased by 1.6% in the second quarter (1Q 10: -0.2%), the first positive annual growth since the second quarter of 2008. The improvement was broad-based across all sectors, supported by continued rebound in both production and exports. In addition, domestic demand gained momentum during the quarter as indicated by higher growth in retail sales as well as improvement in the labour market. Nonetheless, consumer sentiments weakened following concerns over the near-term impact from the announcement of fiscal austerity measures. Meanwhile, inflation rose slightly to 3.4% during the quarter (1Q 10: 3.3%), due to the restoration of the standard rate of Value

Advanced Countries: Real GDP Growth

	2009		2010		Key contributing factors for 2Q growth	
	2Q	1H	1Q	2Q		1H
	Annual change (%)					
US ¹	-0.7 ^r	-4.0 ^r	3.7 ^r	2.4 ^a	2.8 ^a	Moderation in growth due to bigger decline in net exports and lower contribution in inventory investment.
Japan ¹	10.4 ^r	-7.3 ^r	4.4 ^r	0.4 ^p	3.2 ^p	Moderation in growth due to lower contribution of private consumption and net exports and a larger drawdown in inventory.
Euro area	-5.6	-5.5	0.6	1.7 ^a	1.2 ^a	Growth led by expansion in external demand in core economies.
UK	-5.9	-5.7	-0.2	1.6 ^p	0.7 ^p	Growth mainly due to increases in business services and construction activities.

¹ Annualised basis
^r Revised
^a Advance estimate
^p Preliminary

Source: National authorities

Added Tax to 17.5% in January and to some extent, the effect of the depreciation of the pound sterling on import prices.

Central banks in major advanced economies have responded swiftly to the escalation of the sovereign debt crisis in the euro area since late April. On the 9 and 10 May, as the global financial markets came under intense pressure and volatility, the **European Central Bank (ECB)**, in co-ordination with the €750 billion European Financial Stability Facility mechanism, 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 market to restore the functioning of the affected markets. During the quarter, ECB purchased €60 billion of securities. Second, the ECB will provide emergency liquidity to banks in the form of unlimited three- and six-month funds at a fixed rate. Third, the ECB reactivated the US dollar swap lines with the **Federal Reserve (the Fed)**, **Bank of Japan (BoJ)**, **Bank of England (BoE)**, Bank of Canada and Swiss National Bank to maintain US dollar liquidity in the financial markets. Meanwhile, other advanced economies such as Australia, Canada, Sweden and Norway continued to raise their policy rates during the quarter to normalise monetary conditions.

Global **crude oil prices**² declined to an eight-month low of USD68 per barrel on 20 May, weighed down by increased inventory level and concerns over the prospects of global growth which would dampen demand for oil. Nevertheless, the trend reversed in the latter

part of the quarter due to expectations of strong demand from the emerging economies as well as the possibility of adverse weather conditions that may cause supply disruption in the Gulf of Mexico. Global crude oil prices ended the quarter at USD76 per barrel. For the whole quarter, crude oil prices averaged USD78 per barrel (1Q 10: USD79 per barrel).

In **Asia**, most economies in the region continued to sustain strong growth in the second quarter, underpinned by resilient domestic and external demand. Private consumption remained robust, supported by improved labour market conditions and lending activities. The strength in investment and export activities was sustained by continued demand from within the region and the advanced economies. **Singapore's** economy recorded a stronger-than-expected growth of 18.8% in the quarter (1Q 10: 16.9%), due mainly to strong growth in the manufacturing sector, particularly in the electronics and biomedical sub-sectors. In **Indonesia**, the economy grew stronger by 6.2% in the quarter (1Q 10: 5.7%) supported by stronger consumption and investment. **PR China's** economy expanded at an annual pace of 10.3% in the second quarter (1Q 10: 11.9%), as all sectors recorded moderating growth following policy tightening measures by the authorities to cool down the economy. **Korea's** real GDP grew by 7.2% in the quarter (1Q 10: 8.1%), supported by continued expansion in exports and manufacturing activities. In **Hong Kong SAR**, the economy registered a growth of 6.5% in the quarter (1Q 10: 8%) supported by exports and domestic demand.

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

Regional Countries: Real GDP Growth

	2009		2010			Key contributing factors for 2Q growth
	2Q	1H	1Q	2Q	1H	
	Annual change (%)					
Singapore	-1.7	-5.6	16.9	18.8	17.9	Stronger growth in the manufacturing sector due to biomedical and electronics sub-sectors.
PR China	7.9	7.4	11.9	10.3	11.1	Moderate growth in all sectors following policy tightening measures to tighten bank lending and cool the property market.
Korea	-2.2	-3.2	8.1	7.2 ^a	7.6	Continued expansion in manufacturing activity and exports.
Hong Kong SAR	-3.8	-5.7	8.0	6.5	7.3	Growth supported by exports and domestic demand.
Indonesia	4.1	4.3	5.7	6.2	5.9	Growth supported by private consumption and investment activities.

^a Advance estimate

Source: National authorities

Amid robust growth and a gradual rise in inflationary pressures, more central banks in Asia moved towards normalising their policy interest rates. The **Central Bank of the Republic of China (Taiwan)** increased its discount rate by 12.5 basis points to 1.375% in June following accelerating economic recovery and rising consumer and property prices. The **Bank of Korea** raised its base rate by 25 basis points to 2.25% in July to contain inflation. Similarly, the **Bank of Thailand** increased its 1-day repurchase rate by 25 basis points to 1.50% in July in view of a more entrenched economic recovery amid modest inflationary pressures. The **Reserve Bank of India** also raised its repurchase rate to 5.75%, by 25 basis points each in two separate meetings in July, to contain rising inflation.

In the **foreign exchange markets**, most major currencies depreciated against the US dollar during the second quarter following the escalation of the sovereign debt crisis in the euro area. Both the euro and pound sterling weakened against the dollar, with the euro reaching its lowest level since March 2006, due to rating downgrades, concerns over the impact of fiscal austerity measures

and questions over the health of the banking sector in the euro area. The heightened investor risk aversion also benefited the yen, which strengthened broadly against the US dollar in the last two months of the quarter. Meanwhile, regional currencies appreciated against the US dollar in the first month of the quarter, supported by optimism over better growth prospects for the region. However, the trend reversed in the latter part of the quarter following renewed sovereign debt problems in the euro area. Most regional currencies had reacted positively albeit temporarily to PR China's move to increase the flexibility of the yuan's exchange rate but the situation in the euro area continued to dictate the trend in regional currencies against the US dollar.

Going forward, downside risks to global growth have increased in view of the ongoing sovereign debt concerns and the planned fiscal consolidation in several advanced economies. The strength of the global recovery will hinge critically on the credibility of fiscal austerity measures being implemented in many advanced economies and market confidence on a swift resolution to the sovereign debt problems in the euro area.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth remained strong in the second quarter

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2010, supported by sustained expansion in domestic demand and continued robust growth in external demand. The stronger domestic demand was on account of an expansion in both the private and public sector spending. External demand benefited from an increase in demand from the regional economies, particularly for crude oil and natural gas. On the supply side, major economic sectors registered a strong expansion led by both the manufacturing and services sectors.

Domestic demand expanded at a faster rate

Domestic demand expanded by 9% in the second quarter (1Q 10: 5.3%). The stronger growth momentum in domestic demand was supported by the increase in private consumption and continued improvements in both business and public sector spending.

Private consumption gained further momentum to grow by 7.9% in the second quarter (1Q 10: 5.1%), supported by the favourable labour market conditions, relatively low inflation and a steady increase in income levels. Robust consumer spending during the quarter was corroborated by the strong performance of major consumption indicators. These include imports of consumption goods, sales of passenger cars, credit card spending, bank lending to households, and wages in the manufacturing sector. Private consumption was also supported by sustained consumer confidence, with the MIER Consumer Sentiments Index at 110.4 points in the second quarter (1Q 10: 114.2 points), indicating that households continued to have a positive outlook on the economy.

Public consumption expanded by 6.9% (1Q 10: 6.3%), led by higher expenditure on emoluments.

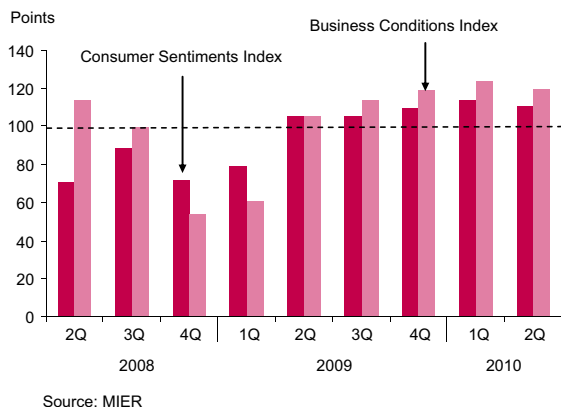
Gross fixed capital formation increased strongly by 12.9% (1Q 10: 5.4%), supported by a further improvement in private sector investment and sustained public sector capital spending. Private sector capital spending in the second quarter continued to benefit from the relatively strong increase in domestic production and exports. The higher business spending was reflected in the strong performance of major investment indicators such as imports of capital goods, sales of commercial vehicles, the capacity utilisation rate and bank lending to businesses. During the quarter, business sentiments continued to be positive as reflected by the MIER Business Conditions Index, which remained well above the 100-point level (119.6 points; 1Q 10: 124 points). Meanwhile, public sector capital expenditure provided additional impetus to the domestic economy. Government development expenditure in the second quarter was mainly channelled into the education and transportation sectors.

GDP by Expenditure Components (at constant 2000 prices)

	2009		2010		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	-2.2	-2.7	5.3	9.0	7.2
Consumption	0.6	0.2	5.3	7.7	6.5
Private sector	0.3	-0.2	5.1	7.9	6.5
Public sector	1.5	1.5	6.3	6.9	6.6
Gross Fixed Capital Formation	-9.6	-10.4	5.4	12.9	9.4
Net Exports	-6.7	15.0	-12.9	-38.4	-23.3
Exports of Goods and Services	-17.9	-16.7	19.3	13.8	16.5
Imports of Goods and Services	-19.4	-21.1	27.5	21.9	24.5
GDP	-3.9	-5.1	10.1	8.9	9.5

Source: Department of Statistics, Malaysia

Business and consumer sentiments sustained



Sustained robust growth in the manufacturing sector

The **manufacturing sector** sustained its robust performance, growing by 15.9% in the second quarter (1Q 10: 17%). Growth was broad-based across all clusters amidst favourable external and domestic demand conditions.

Growth in the **export-oriented industry** was led by the E&E cluster, which continued to register a robust growth in production (29.9%, 1Q 10: 36.0%), driven mainly by demand for both semiconductors and audio-visual products. Growth in the primary-related cluster was sustained, supported by demand for chemical and rubber products.

Meanwhile, growth in the **domestic-oriented industry** strengthened further, due mainly to continued robust expansion in the construction-related cluster. The consumer-related cluster also grew strongly, supported by growth in the transport and food products segments.

Quarterly GDP by Economic Activity (at constant 2000 prices)

	2009		2010		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Agriculture	0.4	-2.0	6.8	2.4	4.5
Mining	-3.5	-4.4	2.1	1.9	2.0
Manufacturing	-14.5	-16.2	17.0	15.9	16.4
Construction	4.5	2.9	8.7	4.1	6.3
Services	1.7	0.8	8.5	7.3	7.9
Real GDP (Annual Change)	-3.9	-5.1	10.1	8.9	9.5
Real GDP (Preceding Change)	4.6	-7.1	-2.6	3.5	0.1

Source: Department of Statistics, Malaysia

Continued strong growth in most sectors

On the supply side, major economic sectors recorded strong expansion in the second quarter. Growth was led by the manufacturing and services sectors, supported by the continued strength of domestic and external demand. The construction sector continued to expand, supported mainly by the strong growth in the non-residential sub-sector. Meanwhile, the mining sector recorded the second consecutive quarter of positive growth, supported by higher production of natural gas. The agriculture sector registered a more moderate growth, mainly reflecting the lower production of crude palm oil as well as lower forestry and logging activities.

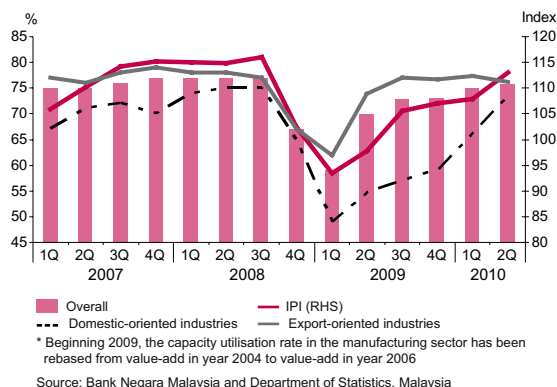
Performance in the Manufacturing Sector

	2009		2010		
	2Q	1H	1Q	2Q	1H
	Annual Change (%)				
Value Added (at constant 2000 prices)	-14.5	-16.2	17.0	15.9	16.4
Overall Production¹	-14.9	-16.8	15.3	15.6	15.5
Export-oriented industries	-16.4	-18.4	14.5	14.0	14.2
Electronics and electrical products cluster	-31.0	-33.2	36.0	29.9	32.9
<i>Of which:</i>					
Electronics	-34.9	-35.6	24.0	19.4	21.6
Electrical products	-21.5	-27.2	65.0	50.7	57.1
Primary-related industry cluster	-6.6	-8.7	4.5	6.1	5.3
<i>Of which:</i>					
Chemicals and chemical products	-2.7	-10.3	24.7	10.4	17.1
Petroleum products	-5.4	-1.1	-22.1	-1.6	-12.6
Rubber products	-7.5	-14.4	37.8	17.4	26.8
Off-estate processing	-4.5	-6.2	4.3	0.1	2.1
Domestic-oriented industries	-9.4	-10.9	18.1	21.2	19.7
Construction-related cluster	-16.5	-18.8	21.8	21.8	21.8
<i>Of which:</i>					
Construction-related materials	-22.9	-26.1	27.2	26.5	26.8
Fabricated metal products	-6.8	-7.2	14.9	16.0	15.5
Consumer-related cluster	-3.5	-4.4	15.6	20.7	18.2
<i>Of which:</i>					
Transport equipment	-13.5	-12.2	40.5	37.7	39.1
Food, beverage & tobacco products	-0.3	-2.6	2.5	12.3	7.4

¹ Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Capacity utilisation rate in the manufacturing sector*



Overall capacity utilisation rate in the manufacturing sector increased to 76% in the second quarter (1Q 10: 75%), with the export- and domestic-oriented industries operating at 76% and 74% of total capacity respectively (1Q 10: 77% and 66% respectively).

Strong growth in the services sector

The **services sector** recorded a strong growth of 7.3% in the second quarter (1Q 10:

8.5%), contributing 4.2 percentage points to overall GDP growth. Growth was supported mainly by the wholesale and retail trade; finance and insurance; and transport and storage sub-sectors.

The **wholesale and retail trade** sub-sector registered a growth of 8.4% (1Q 10: 9.6%), driven mainly by higher private consumption, including demand for new passenger cars. The **finance and insurance** sub-sector grew by 8.4% (1Q 10: 6.4%), supported by higher net interest income and insurance premiums collectable during the quarter.

The **transport and storage** sub-sector expanded by 9.2% (1Q 10: 8.1%), in line with the continued strength of trade activities, which led to higher demand for cargo-related services. Growth in the sub-sector was further supported by increased demand for passenger travel.

Meanwhile, the **real estate and business services** sub-sector registered a lower growth of 2.6% in the quarter (1Q 10: 14.2%), due primarily to lower activity in the capital market.

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

	Share 2009 (%)	2009		2010		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Intermediate Services	43.6	2.5	1.1	8.4	7.2	7.8
Finance & insurance	20.4	3.9	2.9	6.4	8.4	7.5
Real estate & business services	9.4	3.9	-1.1	14.2	2.6	8.1
Transport & storage	6.6	-6.4	-5.2	8.1	9.2	8.7
Communication	7.2	5.8	5.3	6.8	8.4	7.6
Final Services	56.4	1.1	0.5	8.6	7.4	8.0
Wholesale & retail trade	23.2	0.1	-0.8	9.6	8.4	9.0
Accommodation & restaurant	4.3	2.9	2.5	5.5	5.8	5.7
Utilities	5.2	-1.1	-4.6	16.6	9.0	12.6
Government services	13.2	0.3	1.1	8.1	8.5	8.3
Other services	10.5	4.4	4.8	4.7	3.8	4.2
Total Services	100.0	1.7	0.8	8.5	7.3	7.9

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2009				2010	
	1Q	2Q	3Q	4Q	1Q	2Q
	Index					
MIER Consumer Sentiment Index	78.9	105.8	105.4	109.6	114.2	110.4
MIER Retail Trade Index	52.3	76.3	100.7	111.0	106.9	134.1
MIER Tourism Market Index	78.1	75.8	88.7	114.1	120.5	118.2
	Annual change (%)					
Tourist arrivals	2.2	4.7	12.4	9.5	5.3	2.4 ¹
Total passenger traffic at all airports	-4.6	5.2	10.4	15.8	20.3	14.1
Total consumption credit outstanding	8.5	6.8	6.6	7.6	9.5	10.7
Loans outstanding to the wholesale & retail trade, hotels & restaurants	3.8	-1.6	-3.9	-1.0	4.5	8.6
Imports of consumption goods	-4.3	-8.3	-4.4	6.3	18.5	13.3
Total sales of motor vehicles	-8.1	-11.1	-3.5	17.6	22.7	17.4
Container cargo handled (Port Klang and PTP)	-10.6	-6.4	-1.7	11.8	22.5	21.3

¹ Apr-May 2010

Source: Various sources

Moderate growth in the commodities sector

Growth in the **agriculture sector** moderated to 2.4% in the second quarter (1Q 10: 6.8%), reflecting the lower production of industrial crops. Crude palm oil production declined, while rubber production moderated amidst unfavourable weather conditions. The **mining sector** recorded the second consecutive quarter of positive growth of 1.9% (1Q 10: 2.1%), supported by higher production of natural gas.

Performance of the Mining Sector

	2009		2010		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at constant 2000 prices)	-3.5	-4.4	2.1	1.9	2.0
Production					
<i>Of which:</i>					
Crude oil and condensates	-1.8	-3.8	-2.5	-3.1	-2.8
Natural gas	-6.5	-6.9	8.8	10.0	9.3

Source: PETRONAS
Department of Statistics, Malaysia

Performance of the Agriculture Sector

	2009		2010		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at constant 2000 prices)	0.4	-2.0	6.8	2.4	4.5
Industrial Crops	-5.1	-9.4	8.0	-3.6	1.8
Food Crops	8.0	8.5	5.6	9.9	7.8
Production					
<i>Of which:</i>					
Crude palm oil	-3.0	-3.4	1.9	-0.4	0.7
Rubber	-21.7	-31.7	34.6	0.0	17.4
Fish	14.4	13.8	4.4	8.9	6.7
Livestock	8.6	4.3	7.5	2.6 ¹	5.5 ²

¹ Apr-May 2010

² Jan-May 2010

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

Growth in the construction sector moderated

The **construction sector** expanded by 4.1% in the quarter (1Q 10: 8.7%), supported mainly by the strong growth in the non-residential sub-sector. The strong activities in the non-residential sub-sector reflected the construction of office space, schools and Government quarters. Meanwhile, the continued expansion in the civil engineering sub-sector reflected progress in the implementation of several infrastructure projects, such as the construction of highways, the double-track rail project, the second Penang Bridge, the new Low Cost Carrier Terminal, as well as gas pipeline in Sabah and Sarawak. However, the construction of residential properties was lower during the quarter.

Indicators for the Construction Sector					
	2009		2010		
	2Q	1H	1Q	2Q	1H
Annual change (%)					
New sales and advertising permits	-9.1	-16.8	32.0	15.8	22.6
Housing approvals	-17.4	-23.7	13.9	7.4	10.3
Production ¹ of construction-related materials	-16.5	-18.8	21.8	21.8	21.8
Loans approved for construction	-26.1	-38.2	40.5	43.7	42.2
Imports of construction materials and mineral products	-5.0	-12.7	53.8	25.7 ²	41.5 ³

¹ Industrial Production Index (2005=100)
² Apr-May 2010
³ Jan-May 2010
Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

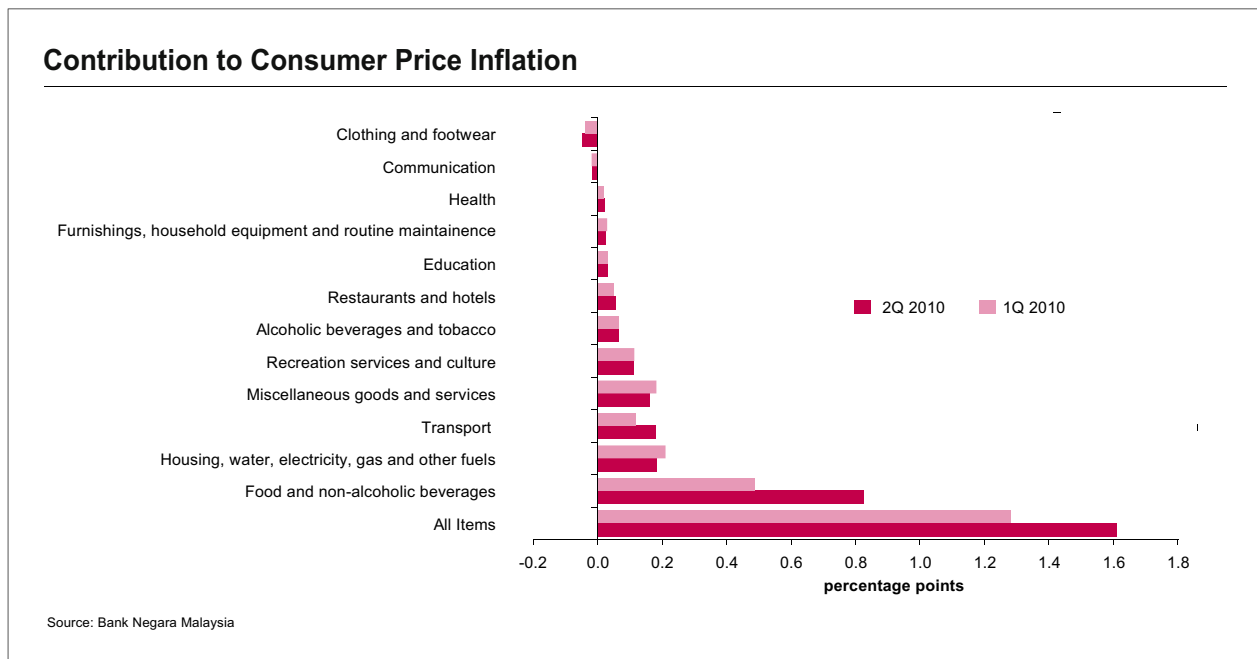
Inflation increased in the second quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), increased by 1.6% on an annual basis in the second quarter (1Q 10: 1.3%). The increase in consumer prices was attributable largely to *food and non-alcoholic beverages*, which rose by 2.4% (1Q 10: 1.4%). The increase in food prices was primarily a result of the significant increase of 10.5% (1Q 10: 1.1%) in the *vegetables*

sub-category, arising from the reduced supply of imported vegetables and lower local supply following the shortage of foreign labour domestically. The *transport* category also registered an increase of 1.1% in the second quarter (1Q 10: 0.7%). These price increases, however, were partially mitigated by declining prices in the *clothing and footwear* category (2Q 10: -1.8%, 1Q 10: -1.5%).

The Producer Price Index (PPI) increased at a slower rate of 6.2% on a yearly basis in the second quarter of 2010 (1Q 10: 6.4%). Prices in the non commodity-related components of the PPI increased by 3.4% (1Q 10: 3.2%). Meanwhile, prices in the commodity-related components moderated by 16.3% (1Q 10: 18.4%).

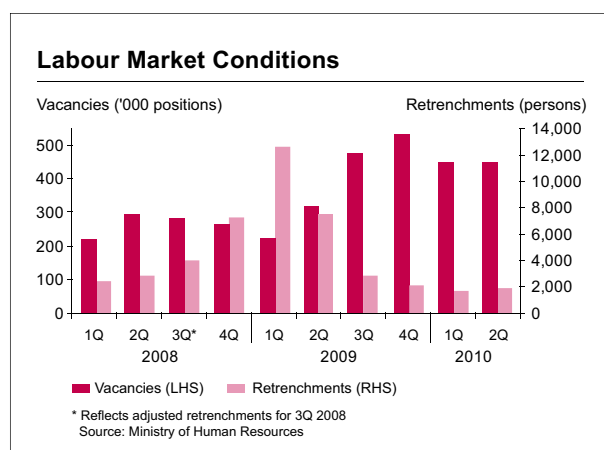
In terms of composition, prices in the imported component of the PPI increased at a slower rate of 1.0% (1Q 10: 2.2%). This is reflected in the slower price increase in the *machinery and transport equipment* category. However, prices in the local component of the PPI increased by 8.8% (1Q 10: 8.4%) due to a higher increase in the *mineral, fuels lubricants etc.* category.



Favourable labour market conditions

Overall labour market conditions remained favourable in the second quarter. Despite a slight increase in retrenchments, total vacancies remained high, while overall unemployment rate eased during the first two months of the quarter. During the quarter, retrenchments increased to 1,859 persons (1Q 10: 1,714 persons), with retrenchments occurring mainly in the manufacturing sector (1,181 persons, or 63.5%), particularly in the wood, rubber, medical and metal industries. Meanwhile, retrenchments in all other sectors declined.

Labour demand across all sectors of the economy remained strong during the quarter, with an increased number of vacancies posted in the JobsMalaysia Portal (541,993 positions; 1Q 10: 450,042 positions). Corresponding to these developments, the average unemployment rate for April and May eased to 3.3% (1Q 10: 3.7%), following faster growth in employment relative to the labour force. Meanwhile, real wage per worker in the manufacturing sector increased by an annual rate of 8.2% (1Q 10: 15.9%).

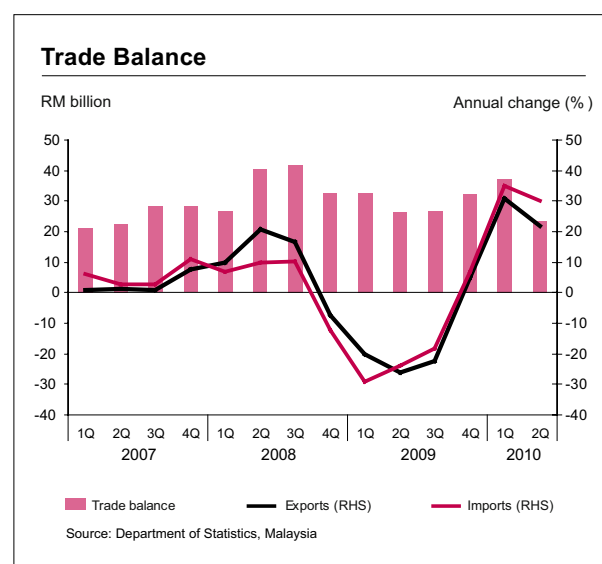


Trade activities remained robust

The trade surplus narrowed to RM23.4 billion in the second quarter (1Q 10: RM38.9 billion), as gross imports expanded faster than gross exports. Gross exports increased by 21.7% (1Q 10: 30.7%), while gross imports expanded at a strong pace of 30.3% (1Q 10: 35.1%).

The moderation in **gross exports** was due mainly to the slower expansion in manufactured and agriculture exports. **Manufactured exports**

grew by 16.8% (1Q 10: 32.5%) as the low base effect from the previous year waned off and external demand started to normalise. Exports of E&E expanded by 16.1% (1Q 10: 36.3%), as demand for semiconductors and consumer electrical products moderated. Growth in the non-E&E exports was broad-based, benefiting from sustained regional demand for chemical products and machineries. Meanwhile, **commodity exports** increased further by 38.1% (1Q 10: 27.3%), supported by stronger export growth in minerals which more than offset the moderation in exports of agriculture products. Strong regional demand for crude oil and natural gas contributed to higher exports of mineral while the slower growth in agriculture exports was due to lower volume and prices of crude palm oil.



Trade Account

	2009 ¹		2010 ¹		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Gross Exports	-26.3	-23.4	30.7	21.7	26.1
Manufactured	-20.5	-19.3	32.5	16.8	24.2
E&E	-22.9	-21.1	36.3	16.1	25.4
Non-E&E	-17.3	-17.1	28.3	17.7	22.8
Commodities	-40.6	-32.7	27.3	38.1	32.4
Agriculture	-29.6	-28.9	45.8	21.9	33.0
Minerals	-47.5	-35.0	17.3	51.7	31.9
Gross Imports	-23.8	-26.3	35.1	30.3	32.5
Capital goods	-18.4	-13.4	9.7	26.5	18.1
Intermediate goods	-27.0	-30.8	37.9	30.5	33.9
Consumption goods	-8.3	-6.4	18.5	13.3	15.8
Trade balance (RM billion)	26.5	59.2	38.9	23.4	62.4

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

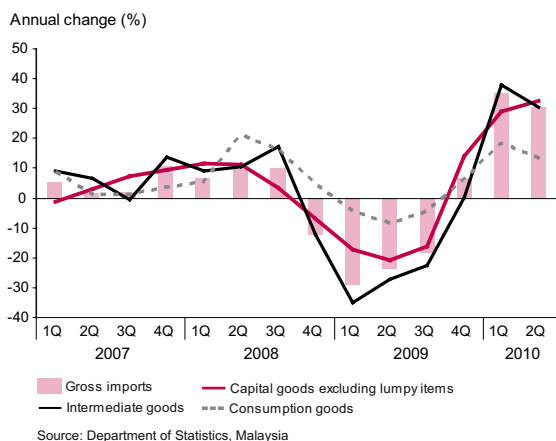
Malaysia: Direction of Exports

	2009		2010			2009		2010		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
	Annual change (%)					Share of total exports (%)				
United States	-35.1	-33.2	10.6	5.8	8.1	11.5	11.3	9.4	10.0	9.7
European Union (EU)	-26.4	-27.2	29.1	22.9	25.9	10.7	10.7	10.6	10.8	10.7
Selected ASEAN countries ¹	-24.1	-25.4	38.5	17.0	27.1	26.2	25.4	25.9	25.2	25.6
North East Asia	-22.1	-15.1	47.1	29.3	37.8	23.0	22.7	25.1	24.5	24.8
People's Republic of China	-16.1	-10.2	67.9	28.1	45.9	11.8	11.0	13.1	12.4	12.8
Hong Kong SAR	-23.8	-13.4	36.8	24.8	30.3	5.2	5.0	4.9	5.4	5.1
Chinese Taipei	-29.6	-24.6	50.8	53.8	52.4	2.5	2.4	2.8	3.1	3.0
Korea	-31.2	-22.4	12.6	22.8	17.0	3.5	4.2	4.3	3.6	3.9
West Asia	-14.8	-13.9	17.0	-0.3	7.3	4.4	4.0	3.3	3.6	3.4
India	-38.9	-28.2	17.3	19.4	18.3	3.1	3.4	3.3	3.0	3.2
Total exports	-26.3	-23.4	30.7	21.7	26.1	100.0	100.0	100.0	100.0	100.0

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

Source: Department of Statistics, Malaysia

Import Growth



The sustained strong growth in **gross imports** in the second quarter was due mainly to marked improvements in the import of capital goods and continued strong growth in intermediate imports. Capital imports registered stronger growth, supported by higher public and business investment spending, while the sustained expansion in intermediate imports was led mainly by imports of primary and processed industrial supplies. Meanwhile, import of consumption goods continued to expand, driven by imports of food and beverages as well as motor vehicles, in line with the improvement in private consumption.

Continued inflows of FDI and portfolio investment

On a cash basis, gross inflows of **foreign direct investment (FDI)**³ amounted to RM4.7 billion in the second quarter (1Q 10: RM4.9 billion). After adjusting for gross outflows due to repayments of inter-company loans, net FDI recorded a larger net inflow of RM1.8 billion (1Q 10: +RM0.2 billion). During the quarter, FDI was channelled mainly into the manufacturing sector, particularly to the electrical and electronics as well as petroleum-related industries. Meanwhile, FDI in the services sector was channelled mainly into the finance, insurance and business services as well as wholesale and retail trade sub-sectors.

Net direct investment abroad (DIA)⁴ by Malaysian companies amounted to RM2.5 billion in the second quarter (1Q 10: -RM3.2 billion). The investments were largely undertaken in the services sector, particularly in the finance and insurance, business services and telecommunication sub-sectors, as well as in the oil and gas sector.

Portfolio investment registered a net inflow of RM6.6 billion in the second quarter (1Q 10: +RM3.8 billion). The larger inflows were mainly into debt securities, particularly arising from the issuance of USD1.25 billion 1Malaysia Sukuk Global as well as from the private debt securities market. Despite the concerns over the European debt crisis, continued improvement in the domestic economic activity led to inflows of foreign funds into the domestic equity market.

^{3,4} The statistics for FDI and DIA does not include retained earnings.

External debt remained manageable

As at end-June 2010, Malaysia's total external debt amounted to RM221.7 billion or USD67.2 billion (end-Mar 2010: RM219.3 billion or USD66.4 billion), equivalent to 30.5% of GNI. The **medium- and long-term external debt** was higher at RM149.6 billion due to the raising of a USD1.25 billion 5-year 1Malaysia Sukuk Global by the Federal Government. Accordingly, the Federal Government recorded a net drawdown of RM4 billion which more than offset net repayments by both the private sector (-RM2.1 billion) and the NFPEs (-RM0.2 billion). In line with improving corporate profitability, companies in the electronics, utilities and agriculture sectors repaid their external debt resulting in a decline of 3.2% to RM64.2 billion in private sector external debt.

As at end-June 2010, the total **short-term external debt** remained stable at RM72.1 billion (USD21.9 billion). Short-term external debt accounted for 32.5% of total external debt. The ratio of international reserves was 4.3 times of short-term external debt.

International reserves remained strong

The international reserves of Bank Negara Malaysia amounted to RM309.8 billion (equivalent to USD94.8 billion) as at 30 June 2010. This level of reserves has taken into account the quarterly adjustment for foreign exchange revaluation loss, following the strengthening of the ringgit against most major currencies during the quarter. As at 30 July 2010, the reserves position amounted to RM310.6 billion (equivalent to USD95 billion), sufficient to finance 7.9 months of retained imports and is 4.3 times the short-term external debt.

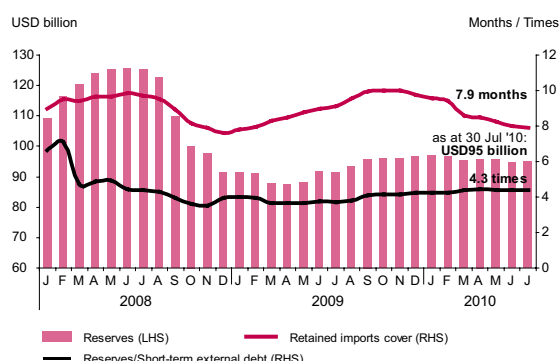
External Debt Outstanding

	2009		2010	
	end-Jun	end-Mar	end-Jun ^P	
RM billion				
Medium- and long-term debt	146.9	147.2	149.6	
Public sector	72.9	80.9	85.4	
Private sector	74.0	66.3	64.2	
Short-term debt ¹	86.4	72.1	72.1	
Total external debt	233.3	219.3	221.7	
USD billion equivalent	65.5	66.4	67.2	
External debt/GNI (%)	35.2	30.1	30.5	
Reserves/Short-term external debt (times)	3.7	4.3	4.3	

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

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Net International Reserves (as at end-period)



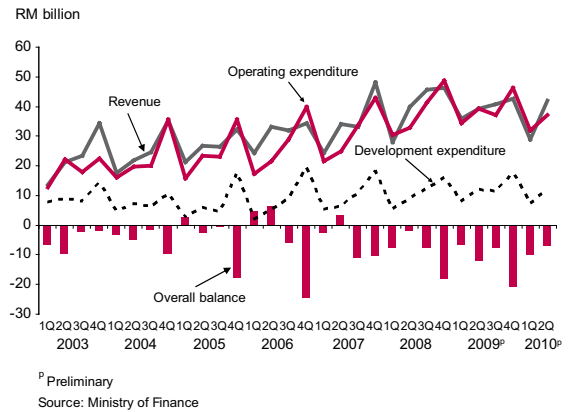
Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

Source: Bank Negara Malaysia

Improved fiscal position on higher revenue collection

Stronger revenue performance resulted in a smaller fiscal deficit of RM7.1 billion or 3.8% of GDP in the second quarter. The higher revenue collection was mainly from individual tax and oil-related revenue. In terms of spending, total gross expenditure declined at an annual rate of 4.4% due mainly to the higher base effect as a result of stimulus spending in 2009. Nevertheless, spending on emoluments and subsidies was higher in the second quarter, both on a quarter-on-quarter and annual basis. The bulk of development expenditure was channelled to the education and transportation sectors. The fiscal deficit was financed from issuances of government securities and Sukuk 1Malaysia. In May, as part of the Malaysia International Islamic Financial Centre initiative, the Government issued the 1Malaysia Sukuk Global. As at end-June 2010, total outstanding debt of the Federal Government amounted to RM388.1 billion, or 51.9% of the estimated 2010 GDP. Of this amount, external debt amounted to only RM17 billion or 2.3% of GDP.

Federal Government Finance



Federal Government Finance^P

	2009		2010		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	39.4	75.2	28.7	42.0	70.7
% growth	-1.2	10.9	-19.9	6.6	-6.0
Operating expenditure	39.4	73.7	31.9	37.1	69.0
% growth	19.8	16.5	-7.1	-5.8	-6.4
Current account	0.0	1.5	-3.2	4.9	1.7
% of GDP	0.0	0.5	-1.7	2.6	0.5
Gross development expenditure	12.1	20.3	7.3	12.1	19.4
% growth	34.9	42.5	-11.4	0.1	-4.5
Overall balance	-12.1	-18.7	-10.2	-7.1	-17.3
% of GDP	-7.4	-5.9	-5.6	-3.8	-4.7
Memo item:					
Total gross expenditure	51.5	94.1	39.2	49.2	88.4
% growth	23.0	21.3	-8.0	-4.4	-6.0
Total Federal Government debt (as at end-period)	335.7	335.7	378.3	388.1	388.1
% of GDP	49.4	49.4	50.6	51.9	51.9
Domestic debt	321.5	321.5	365.6	371.0	371.0
% of GDP	47.3	47.3	48.9	49.6	49.6
External debt	14.3	14.3	12.7	17.0	17.0
% of GDP	2.1	2.1	1.7	2.3	2.3

^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 in May 2010, and a further 25 basis points in July 2010. The upward adjustments of the OPR were undertaken to reflect the improved economic outlook and to normalise monetary conditions. At the new level of 2.75%, the OPR remains accommodative and is considered to be appropriate and consistent with the assessment of growth and inflation.

The daily weighted average overnight interbank rate (AOIR) traded higher in the second quarter to reflect the increase in the OPR. From the period 1 April - 13 May, the AOIR moved within a narrow range of 2.11% - 2.24%. Interbank rates of other maturities were also stable during the period. Following the OPR increase to 2.50% on 13 May, the daily weighted average overnight interbank rate trended higher within the range of 2.37% - 2.49% during the period 14 May – 30 Jun. Interbank rates of other maturities also rose accordingly. Market conditions remained orderly as 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) rates for the 1 month tenure increased by 23 bps, while FD rates for the 12 month tenure was higher by 15 bps. As a result, the average quoted FD rates for tenures between 1 to 12 months were at a higher range of 2.48% and 2.82% respectively as at end-June (previously: 2.25% - 2.48%).

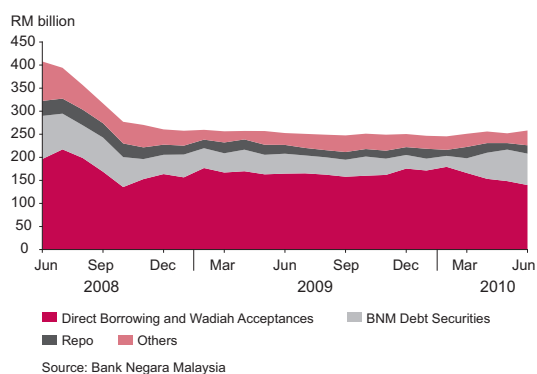
Interest Rates

	2009		2010	
	2Q	1Q	2Q	
	At end-period (%)			
Overnight Policy Rate (OPR)	2.00	2.25	2.50	
Interbank rates				
Overnight	1.99	2.18	2.43	
1-month	2.09	2.35	2.71	
Base lending rates (BLR)				
Commercial banks	5.53	5.76	6.02	
Average lending rates (ALR)				
Commercial banks	5.04	4.96	5.05	
Fixed deposit rates				
Commercial banks				
3-month	2.05	2.28	2.51	
12-month	2.52	2.67	2.82	

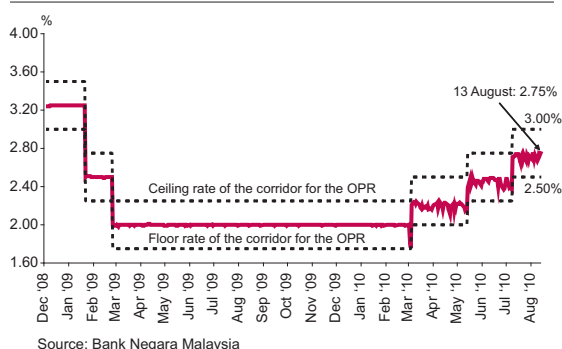
Source: Bank Negara Malaysia

Similarly, retail lending rates were also revised. As at end-June, the average base lending rate (BLR) of commercial banks (CBs) was increased by 26 bps to 6.02%, while the average lending rate (ALR) on loans outstanding trended higher to 5.05%. Despite the increase in interest rates, retail lending rates remained below their pre-crisis levels. As such, the cost of financing to the economy remains relatively low.

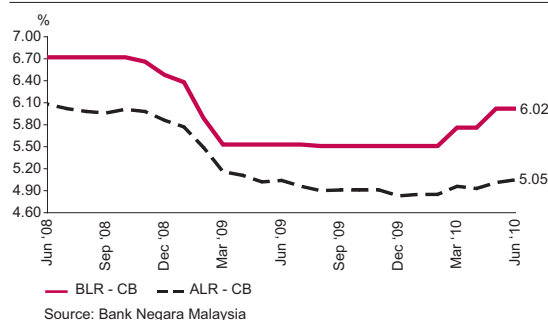
Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Daily Weighted Average Overnight Interbank Rate



Lending Rates of Commercial Banks (Average for the period)



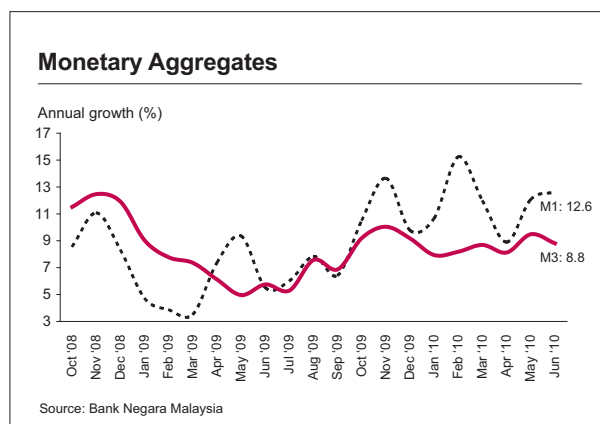
M3 continued to expand

Monetary aggregates continued to grow at a sustained pace in the second quarter. M1, or narrow money, increased by RM7.9 billion during the quarter. On an annual basis, M1 expanded at a faster annual growth rate of 12.6% as at end-June 2010 (end-March: 12.0%). M3, or broad money, expanded at an annual growth rate of 8.8% as at end-June 2010 (end-March: 8.7%). On a quarter-on-quarter basis, M3 increased by RM2.7 billion.

The main impetus for the increase in broad money was higher credit extension by the banking system to the private sector. Higher credit was underscored by an increase in loans of RM26.9 billion, as well as higher holdings of private debt securities by the banks. In addition, net foreign assets of the banking system also expanded, due mainly to fund raising from abroad by the Government, which was then exchanged for ringgit with Bank Negara Malaysia. The expansionary impact on broad money was, however, offset by the placement of these proceeds by the Government with the Bank.

	Change during the period				
	2009		2010		
	2Q	1H	1Q	2Q	1H
	RM billion				
M3	1.4	19.0	14.6	2.7	17.3
Net claims on Govt	5.9	11.7	-2.4	-5.1	-7.4
Claims on private sector	5.5	10.8	16.7	28.4	45.1
Loans	7.9	12.3	19.7	26.9	46.6
Securities	-2.4	-1.5	-3.0	1.5	-1.5
Net foreign assets ¹	-4.2	-0.4	11.6	6.8	18.5
BNM	-1.7	-6.0	1.3	6.4	7.7
Banking System	-2.5	5.6	10.3	0.4	10.7
Other influences	-5.8	-3.0	-11.3	-27.5	-38.9

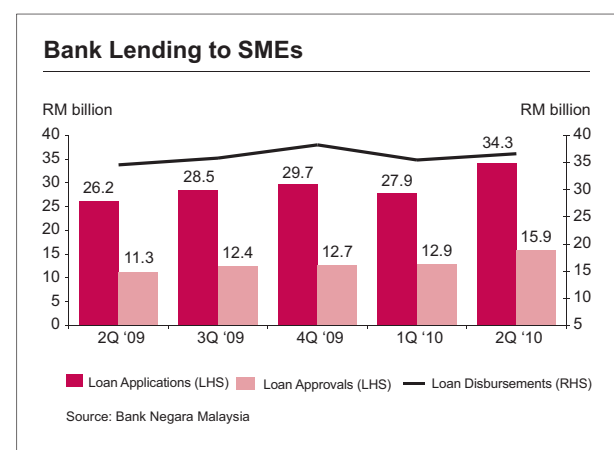
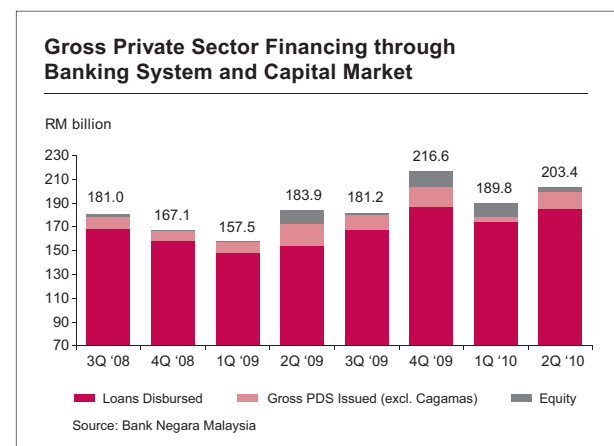
¹Pre-revaluation
Source: Bank Negara Malaysia



Meanwhile, the private sector increased its holdings of Bank Negara Malaysia debt securities in the second quarter, which were purchased from the banking institutions. The drawdown of deposits to finance the purchase of these securities had a contractionary impact on M3, and was captured under the *other influences* category.

Private sector financing strengthened in the second quarter

Private sector financing activity improved in the second quarter and continued to be available to all segments of the economy. The accommodative monetary condition supported financing activity. The continued improvement in domestic economic activity added further impetus to private sector demand for financing. Total gross financing raised by the private sector through the banking system and the capital market increased to RM203.4 billion in the second quarter (1Q 10: RM189.8 billion). The higher financing reflected increased bank loans disbursements and private debt securities (PDS) issuances during the quarter. On a net basis, banking system loans and PDS outstanding rose by a higher annual rate of 11.3% as at end-June (1Q 10: 9.5%).



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2009	2Q 09	1Q 10	2Q 10	2009	1Q 10	2Q 10
Gross total financing	739.1	183.9	189.8	203.4	7.3	20.5	10.6
Loans disbursed*	657.0	154.4	174.3	185.3	2.6	17.6	20.0
Gross PDS (excl. Cagamas and issuances by non-residents)	56.1	18.0	4.4	13.9	30.9	-50.8	-23.0
Equity	26.0	11.5	11.0	4.2	375.5	7,530.8	-63.2
Net total financing (A)+(B)	83.2	20.2	18.5	39.7	8.5	9.5	11.3
Banking system	57.2	6.7	19.3	29.9	7.3	8.5	11.3
Loans outstanding (A)	57.0	8.9	22.2	29.8	7.8	9.8	12.5
Holding of PDS	0.2	-2.2	-2.9	0.2	0.3	-6.5	-2.7
PDS outstanding (B)	26.3	11.3	-3.6	9.9	10.4	8.8	7.9
Memorandum item							
Gross PDS (incl. Cagamas and issuances by non-residents)	58.6	19.3	4.7	14.7	18.0	-46.5	-23.9

*Banking system loans include loans sold to Cagamas

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2009	2Q 09	1Q 10	2Q 10	2009	2Q 09	1Q 10	2Q 10
Total								
Loan applications	521.3	137.1	132.9	158.7	9.8	7.4	23.5	15.8
Loan approvals	286.9	75.8	70.1	90.5	-1.4	-5.7	20.8	19.5
Loan disbursements	657.0	154.4	174.3	185.3	2.6	-5.0	17.6	20.0
Loan repayments	595.2	148.8	154.5	161.8	4.8	6.4	11.8	8.7
Change in loans outstanding*	57.0	8.9	22.2	29.8	7.8	8.3	9.8	12.5
Of which:								
Business enterprises**								
Loan applications	237.8	64.3	60.0	71.6	-2.7	0.1	15.3	11.4
Loan approvals	127.7	34.9	29.3	43.0	-13.7	-14.8	12.2	23.3
Loan disbursements	439.7	103.0	117.2	125.0	-3.5	-10.9	16.1	21.3
Loan repayments	407.4	102.8	105.3	111.3	1.0	3.5	12.4	8.3
Change in loans outstanding*	6.3	-1.0	4.6	7.9	2.1	3.7	4.1	7.2
SMEs**								
Loan applications	104.6	26.2	27.9	34.3	4.2	-6.2	38.1	30.9
Loan approvals	45.3	11.3	12.9	15.9	-16.3	-29.0	45.6	39.9
Loan disbursements	143.4	34.6	35.5	36.6	-12.0	-15.6	2.3	5.9
Loan repayments	132.3	32.1	33.4	32.4	-9.0	-9.6	3.6	0.8
Change in loans outstanding*	-5.5	0.5	2.5	-3.7	-4.4	-2.9	3.2	-0.3
Large corporations								
Loan applications	133.2	38.1	32.1	37.4	-7.5	4.9	0.8	-2.0
Loan approvals	82.4	23.5	16.4	27.2	-12.2	-5.8	-5.0	15.3
Loan disbursements	296.4	68.4	81.7	88.3	1.2	-8.4	23.4	29.1
Loan repayments	275.2	70.6	71.8	78.9	6.7	10.8	17.1	11.7
Change in loans outstanding*	11.8	-1.5	2.1	11.6	6.9	8.7	4.7	12.2
Households								
Loan applications	283.5	72.8	72.8	87.1	23.1	14.8	31.3	19.6
Loan approvals	159.2	40.9	40.8	47.5	11.3	3.8	27.8	16.2
Loan disbursements	217.2	51.4	57.2	60.3	17.7	9.7	20.6	17.4
Loan repayments	187.8	46.1	49.3	50.5	13.9	13.7	10.6	9.6
Change in loans outstanding*	38.6	9.4	13.8	15.2	9.8	9.1	11.7	12.9

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

Source: Bank Negara Malaysia

All major loan indicators improved further in the second quarter. In the business sector, the increase in demand for new financing was mainly from the *manufacturing; finance, insurance and business services; wholesale and retail, restaurants and hotels and real estate sectors*. The bulk of the loans were to finance working capital requirements. Loan

disbursements were higher, supporting further expansion in business loans outstanding of RM7.9 billion in the second quarter (1Q 10: +RM4.6 billion). On an annual basis, business loans outstanding rose at a higher rate of 7.2% as at end-June (1Q 10: 4.1%). 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	2Q 09	1Q 10	2Q 10		
	(RM billion)			(%)		
Business enterprises	439.7	103.0	117.2	125.0	67.4	44.9
<i>Large corporations</i>	296.4	68.4	81.7	88.3	47.7	30.7
<i>SMEs*</i>	143.4	34.6	35.5	36.6	19.8	14.1
<i>Selected sectors</i>						
Agriculture, hunting, forestry and fishing	20.9	4.5	9.2	5.4	2.9	2.4
Mining and quarrying	2.3	0.7	0.8	0.6	0.3	0.3
Manufacturing	128.5	31.0	33.4	37.6	20.3	9.6
Construction	40.5	9.2	9.2	10.5	5.6	4.4
Real estate	20.6	4.8	5.2	4.1	2.2	4.2
Electricity, gas and water supply	7.9	0.9	0.8	1.0	0.6	1.0
Wholesale, retail, restaurants and hotels	105.5	25.5	28.0	33.2	17.9	7.8
Transport, storage and communication	22.6	5.9	5.4	5.9	3.2	3.4
Finance, insurance and business services	45.3	11.3	13.5	15.1	8.2	6.6
Households	217.2	51.4	57.2	60.3	32.6	55.1
Purchase of residential properties	55.6	12.7	14.9	14.1	7.6	25.4
Consumption credit	132.6	31.4	33.4	37.9	20.5	21.0
Of which:						
<i>Credit cards</i>	70.5	16.6	18.4	20.1	10.9	3.3
<i>Purchase of passenger cars</i>	32.8	8.0	8.8	9.8	5.3	12.9
Others	29.0	7.3	8.9	8.2	4.4	8.7
Total	657.0	154.4	174.3	185.3	100.0	100.0

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Financing to the household sector also increased. Higher demand for loans was mainly for the *purchase of residential and non-residential properties; personal use, credit card and passenger cars*. Accordingly, household loans outstanding expanded by RM15.2 billion during the quarter to increase at a higher annual growth rate of 12.9% as at end-June (1Q 10: 11.7%).

Fund raising activity driven by the private sector

Gross funds raised in the capital market during the quarter amounted to RM35.5 billion (1Q 10: RM34.8 billion). In the private sector, fund raising activity picked up in the bond market. Gross funds raised through PDS increased to RM14.7 billion in the second quarter (1Q 10: RM4.7 billion). This was due mainly to several large issuances by firms in the finance sector in the month of April. There were also issuances by two non-resident firms in June. Funds were utilised mainly for the funding of working capital and general purposes. Meanwhile, a total of RM4.2 billion was raised in the equity market. A significant portion of the amount was raised through eight initial public offerings (RM3 billion), while the remaining through rights issues.

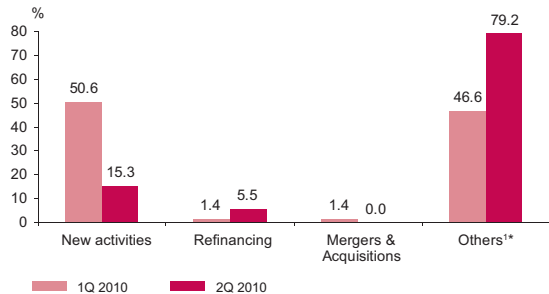
In the public sector, gross funds of RM16.5 billion were raised through issuances of the 20-year Malaysian Government Securities (MGS), the 10-year Government Investment Issues (GI), as well as the re-opening of the 3-year and 5-year MGS. Additionally, funds were raised via issuances of Sukuk 1Malaysia as part of the Government's fund raising activity. After adjusting for large redemptions, net funds raised by the public sector in the second quarter amounted to RM5.5 billion (1Q 10: RM15.5 billion).

Funds Raised in the Capital Market

	2009		2010		
	2Q	1H	1Q	2Q	1H
	RM billion				
By Public Sector	24.7	35.5	15.5	5.5	21.0
Government securities, <i>net</i>	19.7	28.5	15.6	3.2	18.8
<i>Malaysian Government Securities</i>	12.7	33.2	12.6	8.6	21.1
<i>Government Investment Issues</i>	10.5	16.5	6.5	5.5	12.0
<i>Less: Redemptions</i>	3.5	21.2	3.5	10.9	14.4
Khazanah Bonds, <i>net</i>	-	-	-	-	-
Savings Bonds, <i>net</i>	5.0	7.0	(0.1)	2.3	2.3
By Private Sector	21.0	21.9	7.1	12.1	19.2
Shares	11.5	11.7	11.0	4.2	15.3
Debt securities, <i>net</i>	9.5	10.2	(3.9)	7.8	3.9
<i>Private Debt Securities</i>	19.3	28.6	4.7	14.7	19.4
<i>Cagamas</i>	-	-	-	-	-
<i>Less: Redemptions</i>	9.8	18.4	8.6	6.9	15.5
Total	45.7	57.4	22.6	17.6	40.2

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



¹ Includes issuance by non-residents and Cagamas
* Includes working capital and general business activities

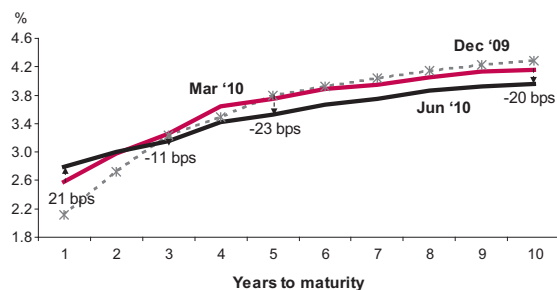
Source: Bank Negara Malaysia

Long-term yields declined

Yields of shorter maturities continued to increase in response to upward adjustments to the overnight policy rate. The 1-year MGS rose by 21 basis points during the quarter. Meanwhile, uncertainties in the global financial markets over the European sovereign debt problems caused an increase in demand for less risky assets, including long-term Government papers. This, coupled with benign inflationary expectations amidst improving domestic economic prospects, caused a decline in long-term yields. The 5-year and 10-year MGS yields declined by 23 basis points and 20 basis points respectively.

In the PDS market, the 5-year corporate bond yields rated AAA and AA recorded a decline

Trend in MGS Yields



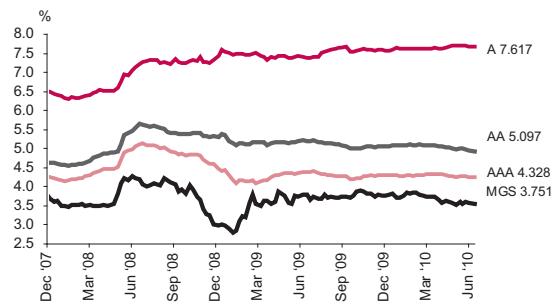
Source: Bank Negara Malaysia

in the second quarter of 2010, in line with the 5-year MGS yields. However, PDS yields in the lower-rated segment rose marginally by 5 basis points, possibly reflecting the perceived increase in risk arising from the uncertain global conditions.

Slight decline in secondary trading in the bond market

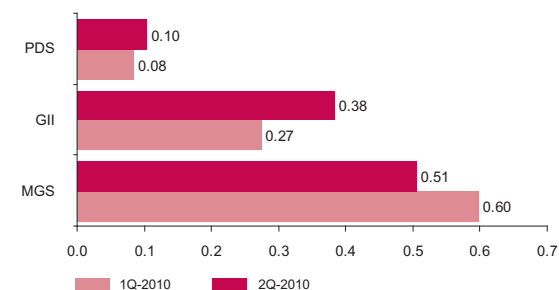
Total trading in the secondary market declined slightly to RM182 billion during the quarter (1Q 10: RM188 billion). The fall was due to decreased trading in the MGS segment, which registered a lower liquidity ratio of 0.51. This was due to the lack of fresh issuances by the Government in May. Elsewhere, the GII and PDS segments registered higher liquidity ratios of 0.38 and 0.10 respectively, compared to the preceding quarter.

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Turnover / Outstanding



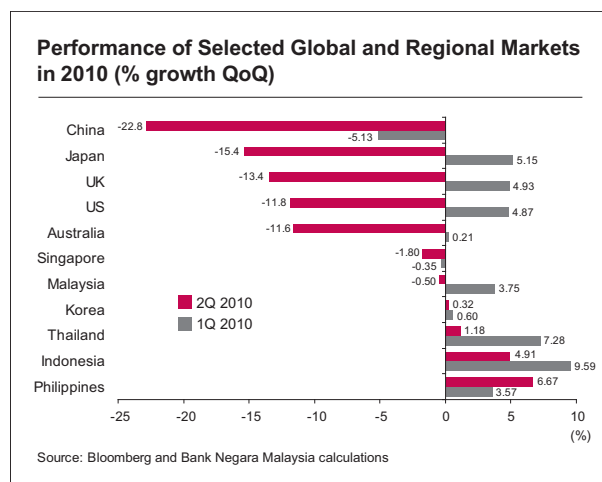
Source: Bank Negara Malaysia

KLCI declined marginally in the second quarter

The FBM KLCI ended the second quarter slightly lower at 1,314.0 (since 1Q 10: -0.46%). The index declined in May due mainly to concerns over European sovereign debt, but rose in June following positive global economic data, as well as China's announcement that it would allow greater flexibility in the renminbi exchange rate. Market capitalisation declined to RM1.04 trillion as at end-June 2010 (1Q 10:

RM1.06 trillion) and the daily average turnover was lower at 849 million units (1Q 10: 1.05 billion units) during the quarter.

On 13 August 2010, the KLCI closed higher at 1,360.2 points (since end-2009: +6.9%) with market capitalisation of RM1.1 trillion (since end-2009: +9.7%).



Bursa Malaysia: Selected Market Indicators

	2009		2010	
	As at end			
	June	March	June	
Price Indices				
Composite	1,075.2	1,320.6	1,314.0	
FBMEMAS ¹	7,206.8	8,957.2	8,863.4	
FTSE Second Board ²	4,754.5	-	-	
ACE Market ³	4,096.3	4,209.0	3,801.4	
Market capitalisation (RM billion)	817.9	1,061.1	1,044.4	
No. of companies listed	960	961	962	
	During the quarter			
	2Q	1Q	2Q	
Average daily turnover				
Volume (million units)	1,684.4	1,046.6	849.1	
Value (RM million)	1,559.7	1,532.4	1,287.6	

¹FBM30 stands for FTSE Bursa Malaysia 30 Index

²From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

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

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2009				2010					
	2Q		1H		1Q		2Q		1H	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM Billion
Turnover	107.8	99.8	134.2	139.7	61.7	90.4	54.3	82.4	116.1	172.8
Of which:										
Main Board	90.6	95.2	113.2	134.2	52.4	88.1	45.3	80.2	97.7	168.3
Of which										
Consumer Products	3.7	4.2	4.4	6.3	2.8	3.7	3.1	3.9	5.9	7.6
Industrial Products	19.2	13.9	23.0	16.4	12.4	14.1	9.0	9.8	21.4	23.9
Construction	7.3	8.7	9.8	11.6	3.1	4.9	3.0	5.0	6.1	9.9
Trading/Services	30.6	33.4	38.9	47.8	16.1	28.8	13.9	28.9	3.0	57.7
Finance	7.2	14.4	9.1	22.5	4.2	20.8	4.4	18.7	0.9	39.5
Properties	15.2	9.1	18.2	11.0	6.4	3.9	6.6	3.5	13.0	7.3
Plantations	2.2	6.8	3.3	11.2	1.5	6.4	1.1	4.8	2.5	11.3
Infrastructure	2.3	3.1	2.9	5.5	1.1	1.7	1.0	1.9	2.1	3.6
Second Board ¹	7.5	2.8	9.1	3.3	-	-	-	-	-	-
Mesdaq ²	7.0	1.2	7.8	1.4	5.4	1.2	4.1	0.7	9.5	1.8

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

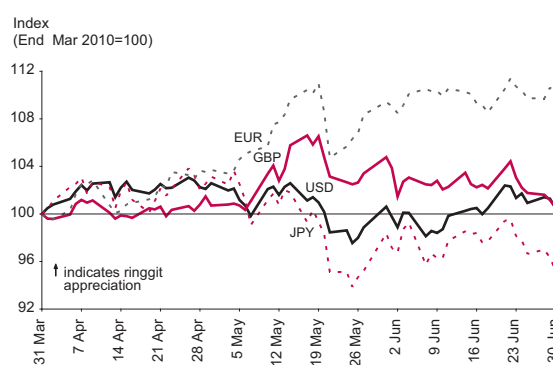
The ringgit appreciated against most major and regional currencies

During the quarter, the ringgit appreciated by 0.5% against the US dollar as further signs of economic recovery in the region contributed to favourable investor sentiments towards regional financial markets. The ringgit also appreciated against the euro (10.2%) and pound sterling (0.5%), but depreciated against the Japanese yen (-4.8%). The euro depreciated against most currencies due to concerns over sovereign debt in several euro area economies. Against regional currencies, the ringgit appreciated against the Korean won (8.8%), Philippine peso (3.0%), Thai baht (0.7%), Singapore dollar (0.5%) and Indonesian rupiah (0.1%). The Korean won weakened against most regional currencies amid heightened geopolitical tensions in East Asia and concerns over the country's external sector.

Between 1 July and 13 August 2010, the ringgit appreciated against the US dollar (3.0%) and Japanese yen (0.1%) but depreciated against

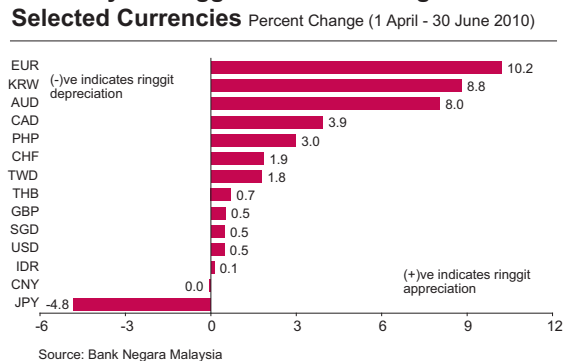
the euro (-2.2%) and pound sterling (-0.8%). Within the region, the ringgit appreciated against Chinese renminbi (2.9%), Thai baht (2.1%) and Indonesian rupiah (1.9%) and Philippine peso (0.3%) but depreciated against the Korean won (-0.6%), Singapore dollar (-0.2%).

Ringgit Performance Against Major Currencies



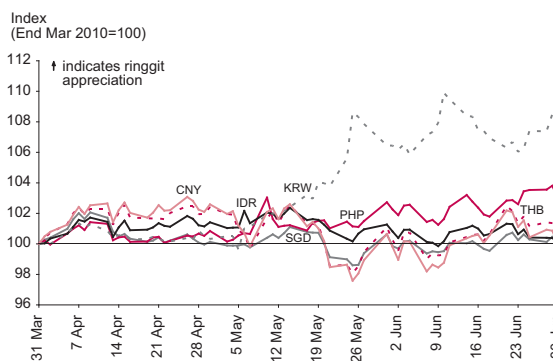
Source: Bank Negara Malaysia

Summary of Ringgit Performance Against Selected Currencies



Source: Bank Negara Malaysia

Ringgit Performance Against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	2Q 09	1Q 10	2Q 10	21 Jul 05	2Q 09	1Q 10
US dollar	3.8000	3.5225	3.2730	3.2575	16.7	8.1	0.5
Euro	4.6212	4.9699	4.3850	3.9785	16.2	24.9	10.2
Pound sterling	6.6270	5.8592	4.9326	4.9069	35.1	19.4	0.5
100 Japanese yen	3.3745	3.6729	3.5017	3.6787	-8.3	-0.2	-4.8
Singapore dollar	2.2570	2.4302	2.3354	2.3242	-2.9	4.6	0.5
100 Thai baht	9.0681	10.354	10.111	10.040	-9.7	3.1	0.7
100 Philippine peso	6.8131	7.3111	7.2236	7.0144	-2.9	4.2	3.0
100 Indonesian rupiah	0.0386	0.0345	0.0359	0.0359	7.7	-4.0	0.1
100 Korean won	0.3665	0.2754	0.2889	0.2655	38.0	3.7	8.8
Chinese renminbi	0.4591	0.5155	0.4795	0.4797	-4.3	7.5	0.0

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

Source: Bank Negara Malaysia

DEVELOPMENTS IN THE BANKING AND INSURANCE SECTORS

Financial stability remained intact throughout the second quarter supported by well-capitalised financial institutions. Financial intermediation activity remained supportive of domestic economic activity. While the financial market exhibited some increase in volatility following developments related to the sovereign debt crisis in some countries in Europe, the domestic markets remained orderly.

Developments in the banking sector

The banking sector remained resilient, underpinned by high capitalisation, stable asset quality and strong liquidity position. Lending activities continued to remain robust and broad-based.

Banking System			
	2009	2010	
	2Q 09	1Q 10	2Q 10
Capital position			
Risk-weighted assets (RM billion)	904.0	945.4	972.3
Capital base (RM billion)	133.6	141.9	144.4
Risk-weighted capital ratio (%)	14.8	15.0	14.8
Core capital ratio (%)	13.1	13.3	12.9
Profit before tax (RM million)¹			
Annualised return on equity (%)	11.2	15.9	16.5
Annualised return on assets (%)	1.0	1.5	1.5

¹ Profit before tax for 2Q 2009 reflected a significant one-off impairment provision on valuation losses for the overseas investment of one bank.

Source: Bank Negara Malaysia

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) were 14.8% and 12.9% respectively. Capital buffers remained strong at RM62.7 billion with Tier-1 capital comprising 75.2% of total capital. Pre-tax profit for the quarter was sustained, driven partly by net interest income following the continued expansion in the banks' financing portfolio.

Banking System: Non-Performing Loans (NPL)²

	2009	2010	
	2Q	1Q	2Q
Net NPL (RM million)	15,791.6	15,366.3	17,717.7
	%		
Net NPL ratio	2.2	1.9	2.2
Gross NPL ratio	4.5	3.6	3.6
Large Businesses	4.7	4.9	5.2
Small & Medium Enterprises	6.9	5.4	5.4
Households	3.9	2.8	2.5

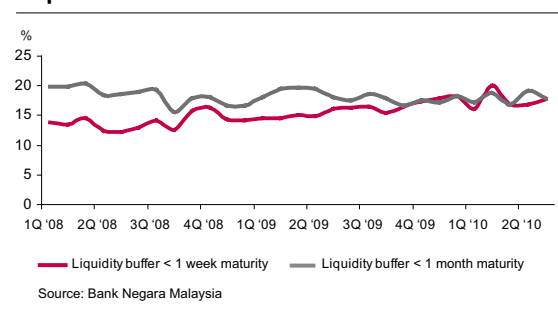
² Beginning January 2010, loans are reported based on FRS 139. The adoption of FRS 139 requirement is based on the financial year of the banks. For banks that have adopted FRS 139, the level of NPLs reflects impaired loans.

Source: Bank Negara Malaysia

The high quality of the loan portfolio was maintained during the quarter. Gross NPLs (inclusive of impaired loans) was sufficiently supported by a high loan loss coverage of 93.1%. The level of loans-in-arrears was stable at 4.4% of total loans.

The banking system continued to remain flushed with liquidity that was more than sufficient to meet demands for deposit withdrawals and other liquidity obligations. The liquidity buffer for both the maturity buckets of up to one week and one month was comfortable at 17.1% (1Q 10: 16.8% and 16.9%). Meanwhile, the loan-to-deposit ratio remained manageable at 81.4% (1Q 10: 79.1%).

Banking System: Liquidity Buffer to Total Deposit Ratio



Developments in the insurance and takaful sector

The insurance and takaful sector remained resilient with strong Capital Adequacy Ratio of 223.5% (1Q 10: 231%) and excess capital of RM18.5 billion. Profitability was sustained with profits amounting to RM3.5 billion. Premium income remained robust driven by continued demand for insurance protection.

Excess of income over outgo for life insurers amounted to RM3.0 billion on account of lower net unrealised gains especially for the

investment-linked business. The general business recorded higher operating profits attributable to higher income from motor and fire businesses and lower claims incurred.

Insurance and Takaful Sector: Profitability

	2009		2010		
	2Q	1H	1Q	2Q	1H
	RM million				
Life/family business					
Excess of income over outgo	3,251.9	5,240.0	2,923.3	2,956.9	5,880.2
General business					
Operating profit	530.0	841.7	526.7	577.5	1,104.2

Source: Bank Negara Malaysia

**6th World Islamic Economic Forum - “The Transformation of the International Financial System and the Role of the Islamic Financial System”,
Kuala Lumpur, 20 May 2010**

Keynote Address by

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

This is a time of extraordinary global economic challenge and uncertainty. The recent unprecedented global financial and economic crisis has resulted in tremendous damage across the world. The meltdown in the global financial system resulted in several setbacks including bank failures, a credit crunch, a collapse of asset markets, massive wealth destruction, a sharp decline in trade and financial flows and widespread unemployment in many parts of the world. To contain the effects of the financial crisis on the economy, extraordinary and exceptional measures were taken by policymakers around the world. With the global economy now on the road to recovery, attention has turned towards securing a more permanent solution in shaping the global economy of tomorrow that would avoid such crisis of such proportions in the future.

Significant steps are being taken by the international community to intensify efforts to reform and strengthen the international financial system. The aim is to build the foundations for a stronger and more inclusive global economy - built on the premise of sustainable growth and a greater shared prosperity. This global resolve is in fact, fundamentally in congruence with, and accentuates the role and relevance of Islamic finance on the global economic stage in this post-crisis era. Islamic finance, through its emphasis for the attainment of socio-economic goals based on the objectives of Shariah, provides the discipline that enhances the prospect of strengthening the global economy and overall financial stability.

The relatively better performance and the sustained momentum of the growth in Islamic finance during this period of global financial turmoil exemplifies its inherent strengths - its emphasis on a strong linkage to productive economic activity which predisposes the economy to financial deepening without the excesses,

its emphasis for accountability, disclosure and transparency and its inbuilt checks and balances, all of which underpin Islamic finance as a stable form of financial intermediation that strengthens its prospects as a contributor to economic growth and financial stability.

While the amount of funds managed in the Islamic financial system is still only a fraction of the total assets of the international financial system, it represents that portion of financial activities that is truly supported by underlying productive capacity that generates growth of economies across continents. It is this form of financial activities that we would want to encourage, as opposed to the financial flows that are destabilising and not contributing to generating real economic activity.

The efforts to reform the international financial system by the international community have aimed to address the broad range of flaws and weaknesses that has contributed to this recent crisis and to restore confidence in the integrity of the global financial system. At the core of this reform agenda is the development of a new financial regulatory framework that would be more effective and that is premised on a greater emphasis on ethics, fairness, and accountability and that promotes global economic, social and environmental sustainability. It also needs to be anchored on a balance of supporting growth while maintaining financial stability, and one that is founded on greater international coordination of regulatory approaches and supervisory oversight with a crisis management framework that will reduce systemic risk and the severity of any such future financial crises.

These reforms include measures to raise the quality and level of capital held by banking institutions, strengthening the liquidity risk requirements and management, implementing

forward-looking provisioning standards, and aligning compensation practices with long term performance. Further measures also include the improvement in transparency and strengthening of the supervisory frameworks and arrangements for dealing with cross-border oversight on financial groups that operate beyond domestic shores. This has also been reinforced by the strengthening of macro-prudential regulation. The crisis had demonstrated that the collective behaviours of banking institutions and other highly leveraged institutions had contributed to the material build-up of risks in the financial system which ultimately in turn undermined financial stability. It was also recognized that the existing regulatory framework was insufficient to address systemic risks. This has prompted a more integrated approach to the regulation with substantial strengthening of the macro-prudential elements of financial regulation.

A major concern on the calibration of the regulatory reforms is its unintended consequences that could materially impair the vital role of the financial sector in the economy. Of concern is that the cumulative impact of the new measures may affect the cost and availability of financing to the wider economy. There needs to be a balance between long run financial stability and its potential increased costs to financial intermediation. This balance needs to combine regulatory and supervisory systems that are more forward looking and responsive to risk; while having in place appropriate incentive structures for financial institutions to prudently manage risks and strengthen conditions for market discipline to take effect.

While the Islamic financial system has generally performed well during this global financial crisis, several valuable lessons can be drawn from this crisis in our efforts to strengthen further the Islamic financial infrastructure for a more resilient and stable financial system. In 2009, a Task Force on Islamic Finance and Global Financial Stability was formed by the IDB and the IFSB to undertake an assessment of Islamic finance during the global financial crisis and to identify the further building blocks that are necessary to further strengthen the foundations of the Islamic financial system. The report examines the conceptual elements inherent in Islamic finance and their effects on financial stability and considers eight further areas of development

in the Islamic financial architecture to enhance its ability to deal with a more challenging future operating environment. This Report completed in April this year aims to support the international efforts towards providing a strong foundation for financial stability in the global financial system.

The eight areas for strengthening the financial infrastructure of Islamic finance address the institutional capacity both at the national and international level with the aim of contributing to global financial stability. These building blocks which address the core foundations for the development of Islamic finance include, first, ensuring the effective implementation of the prudential standards; second, the development of systemic liquidity management infrastructure; third, the establishment of strong financial safety nets; fourth, putting in place an effective crisis management and resolution frameworks; fifth, strengthen further the accounting, auditing and disclosure standards; sixth, having an effective macro prudential surveillance in place; seventh, having credible credit rating institutions and processes; and finally eighth, enhancing close international cooperation and coordination among countries including in capacity building and talent development to support efforts at the national level to ensure financial stability.

Islamic finance does not exist in isolation and as it becomes an increasingly important component of the global financial system, it will inevitably be impacted by the changing global landscape of financial regulation. This is particularly important as its growth gains momentum both in terms of number of service providers and in terms of business volume and as the internationalisation process continues. The global call for improved regulation and increased oversight in an international financial environment that is fundamentally different will thus also require us to intensify the efforts that have already been undertaken to strengthen the financial regulation for Islamic finance.

The financial reforms in Islamic finance to support sustainable and responsible innovation, in particular, need to leverage on its inbuilt strengths that set Islamic finance apart in performing its role in the mobilisation and allocation of resources to generate real economic activities. In Islamic finance, innovation is key in pushing the frontier

of market development to generate the range of products and services, processes and functions. The key lies in preserving the benefits of innovative initiatives and activities whilst ensuring that they do not result in negative externalities. This comes in the forms of its strong paradigm in governance, disclosure and transparency, as well as the emphasis that innovations are anchored in the objectives of Shariah and thus are for the benefit of the people.

Importantly, Islamic finance has the disposition to facilitate financial deepening without financial excesses through the fundamental Shariah requirement for Islamic financial transactions to be supported by an underlying economic activity and for socially-responsible financial innovation. Moreover, the profit-sharing and risk-sharing characteristics of Islamic financial transactions strengthen the incentives for Islamic financial institutions to undertake the appropriate due diligence on the Islamic financial transactions to ensure that the profits are commensurate with the risks assumed. The Shariah board of Islamic financial institutions additionally serve as a rigorous process of endorsement of the experts, thus representing a vital institutional safeguard to ensure that the inherent strengths of Islamic finance are fully realised. This ensures that the products are offered with the intention to achieve real benefits for the investors. It would therefore reduce the tendency for extreme behaviour in the financial system.

More recently, the world attention had shifted from troubled banks to troubled countries with rising sovereign risks, leading to further rescue packages and increased anxieties over contagion to financial markets in other parts of the world. Whilst these challenges continue to be addressed by the developed economies, the emerging economies have emerged from this crisis with stronger growth performance. The Asian region in particular, has entered the crisis with solid economic fundamentals and more resilient financial systems and institutions. This has in turn substantially limited the consequences of the contagion. With the internationalisation of Islamic finance in this decade, it has further reinforced the trend of greater financial integration in emerging economies. This has reinforced the changing global pattern of financial and economic

integration as financial and economic linkages strengthened between the emerging economies.

In the more recent period, with the enhanced international dimension of Islamic finance, it has become an increasing form of intermediation that has facilitated economic linkages between emerging economies. In addition, it has also drawn the participation by the more established financial centers to forge stronger financial linkages with the dynamic growth regions of Asia and the Middle East. Indeed, this would contribute towards more efficient mobilisation of funds across regions, reinforcing the significance of Islamic finance as an increasingly important channel for a globally more inclusive economic development. In the aftermath of the crisis, Islamic finance will continue to spur new connectivity among nations as its role and relevance gains more significance, thereby contributing to a more balanced global growth.

Conclusion

In conclusion, it is the very premise on which Islamic finance performs its intermediation function that strengthens its potential role and relevance in advancing the growth and development agenda towards preserving financial stability and towards strengthening economic and financial linkages between nations. By operating in accordance with the rules of Shariah, Islamic finance draws its strengths from its direct link to economic activity and its inherent requirement for prudent risk management and explicit disclosure and transparency thereby ensuring the viability of the activities in generating sufficient wealth to compensate for the risks involved. These inherent strengths will continue to be the catalysts driving its transition into a new era of growth and development in this post-crisis world.

As Islamic finance transitions to its next stage of development with greater international integration, the immense benefits that will be unleashed need to be accompanied by a higher level of resilience to be well positioned to manage the new challenges that the future will bring. Our collective efforts to mobilise a higher level of global cooperation in promoting this outcome will also enhance the prospects of Islamic finance to contribute towards securing global financial stability and a greater shared economic prosperity.

**Bank of Korea International Conference 2010:
“The Changing Roles of Central Banks”
Seoul, 31 May 2010**

Keynote Address by

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

It is my great honour to be invited to speak at the “Bank of Korea International Conference 2010”, held this year in conjunction with the 60th anniversary of the Bank of Korea. Let me take this opportunity to congratulate the Bank of Korea on this special occasion. The Bank of Korea can take great pride in its achievements during these six decades. From its establishment in June of 1950, the Bank of Korea has devoted great efforts to provide a stable and conducive macroeconomic environment and to build an effective financial system that has facilitated the growth of the Korean economy and its long-term sustainability.

This recent decade has been the most challenging for policymakers, in particular, for Central Banks. In the late 1990s, the Asian region was confronted with a severe crisis, and about a decade later, the world was confronted with a financial crisis of unprecedented global proportions. While Asia was adversely affected by these crises, there was a rapid return to recovery, both during the Asian financial crisis and during this recent global financial crisis. For the Bank of Korea, the courageous policy responses to some of the very tough challenges presented during these episodes can be judged by the results that have been achieved. There is now a cause for optimism in the present circumstance. Korea is recognised as one of the economies that has been the fastest to recover from the crisis. The exceptional work by the Bank of Korea has been an important element in this unwavering resilience of the Korean economy.

As the nature of globalisation changes and as financial innovation intensifies, the world has become more complex and less predictable.

While the trend for greater trade orientation continues, changes in comparative advantage and shifts in the direction of global demand have transformed the trade patterns in the global economy. In addition, the financialisation of savings and the increased diversification of these funds into financial markets have increased the impact of these markets on the real economy as the performance of these markets experience booms and bust. The greater integration of financial markets across borders has also increased the potential for its effects to be rapidly transmitted from one financial system to another market in another part of the world. In this new environment, the greater interdependence arising from the stronger interlinkages between economies and financial systems have thus significantly raised the risk for contagion.

At the same time, new economic growth centres have emerged that are shaping the economic and financial landscape of the world economy. Emerging economies in Latin America, the Middle East and Asia have become important centres in the global economy. These trends have resulted in an increasingly multi-polar world in which the economic power is more dispersed in the global economy. In Asia, the growing significance of domestic demand, the enhanced quality of the workforce and the more developed and resilient financial systems have all contributed to this strong growth performance. While the strong global linkages continue to be an important element in this growth process, this decade has seen the tremendous expansion in intra-regional trade in Asia. Intra-regional trade has increased from 32% of total trade in 1995 to now exceed 50%. This trend has generated mutually reinforcing growth in the region.

While this trend has reduced the extent to which external demand and supply shocks affect the Asian region, the more recent phenomenon of greater international financial integration has left no country insulated from the contagion of external shocks and from financial crisis from other parts of the world. In this new environment of greater international financial integration, developments in one asset class in a market in a distant country can spread to other asset classes, markets and to other parts of the world. Financial exposure through third markets are also becoming the new norm as liquidation of assets frequently occur in well functioning and high performing markets to meet obligations in other markets that have experienced disruptions or meltdowns. This was evident in the post-Lehman period which saw massive outflows from the Asian region following the deleveraging by the financial sector in several of the advanced economies. The increased connectivity of the world means that systemic risk events will become more widespread and significant compared to previously.

These fundamental changes in the national and international financial environment have prompted the search for solutions that would reduce the prospect of such financial disasters from happening in the future. This search has involved the reassessment of the role that should be assigned to Central Banks. It is important to recognise however, that there is no unique blueprint for the design of the institutional arrangements for a Central Bank and that it needs to be relevant and suited to its own circumstances. Indeed, the roles of Central Banks have varied considerably and have ranged from having a narrow mandate of maintaining price stability to more broader mandates that have included maintaining financial stability, undertaking the supervisory and regulatory function of the financial sector, maintaining orderly financial markets, addressing financial imbalances, leading the financial resolution initiatives in the management of a crisis and finally, driving the development of the financial system. My remarks today will focus on the mandate and role of Central Banks from the perspective of emerging economies, and more specifically, in the context of Asia.

National roles

This recent two decades, have witnessed radical reforms of Central Banks in several parts of the world, generating widespread debate on two specific trends that have emerged. The first relates to the shift in focus to the single mandate of price stability as being the core function of Central Banks. This has been frequently accompanied by the adoption of the inflation targeting framework. The second relates to the establishment of a separate entity to undertake the supervisory function of banks, although more than half of the Central Banks around the world still have the responsibility of the supervisory function. In the aftermath of the recent global financial crisis, the search for the appropriate framework for monetary stability and for the optimal institutional structure for financial sector regulation and supervision continues, perhaps now with greater earnest.

Prior to the recent financial crisis, the predominant view was that Central Banks should pursue “one tool and one target” policy strategy. Based on this view, the best role for the Central Bank in pursuing macroeconomic stability and prosperity was to ensure that inflation remains low. This recent crisis has changed this perception. Maintaining price stability and financial stability is a means to an end. The ultimate goal is surely to achieve sustainable economic growth and prosperity. Maintaining orderly financial markets has also now become an important role for Central Banks given the implications it has on the functioning and performance of the real economy.

For the emerging economies in Asia, ensuring orderly financial markets has always been an important role for the Central Banks in the region. Given the stage of development of the financial markets and its relative size in the international financial system, disorderly conditions that do not self equilibrate generally threaten to undermine the performance of the real economy. This was evident during the Asian financial crisis in 1997 and 1998. Ten years hence, several financial reforms and initiatives have been implemented by the

region. These reforms include deregulation and instilling greater market orientation, the development of the domestic financial infrastructure and the supporting legislation, increasing the range of instruments at the disposal of the Central Bank and strengthening the surveillance capabilities of the Central Bank.

These developments have yielded tremendous payoffs to the Asian region. The strengthened resilience that has been achieved has enabled most financial markets in Asia to absorb the destabilising implications of the recent global financial market turmoil. Most importantly, there was no disruption to our financial intermediation process. This has not only allowed the markets to facilitate the transmission of policy but it has also supported the recovery of private sector economic activity.

Equally important has been the role of the Central Bank in addressing the build up of financial imbalances which would not only have an impact on financial stability, but also on macroeconomic stability. While interest rates have been an important tool to address the build up of such financial imbalances, most Central Banks in Asia have placed greater reliance on macroprudential measures. Prudential measures applied since the 1990s have been successful in containing the build up of such financial imbalances, thus reducing the risk to financial stability.

The world going forward is likely to continue to be affected by financial crisis. History has shown that there have been more than a hundred distinct banking crises in these two recent decades. The prospect of surviving such a crisis is not only about building resilience but also having the capacity to manage it. The institutional arrangements for financial stability continue to be a key area of debate. The main issues have tended to centre on the role of the central bank in financial stability, and whether there should be a single or multiple supervisory authorities. Given that the central bank is the lender-of-last-resort, the central bank is invariably in the frontline of the actions 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. Whether a country adopts an integrated model or a model that is organized along sectoral lines, effective coordination is critical to effectively safeguard financial stability.

As the entity responsible for monetary policy, the Central Bank undertakes surveillance on macroeconomic conditions and in undertaking open money market operations and the management of international reserves, the Central Bank has direct contact with the financial markets. The Central Bank is thus able to gain valuable insights that contribute towards a more informed financial supervision, including in the design and implementation of macroprudential policy measures. The Central Bank is also best positioned to evaluate the tradeoffs should conflicting objectives arise. In such situations, a fragmented institutional arrangement frequently results in delays and compromises in policy responses. In addition, there would also be a lack of clarity of the accountability for the decisions.

Finally, the Central Bank also performs a critical role in crisis containment and management, in particular, to provide liquidity, to prevent disruptions to the functioning of the financial system and to restore stability and confidence to the financial system. To avoid a piecemeal approach by any individual agency in the system and to ensure a comprehensive response to the financial crisis, the institutional arrangements for greater coordination across agencies is essential to allow for prompt action that may include a range of measures such as capital injections, debt guarantees and asset purchases in the effort to contain and manage the crisis.

Regional roles

At the regional level, the role of the Central Banks in East Asia has in this decade, transitioned to a new level of collaboration and cooperation. Following the Asian financial crisis, efforts have focused on five main areas, namely, to enhance the effectiveness of regional economic and financial surveillance,

to improve the arrangements for regional crisis management that is reinforced by regional support mechanisms, to develop the regional financial infrastructure including the bond market and the payments and settlement system, to strengthen regional financial stability, and finally, to pursue capacity building collaboratively, so as to enhance the effectiveness of the Central Banks in the region.

The priority for Asia going forward is to accelerate regional financial integration. To ensure this takes place in an environment of regional stability, strengthening cooperation is also aimed at managing the risks and vulnerabilities of the region. In 2006, the East Asian Central Banks have established a monetary and financial stability committee as a forum to discuss the risks to regional macroeconomic and financial stability. In addition, the ASEAN+3, a subset of this group, has already taken concrete steps to multilateralise the Chiang Mai Initiative into a more advanced and robust framework for the effective pooling and utilisation of liquidity support in the region. While the Asian region is highly diverse, in these key areas of cooperation and collaboration, the Asian region has demonstrated its cohesiveness in coming together to deal with the challenges that the new environment presents to us.

Conclusion

Let me now conclude. The world has changed and will continue to change. To remain effective in the new environment and to have the capacity to respond to the new challenges, Central Banks also need to undertake its own transformation and modernisation. Moreover, in preserving the independence of the Central Bank and to be able to stand our ground in performing our responsibilities, Central Banks need to be standing on solid ground. This requires continuous capability enhancement and capacity building so as to be well positioned to have the ability to rise to the challenges of the new environment. This may involve significant changes to the governance arrangements, the empowering legislation, the skills required, the role of communications, the human capital management and development and the organisational culture. Indeed, capacity building is a further robust area of collaboration in the Asian region.

Going forward, Asia's participation in the global economic and financial system is set to increase exponentially. As the countries of the region connect with each other and the rest of the world, there is every reason to hope for a better future of sustained stability and enhanced growth prospects for the benefit of the regional and world economy.

**Official Monetary and Financial Institutions Forum (OMFIF) -
“Vision of Asia Award Acceptance Speech”
London, 30 June 2010**

by

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

It is my great honour to be here today to receive this Vision of Asia Award from the Official Monetary and Financial Institutions Forum (OMFIF). I would like to thank Lord Desai, for his generous introduction and the advisory board of OMFIF for this recognition. As a policy maker from an emerging economy in Asia - for almost three decades - it has been both exhilarating and most rewarding. While being challenged to the limit, in particular, during the Asian financial crisis, the Asian economies have now emerged stronger and more resilient.

This decade has seen a dramatic change in the nature of the globalisation process. As this process intensifies, Asian economies have demonstrated their flexibility to adjust and respond to the opportunities and challenges that have emerged. The initial wave of globalisation was in the form of trade. This was followed by the globalisation of corporations and more recently by the globalisation of financial flows. The recent global financial and economic crisis has called for the globalisation of policy given the limits for policy at the national level and the need to address cross border developments that have implications on the domestic financial system and hence the domestic economy.

The global economy and the international financial system have entered a new era. A fundamental transformation of the global landscape is taking place. Arising from the growing disparity in growth performance between the developed and emerging world, increasingly the economic power in the global economy is becoming more dispersed. The Organisation for Economic Cooperation and Development (OECD) estimates the emerging economies' share of global economic output will exceed that of the developed world by 2011. By 2030, the emerging economies are expected to account for 60% of total world output.

The benefits of globalisation are thus becoming more balanced. In 2000, the emerging economies accounted for 80% of the world population but only generated 40% of global income. By 2030, it is estimated that 85% of the world population from the emerging economies will generate 60% of the income. This is reinforced by increased trade between emerging economies. While world trade has quadrupled between 1990 to 2008, trade flows between emerging economies increased ten-fold.

Asia is very much part of this global shift that is taking place. Following a decade of significant economic and financial transformation, Asia has emerged as a major growth centre in the global economy. Asia now accounts for one third of world output and 28% of world trade. This progress and development has created employment and improved living conditions, lifting millions out of poverty. While Asia is one of the most diverse regions in the global economy, it has been able to take advantage of the complementarities in the region to generate significant expansion in intra-regional trade, intra-regional investment activities and increased intra-regional financial flows.

Vision of Asia

This award speaks to the growing importance of Asia within the world economy. Allow me to touch on three major trends in Asia that are likely to influence Asia's role in the world as we advance into the future. First, the role of the growing cumulative domestic demand in Asia for the regional and global output. Second, the role of Asia in the more efficient intermediation of funds mobilised in Asia arising from the more pronounced regional financial integration. Third, is the policy strategies being adopted by the region to address challenges and the model for the management for international relations.

The economic transformation of Asia in this decade has resulted in Asia becoming an important source of cumulative demand in the global economy. Rising incomes, low unemployment, a young demographic structure that has higher propensity to consume, relatively low level of household debt and policies to encourage consumption have spurred consumption demand. Other measures being initiated include putting in place social safety nets in the form of schemes and programmes for education, healthcare, retirement and unemployment benefits. This has not only resulted in significant expansion of the retail trade sector in the region but Asia is increasingly becoming an important consumer in the global economy.

Private investment activity has also resumed following a period of excess capacity due to overinvestment prior to the Asian financial crisis. There are also plans for massive investment in infrastructure development in the region. While Asia has the internal capacity from its high savings to finance these investments, the resulting higher import demand that these investments will generate will contribute to the further unwinding of the global imbalances. This stronger domestic consumption and investment demand in Asia is also being supported by the strengthened and more developed financial systems. The relatively low level of leverage of the corporate sector and the continued access to financing support this trend.

While regional economic integration has always been part of the Asian economic landscape, regional financial integration has been a more recent phenomenon. While regional financial integration will facilitate the already strong trade and investment linkages in the region, a more important aspect of financial integration for Asia is that it will facilitate a more efficient intermediation of funds within Asia. Asia's more developed financial markets and continued initiatives to liberalise the financial sector will also strengthen inter-linkages with both the traditional financial markets and with new financial centres in other emerging economies. Going forward, products from Asian financial markets can be expected to increasingly assume greater importance as an asset class. It will thus increase the

potential for the diversification of risks and contribute towards stability of the international financial system. It will also expand the options for investors and borrowers and thus, contribute to more efficient allocation of financial resources across borders. In addition, the development of the capital markets in the Asia region will have the important role in channelling part of the sizable savings of Asia back into productive investments in the region. With greater liberalisation of the financial sector and the capital account, and the increased linkages of the national payments systems in Asia, and the greater presence of regional institutions in the individual domestic financial systems, the trend for increased financial flow within the region will continue. Given Asia's favourable economic prospects and more developed financial market, Asia is already attracting volatile capital flows.

The route that Asia is taking to forge greater financial integration will however be different from that of Europe. Unlike in the European Union, Asia has not ventured to have centralised institutions to coordinate financial integration. Rather, it has leveraged on existing regional groupings and existing networks to forge greater collaboration in areas of common interest. Secondly, a common currency is not on Asia's medium term agenda. To minimise exchange rate risks and facilitate intra-regional trade and investment, countries have ventured into arrangements to use domestic currencies for trade settlements.

Let me touch on policy and strategies adopted in Asia. Asia has tended to not adhere to rigid ideologies but rather focus on institutional building and financial market development, strengthening of the payment systems and the regulatory and supervisory framework. Indeed, many of the reforms that are now being widely debated to address the weaknesses observed in the global financial system during this crisis have already been implemented in Asia. This includes the adoption of sound liquidity frameworks, substantially strengthened governance and risk management practices, comprehensive financial safety nets, and the implementation of counter-cyclical measures such as loan-to-value ratios. While a decade of financial reforms have paid off, increased

regional efforts on surveillance, crisis management, liquidity support arrangement, and financial supervision and development of regional financial markets continue to be the focus of attention going forward.

Conclusion

Let me conclude my remarks. The global economy is experiencing a significant and fundamental shift. Asia is very much at the centre of this shift. As Asia becomes an increasing source of demand and as a more

financially integrated Asia becomes more interlinked with the rest of the world and as Asia further strengthens its resilience, the stage is set for Asia to assume a more prominent role in the global economy.

In the endeavour to achieve the shared goals of balanced global growth and the common interest of global financial stability, Asia holds the potential and the promise of a platform for meaningful collaborations towards attaining sustainable global solutions and progress in this more inter-connected world.

CALENDAR OF EVENTS April – Jun 2010

1 April 2010

The Bank announced that it will host the second Global Islamic Finance Forum (GIFF) 2010. Themed “Islamic Finance: Opportunities for Tomorrow”, GIFF 2010 will be held in Kuala Lumpur from 25th to 28th October 2010. A key international event in the calendar of Islamic finance, the GIFF 2010 is a high-level multi-track event that brings together regulators, scholars and financial industry players who are key drivers in shaping Islamic finance globally.

16 April 2010

The Bank announced that the Ministry of Finance (MoF) has approved the issuance of a commercial banking licence to a locally-incorporated company to be established by Bank of Baroda (40%), Indian Overseas Bank (35%) and Andhra Bank (25%). The licence was issued as a reinstatement of a commercial banking licence to an Indian bank previously operated in Malaysia. The presence of the new Indian commercial bank will further strengthen the economic and financial linkages between Malaysia and India.

10 May 2010

The MoF announced the issuance of Sukuk 1Malaysia 2010 amounting to RM3 billion on 21 June 2010 and the appointment of Bank Negara Malaysia as the issuer of the sukuk on behalf of the Government. The sukuk, which is scripless and based on Shariah principles, is an additional investment instrument for Malaysian citizens who are 21 years and above. The sukuk has a 3-year tenure and offers a return of 5% per annum. It has a resaleable feature which provides the flexibility for investors to sell and purchase the sukuk before the maturity date. On 23 June, the MoF announced that the Sukuk 1Malaysia 2010 amounting to RM2.4 billion was allotted to 74,781 investors.

11 May 2010

The Ministry of Finance announced that Malaysia plans to increase the deposit insurance limit to RM250,000 from the current limit of RM60,000, starting from January 2011 as part of efforts to enhance financial consumer protection for Malaysians and to promote continued public confidence in the financial system. The Government, through Perbadanan Insurans Deposit Malaysia (PIDM), aims to submit the proposal to parliament and complete the legislation process before the end of the year. PIDM will also develop legislation to introduce an explicit Insurance Compensation Scheme (ICS) for insurance and takaful policyholders, to ensure that policy holders will also enjoy a similar level of consumer protection provided by PIDM for depositors in the commercial banks and Islamic banks.

13 May 2010

At its third meeting for 2010, the Bank’s Monetary Policy Committee (MPC) decided to raise the Overnight Policy Rate (OPR) by 25 basis points to 2.50%. The MPC decided to adjust the OPR towards further normalisation of monetary conditions. At this new level, the stance of monetary policy continues to remain accommodative and supportive of economic growth. The Bank also announced that 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. On the supply side, all economic sectors recorded positive growth during the quarter, led by strong growth in the manufacturing and services sectors.

19 May 2010

The Bank and the Australian Treasury signed a Memorandum of Understanding (MoU) to facilitate cross border co-operation in the financial services industry, including Islamic finance and the regulation of financial products. The MoU aims to foster long-term strategic business development in conventional and Islamic finance between the two countries. These efforts represent an important step in establishing a collaborative partnership between Malaysia and Australia to provide greater synergy towards strengthening the inter-linkages between these two key financial centres.

20 May 2010

In her keynote address at the 6th World Islamic Economic Forum in Kuala Lumpur, Governor Dr. Zeti noted that while the Islamic financial system has generally performed well during the global financial crisis, it has learnt several lessons to make it stronger. She highlighted that several additional areas of development in the Islamic finance had been identified to enhance its ability to deal with a more challenging future operating environment. Among the identified areas are ensuring effective implementation of the prudential standards, development of the systemic liquidity management infrastructure and the establishment of strong financial safety nets.

31 May 2010

In her keynote address at the Bank of Korea International Conference 2010 in Seoul, Governor highlighted that Central Banks need to undertake their own transformation and modernisation in order to remain effective and responsive. She added that Central Banks must continuously improve the capability enhancement and capacity building to be well positioned and to have the ability to rise to the challenges of the new environment. This may involve significant changes to the governance arrangements, the empowering legislation, the skills required, the role of communications, the human capital management and the development of the organisational culture.

3 June 2010

The Bank and the Securities Commission Malaysia (SC) announced the launch of a global search to recognise and honour the outstanding contribution of an exceptional individual in Islamic finance. Spearheaded by the Malaysia International Islamic Financial Centre (MIFC) initiative, the award is regarded as a global benchmark in identifying exceptional individuals who have inspired the development of Islamic finance worldwide. The award is unique as it focuses on the individuals' record of achievement and outstanding contribution towards the development and advancement of Islamic finance globally.

15 June 2010

The Bank announced the appointment of Dato' Muhammad Ibrahim as Deputy Governor for a three year tenure effective 16 June 2010. Concurrently the Bank also announced the appointment of Dato' Ooi Sang Kuang as Special Adviser for a one year tenure following the completion of his term of eight years as Deputy Governor and the appointment of Puan Jessica Chew Cheng Lian as Assistant Governor for the regulation sector.

17 June 2010

The Bank awarded five new commercial banking licenses to the wholly-owned subsidiaries of the following banking institutions - BNP Paribas SA, France; Mizuho Corporate Bank, Japan; National Bank of Abu Dhabi, United Arab Emirates; PT Bank Mandiri (Persero) Tbk., Indonesia; and

Sumitomo Mitsui Banking Corporation, Japan. The new commercial banks will add to the diversity of the financial services industry, support the new areas of growth including green technology and facilitate the transformation of the Malaysian economy towards achieving high value-added and high income economy status. The presence of these banks will also further enhance Malaysia's international linkages through facilitating international trade and investment flows between Malaysia and other parts of the world.

25 June 2010

The Bank announced that starting 1 July 2010, foreign electronic brokers are allowed to offer electronic broking platforms for wholesale interbank trading in the Malaysian foreign exchange market. This initiative is aimed towards enhancing the participation of new players in the foreign exchange market to further increase the dynamism and competitiveness of this market.

29 June 2010

The Bank's Shariah Advisory Council (SAC) ruled that ta'widh or compensation, may be imposed on late payment of financial obligations arising from exchange contracts (such as buy, sell and hire purchase) and qard (loan). However, the ta'widh may only be imposed upon the lapse of the repayment period agreed by both contracting parties. The amount of ta'widh received may be recognised as income by the Islamic banking institutions on the basis that it is imposed as compensation for actual loss incurred. Furthermore, in order to safeguard public interest and to ensure justice to the financiers and customers, the SAC also ruled that Islamic banking institutions are obliged to grant ibra' (rebate) to customers for early settlement of financing based on buy and sell contracts (such as bai' bithaman ajil or murabahah).

30 June 2010

Governor Dr. Zeti was awarded the Official Monetary and Financial Institutions Forum (OMFIF) Vision of Asia Award in recognition of her outstanding leadership and economic expertise over the past 10 years. In her acceptance speech, Governor highlighted that the global economy is experiencing a significant and fundamental shift where Asia has now emerged as a major growth centre. She added that, as Asia becomes an increasing source of demand and becomes financially integrated with the rest of the world, the stage is set for Asia to assume a more prominent role in the global economy. She further noted that in the quest to achieve balanced global growth and financial stability, Asia holds the potential as a meaningful collaboration platform towards attaining sustainable global solutions and progress.