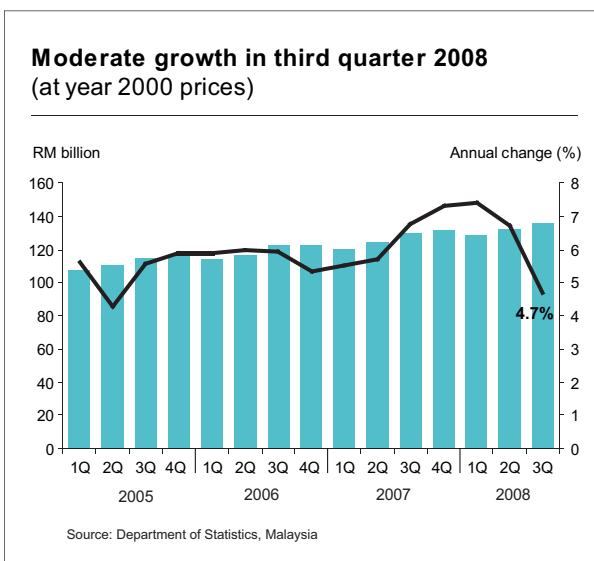


ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE THIRD QUARTER OF 2008

OVERVIEW

Growth moderated in the third quarter

The Malaysian economy registered a growth of 4.7% in the third quarter of 2008 (2Q 08: 6.7%) amidst the sharp deterioration in the global economic and international financial environment. Net real exports of goods and services declined by 14.8%, compared with a growth of 20% in the second quarter of 2008.



Growth was supported by domestic demand, which increased by 6.5% (2Q 08: 8.3%), following continued expansion in private and public consumption. The strong growth of 8.1% in private consumption (2Q 08: 9%) was supported by the effects of bonus payment to civil servants, spending during the festive season and payment of cash rebates for fuel subsidy. Meanwhile, public consumption increased by 6.9% (2Q 08: 10.9%) on continued high expenditure for emoluments and supplies and services. Gross fixed capital formation, however, expanded at a slower rate of 3.1% (2Q 08: 5.6%) as private investment activities were affected by cautious business sentiment amidst rising costs and uncertainties in the external environment. Nevertheless, investment was supported by higher public development expenditure, in particular for the transportation, agriculture and rural development, and education sectors.

The services sector sustained its strong expansion, increasing by 7.1% (2Q 08: 8.2%), on higher finance and insurance sub-sector growth, and strong consumption activities during the quarter. Growth in the manufacturing sector was weaker (1.8%; 2Q 08: 5.6%), due mainly to weakness in the export-oriented industries. However, the domestic-oriented industries continued to register strong growth, supported mainly by the transport equipment, construction-related products and food industries. The agriculture sector grew at a more moderate pace (3%; 2Q 08: 6%) following the deceleration in production of palm oil amidst the onset of a yield downcycle. Similarly, the construction sector moderated further (1.2%; 2Q 08: 3.9%) on weaker activity in the residential and civil engineering segments amidst higher prices of building materials. Growth in the mining sector was sluggish (-0.3%; 2Q 08: -0.5%) as a result of lower natural gas output.

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), increased to 8.4% in the third quarter (2Q 08: 4.8%). The higher inflation during the quarter reflected the higher retail prices for petrol and diesel following the subsidy restructuring on 4 June 2008; higher electricity tariffs from 1 July 2008; as well as higher food prices. Indicators suggest that inflation has peaked in the third quarter. Going forward, the decline in global food and commodity prices, as well as moderating growth, will rein in domestic price pressures. In addition, with the declining energy prices, the Government has lowered domestic fuel prices. Improved supply has also reduced rice prices.

On the external front, trade balance registered another record surplus (RM41.6 billion; 2Q 08: RM40.6 billion) in the third quarter. Exports growth moderated, but remained firm (16.9%; 2Q 08: 20.8%),

supported by commodities and resource-based manufactured products. Commodity exporters benefited from higher prices that were contracted before the downturn in global commodities prices, while exports of resource-based products were supported by both higher prices and sustained demand. Gross imports increased by 10.3% (2Q 08: 9.9%) due largely to higher intermediate and consumption imports. Meanwhile, growth in capital imports was lower reflecting the slower private investment activities in the domestic economy.

In the financial account, gross inflows of foreign direct investment (FDI), as recorded by Bank Negara Malaysia's Cash BOP System, increased to RM21.5 billion (2Q 08: RM12.6 billion), reflecting mainly short-term inter-company loans for centralised treasury operations which were also repaid during the same quarter. After adjusting for gross outflows due mainly to repayments of these short-term loans, net FDI amounted to RM2.7 billion (2Q 08: RM8.6 billion), channeled mainly into the services, oil and gas, and manufacturing sectors. Overseas investment by Malaysian companies recorded a larger net outflow of RM16.1 billion (2Q 08: -RM3.6 billion) for investments mainly in the services and manufacturing sectors. Portfolio investment registered a net outflow of RM38.4 billion (2Q 08: -RM31 billion) due to the continued global de-leveraging process.

The international reserves of Bank Negara Malaysia amounted to RM379.3 billion (equivalent to USD109.7 billion) as at 30 September 2008. The reserves amounted to RM343.8 billion (equivalent to USD99.7 billion) as at 14 November 2008. The reserves position is sufficient to finance 8.1 months of retained imports and is 3.7 times the short-term external debt.

OPR was left unchanged in the third quarter

The Overnight Policy Rate (OPR) was left unchanged at 3.50% throughout the third quarter. The prevailing level of the policy rate remained consistent with the outlook for slower economic

growth and the expected moderation in inflation into 2009 from its current elevated level.

With the OPR unchanged, interbank rates for all maturities were stable during the quarter. In terms of lending rates, the average base lending rate remained unchanged during the quarter, while the average lending rate softened to 5.96% as at end-September. Deposit rates remained relatively stable during the period.

Notwithstanding the adverse developments in the international financial markets, the Malaysian domestic financial system remained well-capitalised in an environment of ample liquidity and continued to provide access to financing. On a net basis, banking system loans and PDS outstanding expanded by 13.4% at end-September. Total loan disbursements in the third quarter continued to rise, contributed mainly by the business sector. As a result, total loans outstanding increased by 10.6% at end-September. Loan applications and approvals, however, moderated due to lower demand for new loans from the business and household sectors.

Net funds raised in the capital market amounted to RM6.6 billion in the third quarter. In the private sector, net funds raised through the PDS market amounted to RM3.7 billion, while funds raised through the equity market rose to RM2.2 billion. In the public sector, gross funds raised amounted to RM14.8 billion during the quarter. Due to large redemptions of government securities, net funds raised amounted to RM680 million.

M3, or broad money, expanded by RM13.7 billion during the quarter, or 13.5% on an annual basis as at end-September. The growth in M3 was underpinned by the continued expansion in credit and increased spending by the Government.

Amidst the ongoing global financial turmoil, de-leveraging and risk aversion amongst investors around the world has heightened. The US dollar strengthened following the de-leveraging by US financial institutions in the international financial markets and the inflows of funds into US Treasuries. Carry trades on the Japanese yen were also unwound rapidly and substantially, causing significant reversal in the high yielding currencies, notably the New Zealand and the

Australian dollar. Against this backdrop, the ringgit depreciated by 5.5% against the US dollar and 7.3% against the Japanese yen during the third quarter. The ringgit, however, appreciated against the pound sterling (4.6%) and the euro (3.9%) amid indications of rapidly deteriorating economic conditions in the European economies. Against the regional currencies, the ringgit depreciated in the range of 0.5% and 5.7%, with the exception of the Korean won, against which the ringgit appreciated by 9.9%. During the period 1 October to 27 November 2008, the ringgit continued to depreciate against the US dollar (-4.5%) and the Japanese yen (-12.8%), and appreciated against the pound sterling (11.8%) and euro (6.1%). The ringgit appreciated against regional currencies in the range of 0.9% to 24.1%, with the exception of the Chinese renminbi (-4.7%), Philippine peso (-1.2%) and the Thai baht (-0.8%).

Banking system remained resilient

The banking sector remained resilient, supported by strong capitalisation, sustained profitability and continued improvement in the level of non-performing loans (NPLs). As at end-September, capitalisation level remained high with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of 13% and 10.5% respectively. Banking system profitability was sustained (RM4.1 billion), with annualised average returns on assets and equity of 1.5% and 18.7% respectively. Net NPLs based on 3-month classification have declined by 4.6% to RM16.7 billion to account for 2.4% of total net loans. Net NPL ratio remained unchanged at 2.4% at end-October 2008. Given their sound balance sheets and ample liquidity in the financial system, banking institutions remained well-positioned to continue meeting the financing needs of the economy.

As a pre-emptive and precautionary move to maintain the stability of the financial system, Bank Negara Malaysia announced that effective from 16 October 2008, all ringgit and foreign currency deposits would be fully guaranteed by the Government through Perbadanan Insurans Deposit Malaysia until December 2010, while access to the Central Bank's liquidity facility would be extended to insurance companies and takaful operators.

Economic impact of global financial crisis

Going forward, the deterioration of the global financial environment has begun to have an adverse impact on global economic activity. Global growth is weakening substantially, with several major developed economies sliding into a recession. As a result, signs of moderation in growth have surfaced in the emerging economies. Despite the aggressive injection of liquidity into the financial markets and recapitalisation of the large financial institutions in major industrial countries, international financial markets have not normalised and continue to remain highly volatile. However, with the sharp deceleration in growth and decline in commodity prices, inflationary concerns have receded.

As a highly open economy with strong financial and real economic linkages with the rest of the world, the Malaysian economy has been impacted by these external developments. The significant slowdown in global growth is expected to affect the export sector while the continued volatility across financial markets may dampen business outlook. While this more challenging period is expected to see a moderation in growth, the economy will continue to expand.

Malaysia's better resilience lies in the established strong fundamentals that have been built-up over several years. The continued significant current account surplus, low external debt, large international reserves and well-capitalised banking system, will place the economy in a stronger position to weather this challenging period. Strategies going forward will aim at sustaining domestic demand, reducing Malaysia's external vulnerabilities and ensuring that financial intermediation to proceed uninterrupted. To mitigate the impact of weak global growth on the domestic economy, the Government announced a pre-emptive RM7 billion Economic Stabilisation Plan on 4 November 2008. The additional spending will cover measures to boost private consumption and investment. As a pre-emptive measure aimed at providing a more accommodative monetary environment to support domestic demand, Bank Negara Malaysia on 24 November 2008 reduced the Overnight Policy Rate (OPR) to 3.25 percent and the Statutory Reserve Requirement (SRR) from 4% to 3.5%, with effect from 1 December 2008.

DEVELOPMENTS IN THE THIRD QUARTER OF 2008

INTERNATIONAL ECONOMIC ENVIRONMENT

Global recession as global financial crisis intensified

The global economy deteriorated considerably as several major industrial economies contracted in third quarter sliding into a recession as the effects of the financial crisis spilled over across the real economy. This is despite extraordinary measures taken by the authorities in their attempt to restore the functioning of financial markets to contain the impact on the real economy. Regional economies were impacted with the Singapore and Chinese Taipei economies contracting for the first time since 2003. The financial de-leveraging and weaker global growth conditions triggered a sharp decline in oil and commodity prices. There are signs of significant easing of inflation pressures in most countries.

In the **US**, real GDP contracted by an annualised 0.5% in the third quarter (2Q 08: 2.8%). Private consumption expenditure declined by 3.7%, marking the end of more than a decade long sustained expansion of consumer spending. Fixed investment contracted by 5.6% (2Q 08: -1.7%) due to a sharper decline in residential investment, its eleventh consecutive quarter of decline. Nevertheless, net exports contributed 1.1 percentage points to growth (2Q 08: 2.9 percentage points). Inflation peaked at 5.3% in the quarter (2Q 08: 4.3%), and has since trended downwards in recent months in line with

the declining commodity prices and significant across-the-board softening in global demand.

Japan's real GDP declined by an annualised 0.4% in the third quarter (2Q 08: -3.7%), its first recession since 2001. While consumer spending slowed sharply, fixed investment declined further on falling corporate profits and impact of a strong yen on exports and overseas revenue. On the inflation front, prices rose by 2.2% (2Q 08: 1.4%) while core consumer prices remained positive since fourth quarter of 2007.

The **euro area** entered into a technical recession for the first time since its formation in 1999, after the economy declined by 0.2% quarter-on-quarter in the third quarter (2Q 08: -0.2%). Germany and Italy contracted quarter-on-quarter for the second consecutive quarters, reflecting rapid deterioration in exports following weaker global and domestic demand. France, being an exception, avoided the recession due to the cushion provided by domestic demand. Inflation in the euro area was 3.8% in the third quarter (2Q 08: 3.6%), reaching its peak in July before moderating towards the end of the quarter. Meanwhile, in the **UK**, real GDP slowed sharply to 0.3% in the third quarter (2Q 08: 1.5%) and registered a contraction quarter-on-quarter, its first contraction in 16 years. The slowdown in the economy was broad-based with services, manufacturing and construction sectors recording quarterly declines. Inflation continued to edge

Industrial Countries: Real GDP Growth

	2007		2008			Key contributing factors for 3Q growth
	3Q	4Q	1Q	2Q	3Q	
	Annual change (%)					
US ¹	4.8	-0.2	0.9	2.8 ^r	-0.5 ^p	Contraction in consumer spending and residential investment.
UK	3.3	2.9	2.3	1.5	0.3 ^p	Broad-based slowdown in services, manufacturing and construction sectors.
Euro area	2.6	2.1	2.1	1.4	0.7 ^p	Slowdown due to weak exports and domestic demand.
Japan ¹	2.3	1.8	2.5	-3.7 ^r	-0.4 ^p	Significant weakness in consumption, investment and exports.

¹ Annualised basis
^r Revised
^p Preliminary

Source: National authorities

upwards to 4.8% in third quarter (2Q 08: 3.4%), lagging the economic cycle.

As the global financial crisis intensified, authorities across the world have taken extraordinary measures both at national and international levels to restore the functioning of financial markets and providing stimulus to the rapidly contracting real economy. On the monetary front, seven major central banks announced coordinated interest rate cuts on 8 October, with the **US Federal Reserve** cutting its Fed funds rate by 50 basis points to 1.5%, the **European Central Bank (ECB)** reducing its overnight rate by 50 basis points to 3.75% and **Bank of England (BoE)** cutting its base lending rate by 50 basis points to 4.5%. The Fed funds rate was also reduced further to 1% on 31 October while a currency swap of USD30 billion each with Korea, Singapore, Brazil and Mexico was entered into with the US Fed to ease US dollar financing shortages in global money markets.

On the financial front, the US authorities announced several measures including supporting financial institutions that were in difficulties to thaw the freeze in the credit markets. On 7 September, the US Treasury put two government-sponsored mortgage finance enterprises under conservatorship to restore market confidence following continued decline in their capital base. Following the bankruptcy of a major investment bank on 15 September, the US Treasury

introduced USD700 billion Troubled Assets Relief Program (TARP) to inject capital into financial institutions and provide support to the ailing securitised consumer debt markets. The US Treasury has so far injected about USD180 billion into several financial institutions. Besides widening the types of collaterals accepted under its existing liquidity facilities, the US Fed also introduced the Commercial Paper Funding Facility (CPFF) to ease liquidity shortage in the commercial paper market as US companies struggled to meet their short-term funding needs.

In response to the deteriorating conditions, the **Bank of Japan** cut interest rate for the first time in 7 years by 20 basis points to 0.3% on 31 October as Japanese yen surged to a 13-year high and Nikkei slumped to its lowest level in 26 years. Similarly, on 7 November, the ECB reduced its overnight rate by 50 basis points to 3.25% while the BoE cut its base lending rate by a record 150 basis points to 3%, its lowest since 1955. On the fiscal front, Japan, Germany, Spain and UK have announced fiscal stimulus ranging from USD30 billion to USD50 billion to mitigate the impact of the financial crisis while the US and other economies are expected to follow suit.

In the commodities market, global **crude oil prices**¹ declined to an average of USD91.15 per barrel (2Q 08: USD118.59 per barrel) in the third quarter. After the peak at USD145.29

Regional Countries: Real GDP Growth

	2007		2008			Key contributing factors for 3Q growth
	3Q	4Q	1Q	2Q	3Q	
	Annual change (%)					
PR China	11.5	11.2	10.6	10.1	9.0	Growth supported by fixed asset investment and retail sales.
Indonesia	6.5	6.3	6.3	6.4	6.1	Growth supported by strong domestic demand.
Philippines	7.1	6.4	4.7	4.4 ^r	4.6	Growth led by household spending, exports and construction activities.
Thailand	5.1	5.7	6.0	5.3	4.0	Moderation in growth due to weaker growth in exports and domestic demand.
Korea	5.1	5.7	5.8	4.8	3.9 ^a	Lower growth due to slowdown in construction and services sector.
Hong Kong SAR	6.8	6.9	7.3	4.2	1.7	Sharp moderation due to weaker exports and domestic demand.
Singapore	9.5	5.4	6.9	2.3	-0.6	Contraction due to decline in biomedical manufacturing.
Chinese Taipei	7.0	6.4	6.3 ^r	4.6 ^r	-1.0 ^p	Contraction due to decreasing private consumption and weak external trade.

^a Advanced estimate

^r Revised

^p Preliminary

Source: National authorities

¹ Refers to WTI one-month futures on NYMEX

per barrel in July, the oil prices declined sharply to below USD100 per barrel due mainly to the global unwinding of speculative positions as de-leveraging continued to accelerate and expectations of weaker global demand heightened. The price of oil hit a three-and-a-half-year low below USD50 per barrel in late November.

In the **Asian region**, economic growth in most regional economies moderated in the third quarter while export performance was mixed. Although regional growth continued to be led by the People's Republic of China (PR China), its growth also moderated further to 9% in the third quarter (2Q 08: 10.1%). Of significance, Singapore's and Chinese Taipei's third quarter growth contracted by 0.6% (2Q 08: 2.3%) and 1% (2Q 08: 4.6%) respectively. To mitigate the downside risks to growth, several Governments announced fiscal stimulus packages to support domestic demand. With inflationary pressures easing, monetary policy has also been biased toward supporting growth. Most central banks

in Asia moved towards easing. Interest rates declines were initiated in all regional economies except Indonesia, Thailand and Philippines, while Singapore shifted its monetary policy stance to a zero appreciation of its currency.

In the **foreign exchange market**, the US dollar ended the quarter slightly stronger against the euro and the pound sterling due to the de-leveraging process and the repatriation of funds back to the US. The Japanese yen, however, appreciated against the US dollar and all major currencies following the unwinding of carry trades. Similarly, regional currencies were also affected by the de-leveraging process and depreciated against the US dollar. This trend has persisted into the start of the fourth quarter.

Going forward, the downside risks to global growth is expected to persist amidst signs of a deeper recession in industrial economies and further moderation in growth in the regional economies.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth moderated in the third quarter

In the third quarter of 2008, the Malaysian economy registered a growth of 4.7% (2Q 08: 6.7%) amidst a significantly weaker global economic growth and volatile international financial environment. While net external demand declined by 14.8% (2Q 08: 20%), growth was supported by relatively strong domestic demand. On the supply side, growth moderated across most sectors of the economy.

Domestic demand moderated

Domestic demand registered a growth of 6.5% (2Q 08: 8.3%) in the third quarter, led by strong private and public consumption.

GDP by Expenditure Components (at constant 2000 prices)

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	11.9	9.1	10.5	8.3	6.5
Consumption	11.6	8.7	12.2	9.3	7.8
<i>Private sector</i>	13.0	10.2	11.7	9.0	8.1
<i>Public sector</i>	6.0	4.2	14.7	10.9	6.9
Gross Fixed Capital Formation	12.8	10.2	6.0	5.6	3.1
Net Exports	1.4	-12.3	26.4	20.0	-14.8
<i>Exports of Goods and Services</i>	2.9	7.8	6.0	9.7	5.1
<i>Imports of Goods and Services</i>	3.1	11.0	3.4	8.4	8.2
GDP	6.7	7.3	7.4	6.7	4.7

Source: Department of Statistics, Malaysia

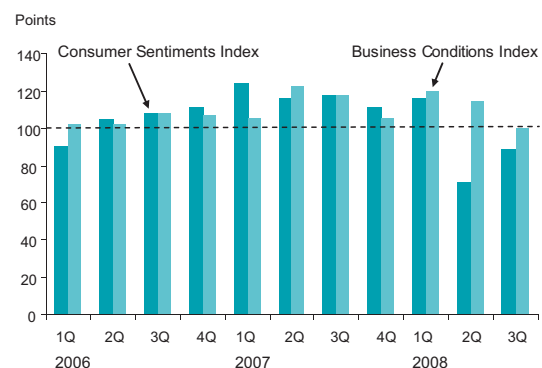
Private consumption sustained a strong growth of 8.1%, supported by the effects of bonus payment to civil servants, spending during the festive season and payment of cash rebates for fuel subsidy. Major consumption indicators such as imports of consumption goods, consumer spending on credit cards and sales of new passenger cars continued to show positive trends. However, growth in real private consumption moderated due to the higher increase in prices of

consumer goods, with inflation averaging 8.4% during the quarter. The MIER Consumer Sentiment Index was higher at 88.9 points in the third quarter (2Q 08: 70.6 points).

Meanwhile, **public consumption** continued to expand, recording a growth rate of 6.9% in the third quarter driven by higher expenditure for emoluments and, supplies and services.

Gross fixed capital formation increased by 3.1% in the third quarter, mainly on account of higher public spending. Higher government development expenditure in the third quarter was mainly in transportation, agriculture and rural development, and education sectors. Meanwhile, private investment activities were affected by cautious business sentiment due to the further deterioration of conditions in the external environment and higher global and domestic prices. The third quarter MIER Business Conditions Index dropped below 100-points (99.6 points; 2Q 08: 114.1 points), reflecting a less optimistic business outlook. In addition, slower expansion in indicators such as loans disbursed to businesses and imports of capital goods pointed to weaker private investment activities.

Less optimistic business sentiment



Source: Department of Statistics Malaysia

Moderation in activity across most sectors

On the **supply side**, growth moderated across most sectors. The slowdown in global demand led to a moderation in growth of the manufacturing sector due to the weak performance of the export-oriented industries. However, the domestic-oriented industries sustained their expansion. Output in the agriculture sector slowed, mainly reflecting deceleration in palm oil production arising from a yield downturn. The mining sector was sluggish due to the decline in natural gas output. Meanwhile, the construction sector moderated further, influenced by the lower activity in the residential and civil engineering segments. However, the services sector grew by 7.1% (2Q 08: 8.2%) reflecting the higher finance and insurance sub-sector growth, and expansion in consumption activities during the quarter.

Quarterly GDP by Kind of Economic Activity (at year 2000 prices)

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
	Annual change in (%)				
Agriculture	1.9	4.7	6.3	6.0	3.0
Mining	2.5	3.5	3.7	-0.5	-0.3
Manufacturing	3.3	5.6	7.0	5.6	1.8
Construction	4.7	4.7	5.3	3.9	1.2
Services	10.5	9.3	8.5	8.2	7.1
Real GDP (Annual Change)	6.7	7.3	7.4	6.7	4.7
Real GDP (Preceding Change)	5.0	0.8	-1.5	2.3	3.1

Source: Department of Statistics, Malaysia

Services sector continued to be the key driver of growth

The **services sector** continued to be the key driver of growth, contributing 3.8 percentage points to overall GDP growth. Of significance, the **finance and insurance** sub-sector recorded a stronger growth of 10% (2Q 08: 7.5%), primarily supported by higher insurance activity and sustained bank lending during the quarter. Reflective of robust consumer spending, growth in the **wholesale and retail trade** sub-sector was strong at 9.4%. The communication sub-sector continued on its strong growth momentum underpinned by firm demand for mobile services, while activity in the **transport and storage**, and **electricity, gas and water** sub-sectors was more moderate in line with the subdued manufacturing activities during the quarter.

Manufacturing sector supported by domestic-oriented industries

Value-added growth in the **manufacturing sector** slowed to 1.8% (2Q 08: 5.6%), as a result of the effects of the slowing global economy. Nevertheless, the diversified industrial base provided some support as the domestic-oriented industries continued to expand, compensating in part for the slowdown in the export-oriented industries.

Output of **export-oriented industries** declined by 0.7% (2Q 08: +2.4%), weighed down mainly by the weaker performance of the electronics

Performance in the Services Sector (value added at year 2000 prices)

	Share 2007 (%)	2007		2008		
		3Q	4Q	1Q	2Q	3Q
		Annual change in (%)				
Intermediate Services	43.7	12.3	10.2	8.4	6.9	6.2
Finance & insurance	19.9	9.3	10.0	9.9	7.5	10.0
Real estate & business services	9.8	22.2	11.1	4.8	3.9	-1.8
Transport & storage	7.0	12.7	12.4	9.9	8.1	5.9
Communication	7.0	7.2	7.2	7.5	7.9	7.4
Final Services	56.3	9.2	8.6	8.6	9.2	7.8
Electricity, gas & water	5.6	2.7	3.0	4.6	4.1	1.7
Wholesale & retail trade	22.8	15.2	12.9	11.9	12.6	9.4
Accommodation & restaurant	4.4	12.6	12.3	10.0	7.3	4.6
Government services	12.9	3.8	5.0	7.5	10.0	11.2
Other services	10.6	5.9	5.4	5.0	5.0	5.0
Total Services	100.0	10.5	9.3	8.5	8.2	7.1

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
Index					
MIER Consumer Sentiment Index	117.5	110.7	115.5	70.6	88.9
MIER Retail Trade Index	145.9	141.2	106.1	94.5	116.5
MIER Tourism Market Index	131.1	133.6	120.3	107.5	109.2
Annual change (%)					
Total consumption credit outstanding	7.1	7.3	7.6	9.6	9.7
Loans outstanding to the wholesale & retail trade, hotels & restaurants	6.1	7.2	10.1	15.4	14.0
Imports of consumption goods	1.2	3.8	5.6	21.3	16.3
Total sales of motor vehicles	4.9	19.0	24.6	27.1	10.5
Container cargo handled (Port Klang and PTP)	9.7	14.4	9.7	9.4	16.4

Source: Various sources

and electrical (E&E) industry. Output of both semiconductors and computer and parts segments contracted, affected by lower demand from developed economies, which offset the sustained growth in electrical products.

Resource-based industries such as petroleum, wood and off-estate processing also recorded a more subdued performance. This was partly due to the effects of high input prices in the earlier months of the year. In the case of off-estate processing, it was on account of the moderation in output of key commodities. Meanwhile, the chemical products industry grew strongly, supported by demand for plastic products from the domestic automotive industry.

Output of **domestic-oriented industries** expanded by 6.9% (2Q 08: 12.6%), supported mainly by the strong growth in the transport equipment industry following the sustained demand for new motor vehicles. The growth was also attributable to expansion in construction-related products due to higher exports, while the expansion in the food industry was sustained by domestic demand.

Overall capacity utilisation rate in the manufacturing sector was at 78% in the third quarter (2Q 08: 78%), with the export-and domestic-oriented industries operating at 79% and 75% respectively (2Q 08: 79% and 75% respectively).

Weak performance in commodities

The **agriculture sector** grew at a more moderate pace of 3% (2Q 08: 6%) due to a significant deceleration in production of palm oil

Performance in the Manufacturing Sector

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
Annual change (%)					
Value Added (Constant Price)	3.3	5.6	7.0	5.6	1.8
Overall Production	1.8	4.8	6.6	4.5	0.8
Export-oriented industries	1.1	3.3	4.7	2.4	-0.7
<i>Of which:</i>					
Electronics and electrical	2.1	5.5	3.1	3.0	-4.1
Electronics	3.9	10.3	3.9	2.9	-6.8
Electrical	-3.9	-9.5	0.5	3.3	5.6
Chemicals and chemical products	0.3	-1.4	4.3	2.5	7.7
Petroleum products ¹	1.9	3.7	8.2	-2.0	-1.7
Rubber products	3.4	1.6	2.4	7.2	2.7
Off-estate processing	-0.3	12.0	20.2	18.1	3.5
Domestic-oriented industries	4.6	10.9	14.8	12.6	6.9
<i>Of which:</i>					
Construction-related materials ²	4.4	5.1	14.6	10.0	7.6
Fabricated metal products	15.0	19.0	16.0	8.7	-7.0
Transport equipment	-0.6	15.3	25.7	28.5	26.5
Food	0.1	8.3	8.9	12.4	5.9

¹ Under the new Industrial Production Index (2000=100), LNG has been reclassified as petroleum products (previously classified as chemicals and chemical products). Consequently, petroleum products have been reclassified as export-oriented industries

² Includes iron & steel and non-ferrous metal as well as non-metallic mineral products

Source: Department of Statistics, Malaysia

Capacity Utilisation Rate in the Manufacturing Sector *



* Beginning 2004, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2000 to value-add in year 2004

(4.9%; 2Q 08: 21.8%) amidst the onset of a yield downcycle, as well as lower output of rubber. Production in the **mining sector** slowed (-0.3%; 2Q 08: -0.5%) as a result of the decline in natural gas output despite the higher output of crude oil.

Continued moderation in the construction sector

The **construction sector** grew at a slower pace of 1.2% during the quarter (2Q 08: 3.9%). This was due to the moderation in the residential and civil engineering segments amidst higher prices for building materials. However, this was partly mitigated by the higher growth in the non-residential segment, supported by construction of office space, especially in the Klang Valley.

Inflation increased in the third quarter

Headline inflation rose to 8.4% in the third quarter (2Q 08: 4.8%). The main contributors to higher inflation were the *transport and food and non-alcoholic beverages* categories, which together accounted for 83.4% of total rise in inflation during the quarter. Prices in the transport category increased by an average of 20.9% in the third quarter (2Q 08: 7.1%) following the fuel price adjustment announced by the Government on 4 June 2008. Prices in the *housing, water, electricity, gas and other fuels* category also increased at a faster pace compared with the previous quarter following the higher electricity tariffs from 1 July 2008. Prices in the *food and non-alcoholic beverages* category rose by 11.7% during the period (2Q 08: 8%).

Indicators suggest that inflation has peaked in the third quarter. Going forward, the decline in global

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
New sales and advertising permits	10.6	-3.1	-6.4	10.9	-30.1
Housing approvals	-4.7	-6.0	10.4	28.5	-51.5
Production of construction-related materials	4.4	5.1	14.6	10.0	7.6
Loans approved for construction	38.8	27.7	74.4	-12.4	-13.4
Imports of construction materials and mineral products	-2.0	38.8	8.3	10.6	5.9 ¹

¹July-Aug 2008
Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Performance in the Agriculture Sector

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
Annual change (%)					
Value Added (at year 2000 prices)	1.9	4.7	6.3	6.0	3.0
Industrial Crops	-4.0	6.1	9.1	7.2	0.6
Food Crops	11.4	2.8	2.5	4.3	6.4
Production					
<i>Of which:</i>					
Crude palm oil	-0.1	12.9	23.9	21.8	4.9
Rubber	-11.0	-7.6	-2.1	-7.8	-4.4
Fish	-2.6	4.9	0.4	1.9	10.7
Livestock	2.7	6.5	0.9	4.1	9.9
Exports (RM million)					
<i>Of which:</i>					
Palm oil	58.2	65.2	100.9	84.5	50.0
Rubber	-14.0	2.9	30.8	21.8	23.8
Sawn timber	-3.8	-21.4	-16.5	-18.2	-27.6
Saw logs	8.0	-18.7	-1.7	10.5	-2.8

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

Performance in the Mining Sector

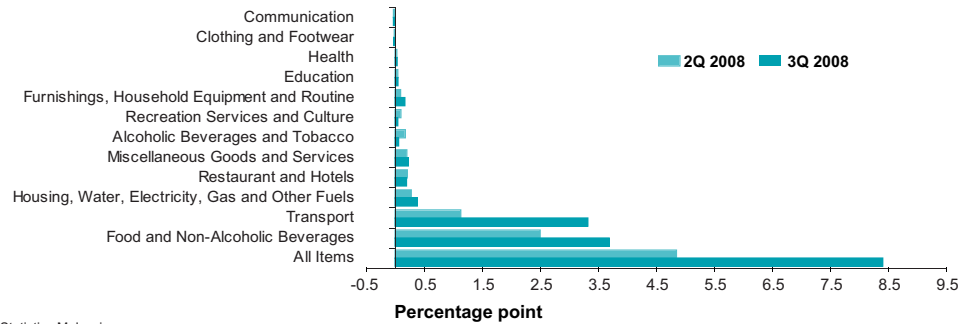
	2007		2008		
	3Q	4Q	1Q	2Q	3Q
Annual change (%)					
Value Added (at year 2000 prices)	2.5	3.5	3.7	-0.5	-0.3
Production					
<i>Of which:</i>					
Crude oil and condensates	2.4	5.8	7.0	3.6	3.5
Natural gas (net)	-1.9	-1.8	-1.2	-6.8	-6.4
Exports (RM million)					
<i>Of which:</i>					
Crude oil and condensates	-3.2	32.1	45.0	56.1	52.7
Liquefied natural gas	11.8	8.3	24.7	34.8	51.2

Source: PETRONAS
Department of Statistics, Malaysia

food and commodity prices, and moderation in growth will rein in domestic price pressures. In addition, with the declining energy prices, the Government has lowered domestic fuel prices. Improved supply has also reduced rice prices.

Producer price inflation (PPI) moderated slightly to 11.4% (2Q 08: 12.3%) due to the slower rate of price increase in the commodity-based components of the PPI following the decline in global commodity prices. Meanwhile, prices in the non-commodity-based components of the PPI continued to increase, mainly driven by price increases in the *food and live animals; chemical related products; and manufactured goods classified chiefly by material categories*.

Contribution to Consumer Price Inflation



Source: Department of Statistics Malaysia

In terms of composition, both the local and imported components of the PPI recorded slower rates of price increases. Inflation in the local component of the PPI was marginally lower at 15% (2Q 08: 15.4%) while inflation in the imported component of the PPI moderated to 4.3% (2Q 08: 6.1%).

Exchange remained relatively high (282,006 positions; 2Q 08: 292,934 positions), mainly led by strong demand in the manufacturing sector. Labour productivity in the manufacturing sector increased by 6.5% (2Q 08: 12.2%).

Stable labour market conditions

Overall **labour market conditions** remained stable as the total demand for labour outpaced retrenchments. While total retrenchments reported by the Ministry of Human Resources rose to 11,561 persons during the quarter, actual retrenchments after taking into account re-employment of about 7,500 workers by the new owner following the sale of a company, were 3,997 persons (2Q 08: 2,821 persons). Almost two-thirds of the retrenchments were in the manufacturing sector. Meanwhile, other indicators in the labour market continued to remain firm. Vacancies in the Electronic Labour

Slight moderation in export growth

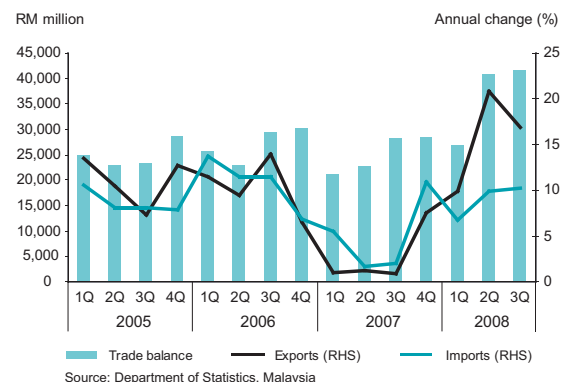
Gross export expanded by 16.9% in the third quarter (2Q 08: 20.8%), due mainly to the continued increase in commodities and resource-based manufactured exports, that was further reinforced by exports of electrical products. Export demand emanated mainly from the non-US markets, particularly the regional economies as well as Japan, Australia and European Union (EU). Meanwhile, exports to the US market declined further. Import growth was higher at 10.3%. As export growth continued to outpace imports, the **trade surplus** increased to another record surplus of RM41.6 billion.

Labour Market Conditions



* Reflects adjusted retrenchments for 3Q '08
Source: Ministry of Human Resources

Trade Balance



Source: Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2007		2008			2007		2008		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	Annual change (%)					Share of total exports (%)				
United States	-18.6	-15.8	-17.5	0.0	-9.9	15.5	14.3	12.9	13.0	11.9
European Union (EU)¹	0.5	-3.2	2.3	-3.5	1.0	12.8	12.5	11.9	10.7	11.1
Selected ASEAN countries²	-0.6	15.0	13.9	23.9	20.7	25.0	26.4	26.7	25.5	25.8
North East Asia	4.9	19.2	3.5	35.7	26.8	19.6	20.5	18.9	21.8	21.1
<i>People's Republic of China</i>	15.0	32.5	12.5	55.3	35.4	9.2	9.5	8.3	10.4	10.7
<i>Hong Kong SAR</i>	-2.1	13.1	-13.7	34.9	9.4	4.6	4.7	3.6	5.1	4.3
<i>Chinese Taipei</i>	-7.5	1.6	-4.5	6.3	14.2	2.7	2.6	2.4	2.6	2.6
<i>Korea</i>	1.0	11.5	9.5	17.9	38.1	3.1	3.7	4.7	3.8	3.6
West Asia	30.2	2.6	25.5	38.5	54.6	3.4	2.9	3.4	3.8	4.5
India	8.3	2.5	24.1	39.8	19.1	3.6	3.4	3.5	3.7	3.7
Total exports	0.9	7.6	9.9	20.8	16.9	100.0	100.0	100.0	100.0	100.0

¹ Refers to European Union (EU) 27 from 2007 onwards

² Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Trade Account

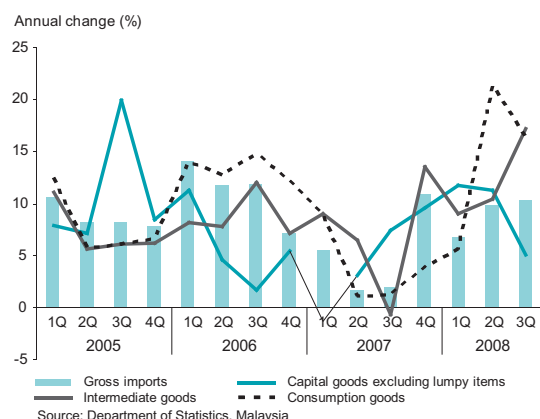
	2007		2008 ¹		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Gross Exports	0.9	7.6	9.9	20.8	16.9
Manufactured	-1.8	1.2	-1.9	12.3	8.5
E&E	-6.5	-2.5	-12.2	10.7	4.5
Non-E&E	6.2	7.0	12.1	14.4	14.2
Agriculture	28.6	37.7	61.2	58.8	37.5
Minerals	3.5	27.4	52.1	51.6	55.8
Gross Imports	2.0	10.9	6.8	9.9	10.3
Capital goods	17.5	17.3	7.8	11.3	-1.0
Intermediate goods	-0.7	13.6	9.0	10.4	17.2
Consumption goods	1.2	3.8	5.6	21.3	16.3
Trade balance (RM billion)	28.3	28.4	26.8	40.6	41.6

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

Source: Department of Statistics, Malaysia

The strong growth in **agriculture and mineral** exports was due mainly to higher forward contracted prices, despite the softening of global commodity prices since July. **Manufactured exports** grew at a more moderate pace, supported mainly by exports of resource-based products and electrical products. Exports of resource-based products such as chemicals and chemical products, rubber products and wood products increased further, benefiting from strong commodity prices and sustained demand. Exports of manufactures of metal and plastics lent further support to the growth in manufactured exports. Stronger exports of electrical products were attributed to higher demand from the PR China, Korea, Japan and US. Meanwhile, electronic exports recorded a negative growth due mainly to lower demand for computers and parts.

Import Growth



Gross imports registered a slightly stronger growth of 10.3% (2Q 08: 9.9%), due largely to higher **intermediate imports**, particularly intermediate inputs for resource-based industries, such as chemicals, fuel and lubricants, and inputs for the E&E industry. Growth in **consumption imports** was supported mainly by demand for processed food and beverages as well as durable consumer goods. Meanwhile, **capital imports** moderated during the quarter.

Larger net outflows of portfolio funds and overseas investment

On a cash basis, gross inflows of **foreign direct investment (FDI)**² increased to RM21.5 billion in the third quarter (2Q 08: RM12.6 billion), due mainly to higher inflows of inter-company loans. Inflows of equity capital moderated during the quarter which largely reflected the extension of short-term financing by foreign MNCs in the oil and gas sector to their subsidiaries in Malaysia. After adjusting for gross outflows following the repayments of these short-term loans, net FDI amounted to RM2.7 billion (2Q 08: RM8.6 billion). Net FDI was channeled mainly into the services, oil and gas, and manufacturing sectors. In the services sector, the inflows were concentrated in the finance, real-estate and business services, as well as wholesale and retail trade sub-sectors. Meanwhile, in the manufacturing sector, the inflows were directed to the E&E and downstream petroleum-related industries.

Overseas investment by Malaysian companies recorded a larger increase amounting to RM16.1 billion (2Q 08: -RM3.6 billion), mainly into the services and manufacturing sectors. Overseas investments in the services sector reflected mainly the acquisition of strategic stakes in the finance sector of Indonesia and Vietnam, as well as the investment in the real-estate and business services sector. Meanwhile, overseas investments in the manufacturing sector were channelled mainly into the E&E and cement industries.

Portfolio investment registered a larger net outflow of RM38.4 billion during the quarter (2Q 08: -RM31 billion), largely on account

of the more intense de-leveraging process following the failure of major financial institutions in the US and Europe. This has resulted in a reduction in the exposure of foreign investors in the domestic equity and bond markets arising from this de-leveraging process.

External debt remains low

As at end-September 2008, Malaysia's total external debt amounted to RM248.8 billion or USD71.3 billion (end-June 2008: RM236 billion or USD71.5 billion), equivalent to 35.5% of GNI. The higher **medium- and long-term external debt** of RM152.7 billion reflected mainly a net drawdown by the private sector (+RM2.7 billion) and exchange revaluation losses arising from the depreciation of the ringgit against the major currencies during the quarter. Meanwhile, the public sector continued to record a net repayment (-RM0.4 billion).

The total **short-term external debt** increased slightly to RM96.1 billion or USD27.5 billion due mainly to exchange revaluation loss and higher inter-bank borrowings arising from treasury operations.

	2008	
	2Q	3Q ^P
	RM billion	
Medium- and long-term debt	143.1	152.7
Public sector	75.0	78.9
Private sector	68.1	73.8
Short-term debt ¹	92.9	96.1
Total external debt	236.0	248.8
- USD billion equivalent	71.5	71.3

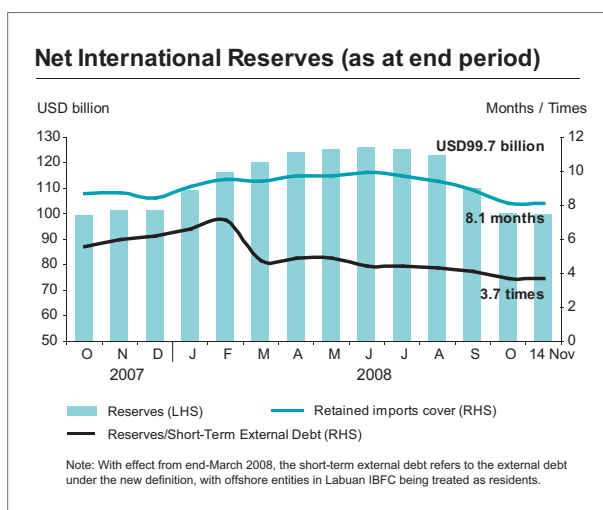
¹ Excludes currency and deposits held by non-residents with resident banking institutions
^P Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

² The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment

International reserves

The international reserves of Bank Negara Malaysia amounted to RM379.3 billion (equivalent to USD109.7 billion) as at 30 September 2008. The reserves level as at 30 September 2008 has taken into account the quarterly adjustment of the foreign exchange revaluation gain, following the strengthening of the yen and US dollar against ringgit during the quarter. The reserves amounted to RM343.8 billion (equivalent to USD99.7 billion) as at 14 November 2008. The reserves position is sufficient to finance 8.1 months of retained imports and is 3.7 times the short-term external debt.

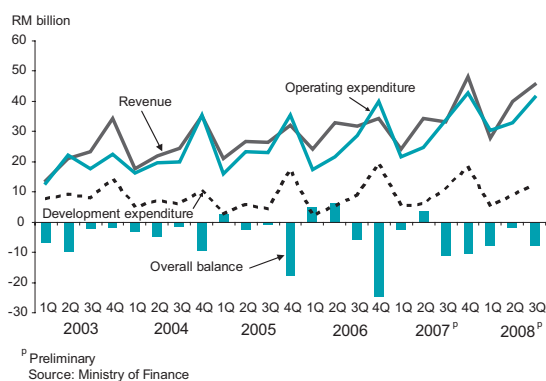


Expansionary fiscal operations

The Federal Government's total expenditure was higher in the third quarter, resulting in an overall fiscal deficit of 3.9% of GDP. In particular, larger operating expenditure was recorded for the payment of subsidies and emoluments arising from the half-month bonus to civil servants in September. Higher development expenditure was also recorded during the quarter, due mainly to increased spending in the transportation, agriculture and rural development, and education

sectors. Meanwhile, revenue collected was also higher due to higher oil-related revenue. The deficit was financed mainly from domestic borrowings. As at end-September, the total outstanding debt of the Federal Government amounted to RM288.1 billion or 40.2% of the estimated GDP in 2008.

Federal Government Finance



Federal Government Finance^P

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	33.3	48.2	28.0	39.9	45.7
% growth	4.4	40.0	15.4	16.6	37.3
Operating expenditure	33.7	42.9	30.4	32.9	41.4
% growth	17.1	7.3	40.3	32.6	22.7
Current account	-0.4	5.3	-2.5	7.0	4.3
% of GDP	-0.3	3.0	-1.4	3.7	2.2
Gross development expenditure	10.8	18.2	5.3	9.0	12.5
% growth	19.0	-6.0	-0.3	43.8	16.2
Overall balance	-11.1	-10.5	-7.7	-1.9	-7.8
% of GDP	-6.7	-5.9	-4.4	-1.0	-3.9
Memo item:					
Total gross expenditure	44.5	61.1	35.7	41.8	53.9
% growth	17.5	3.0	32.3	34.8	21.1
Total Federal Government debt (as at end-period)	271.5	266.7	275.1	285.1	288.1
% of GDP	42.3	41.6	38.4	39.8	40.2
Domestic debt	250.6	247.1	256.8	266.8	268.7
% of GDP	39.0	38.5	35.9	37.3	37.5
External debt	20.9	19.6	18.2	18.4	19.4
% of GDP	3.3	3.1	2.5	2.6	2.7

^P Preliminary

Source: Ministry of Finance

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates were stable

The OPR was left unchanged at 3.50% throughout the third quarter of 2008. The prevailing level of the policy rate remained consistent with the outlook for slower economic growth and the expected moderation in inflation into 2009.

Concurrently, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were also relatively stable during the quarter.

On 24 November, Bank Negara Malaysia reduced the OPR by 25 basis points to 3.25% and the Statutory Reserve Requirement (SRR) by 50 basis points to 3.50%. Following the reduction in the OPR, the overnight interbank rate traded lower within a narrow range of 3.24% - 3.25% over the period 25 - 27 November. Interbank rates of other maturities also decreased.

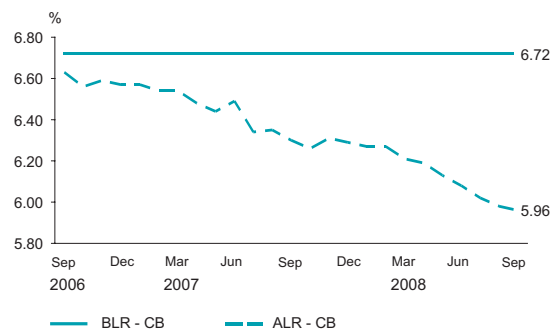
In terms of lending rates, the average base lending rate of commercial banks (CBs) was unchanged at 6.72% in the third quarter. The average lending rate on loans outstanding, on the other hand, softened to 5.96% as at end-September (end-June: 6.08%) reflecting intense competition, particularly in the consumer segment, and the continued drawdown of loans from previously approved facilities that were contracted at a lower rate.

The average quoted fixed deposit (FD) rates of CBs for tenures of between 1 to 12 months were relatively unchanged, ranging between 3.08% and 3.70% respectively, at the end of the third quarter. Real FD rates, however, have turned negative since May due to the higher inflation.

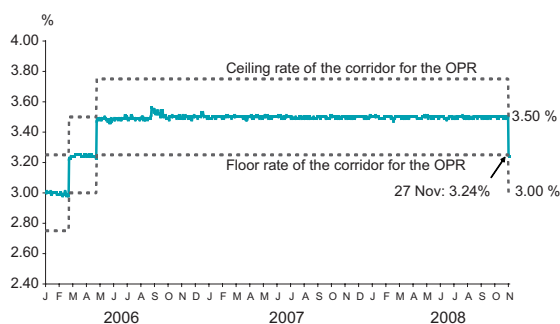
Interest Rates

	2007		2008	
	3Q	2Q	2Q	3Q
At end-period (%)				
Overnight Policy Rate (OPR)	3.50	3.50	3.50	3.50
Interbank rates				
Overnight	3.50	3.50	3.50	3.50
1-month	3.54	3.56	3.56	3.56
Base lending rates (BLR)				
Commercial banks	6.72	6.72	6.72	6.72
Average lending rates (ALR)				
Commercial banks	6.30	6.08	5.96	5.96
Fixed deposit rates				
Commercial banks				
3-month	3.15	3.14	3.14	3.14
12-month	3.70	3.70	3.70	3.70

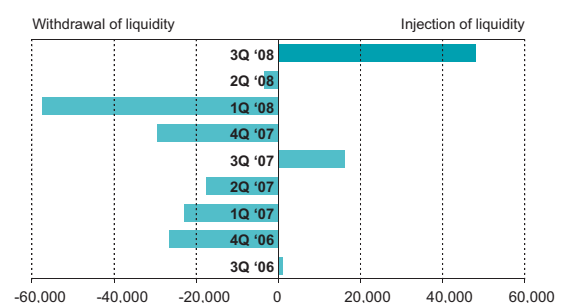
Lending Rates of Commercial Banks (Average for the period)



Daily Weighted Average Overnight Interbank Rate



Bank Negara Malaysia Liquidity Operations (During the quarter, RM million)



M3 rose further

M3, or broad money, expanded by RM13.7 billion during the quarter or 13.5% on an annual basis as at end-September (end-June: 14%). The growth in M3 was underpinned by the continued expansion in credit, reflecting the sustained pace of private sector demand. Adding to this expansionary impact on M3 was increased spending by the Government, while net capital outflows led to a decline in the net foreign assets of Bank Negara Malaysia and banking institutions, which in turn exerted a contractionary impact on broad money.

M1, a measure of transactional balances, rose by 14.9% year-on-year at end-September. Currency in circulation expanded following increased demand during the Hari Raya Aidilfitri festive season, which more than offset the small decline in demand deposits.

Sustained gross private sector financing

Notwithstanding the adverse developments in the international financial markets, the Malaysian domestic financial system, which operates with strong capital and liquidity buffers, has continued to provide financing. The overall gross financing of the private sector through the banking system and the capital market was sustained at RM179.3 billion in the third quarter (2Q 08: RM181 billion). While loans disbursed by the banking institutions increased further, new issuances of private debt securities (PDS) were affected by poor market sentiment, notably in July. On a net basis, banking system loans and PDS outstanding rose by 13.4% at end-September (end-June: 14.1%).

Monetary Aggregates

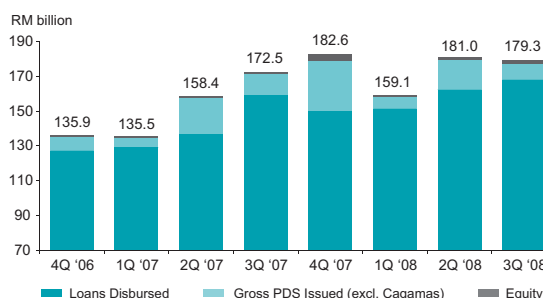


Determinants of Broad Money, M3

	Change during the period				
	2007		2008		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	15.6	28.5	51.6	14.7	13.7
Net claims on Government	10.6	8.5	0.9	-5.1	14.6
Claims on private sector	32.9	-3.6	17.1	25.8	33.3
Loans	30.6	-3.4	16.6	23.2	25.7
Securities	2.3	-0.2	0.5	2.7	7.6
Net external operations ¹	-21.7	21.1	45.8	2.9	-57.8
BNM	-7.6	7.2	52.5	15.9	-32.2
Banking system	-13.5	14.0	-6.7	-13.0	-25.6
Other influences	-6.7	2.4	-12.2	-8.9	23.6

¹ Pre-revaluation

Gross Private Sector Financing through Banking System and Capital Market



Financing of the Private Sector through Banking System and Capital Market

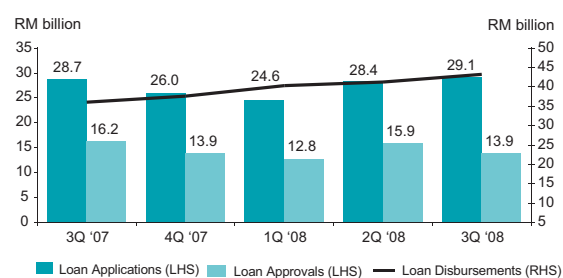
	During the period (RM billion)				Annual growth (%)		
	2007	3Q 07	2Q 08	3Q 08	2007	2Q 08	3Q 08
Gross total financing	648.9	172.5	181.0	179.3	17.4	14.3	4.0
Loans disbursed*	575.3	159.3	162.4	168.1	10.6	18.7	5.5
Gross PDS (excl. Cagamas)	66.5	12.1	16.9	9.0	116.4	-17.7	-25.3
Equity	7.1	1.1	1.7	2.2	272.0	62.4	93.9
Outstanding total financing (A)+(B)	84.0	31.7	40.8	30.4	10.7	14.1	13.4
Banking system	59.7	30.0	26.2	29.5	9.3	12.0	11.3
Loans outstanding (A)	51.2	30.4	24.3	26.8	8.6	11.7	10.6
Holding of PDS	8.5	-0.3	1.9	2.6	17.6	14.1	19.9
PDS outstanding (B)	32.7	1.4	16.5	3.5	17.1	21.5	22.9
Memorandum item							
Gross PDS (incl. Cagamas)	69.4	12.1	19.7	11.0	78.4	-6.0	-8.8

* Banking system loans include loans sold to Cagamas

Total loan disbursements in the third quarter continued to register positive annual growth, contributed mainly by the business sector. Financing to the SMEs accounted for 40% of the total business loans disbursed. Lending to the business sector was mainly channeled to the manufacturing; and wholesale, retail, restaurants and hotels sectors. The slower growth in business loan applications and approvals during the quarter reflected the slowdown in demand for the financing of working capital. With higher loan repayments recorded during the quarter, loans outstanding of the business sector increased at a more moderate rate of 9.5% at end-September (end-June: 14.3%).

During the quarter, loan disbursements to the household sector increased and were mainly for the purchase of residential properties. As

Bank Lending to SMEs



a result, loans outstanding of the household sector grew at an annual growth rate of 9.1% at end-September (end-June: 8.9%). Loan applications and approvals moderated slightly in the third quarter, reflecting mainly lower demand for passenger cars and personal loans.

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2007	3Q 07	2Q 08	3Q 08	2007	3Q 07	2Q 08	3Q 08
Total								
Loan applications	457.5	123.2	128.1	136.0	52.1	55.4	7.2	10.4
Loan approvals	298.6	74.4	80.4	78.2	58.6	58.3	-3.4	5.1
Loan disbursements	575.3	159.3	162.4	168.1	10.6	24.1	18.7	5.5
Loan repayments	518.7	123.9	139.7	145.6	8.5	5.2	13.5	17.6
Change in loan outstanding*	51.2	30.4	24.3	26.8	8.6	9.4	11.7	10.6
Of which:								
Business enterprises**								
Loan applications	262.6	68.3	64.8	74.8	63.1	60.5	-10.1	9.5
Loan approvals	181.5	41.1	40.9	39.4	88.4	79.1	-24.0	-4.2
Loan disbursements	405.8	113.9	115.5	120.6	9.7	24.6	19.8	6.1
Loan repayments	370.3	86.2	99.2	104.3	5.3	-0.4	13.4	21.0
Change in loan outstanding*	24.4	23.8	14.0	14.1	10.3	14.8	14.3	9.5
SMEs**								
Loan applications	99.1	28.7	28.4	29.1	38.8	47.0	18.8	1.4
Loan approvals	55.1	16.2	15.9	13.9	37.1	55.6	11.0	-14.7
Loan disbursements	141.7	36.1	41.3	43.2	5.6	5.4	17.9	19.9
Loan repayments	126.8	31.0	35.8	38.2	3.5	1.3	12.4	23.0
Change in loan outstanding*	9.5	2.8	3.3	2.6	9.1	7.5	11.4	11.0
Large corporations								
Loan applications	163.5	39.5	36.4	45.6	82.4	71.9	-24.5	15.4
Loan approvals	126.4	24.8	25.0	25.5	125.2	98.8	-36.7	2.8
Loan disbursements	264.1	77.8	74.3	77.6	12.1	36.0	20.8	-0.3
Loan repayments	243.5	55.2	63.4	66.1	6.2	-1.3	14.0	19.8
Change in loan outstanding*	15.0	21.0	10.8	11.5	11.3	20.6	16.7	8.4
Households								
Loan applications	194.9	54.9	63.3	61.2	39.4	49.5	33.4	11.4
Loan approvals	117.1	33.3	39.4	38.8	27.3	38.4	34.5	16.5
Loan disbursements	169.5	45.4	46.8	47.3	12.8	22.9	16.3	4.2
Loan repayments	148.5	37.7	40.5	41.4	17.3	20.7	13.9	9.8
Change in loan outstanding*	24.5	8.1	8.6	9.8	7.4	7.2	8.9	9.1

* The annual growth is for end-period

** Include loans to individual businesses

Loans by Sector

	Loans disbursed					Loans out-standing	
	During the period				Share of total	Share of total	
	2007	3Q 07	2Q 08	3Q 08			
	(RM billion)				(%)		
Business enterprises	405.8	113.9	115.5	120.8	71.9	41.7	
<i>Large corporations</i>	264.1	77.8	74.3	77.6	46.2	24.2	
<i>SMEs*</i>	141.7	36.1	41.3	43.2	25.7	17.5	
<i>Selected sectors</i>							
Agriculture, hunting, forestry and fishing	14.1	4.1	4.3	4.2	2.5	2.2	
Mining and quarrying	2.0	0.4	0.8	0.5	0.3	0.3	
Manufacturing	134.9	34.7	39.8	40.5	24.1	11.8	
Construction	32.6	8.3	8.7	8.7	5.2	4.9	
Real estates	12.3	3.2	3.6	4.0	2.4	3.43	
Electricity, gas and water supply	1.3	0.3	0.5	0.3	0.2	0.6	
Wholesale, retail, restaurants and hotels	91.5	23.8	29.6	31.6	18.8	8.9	
Transport, storage and communication	32.1	19.6	4.0	7.9	4.7	3.2	
Finance, insurance and business services	45.7	10.0	15.0	13.3	7.9	6.4	
Households	169.5	45.4	46.8	47.3	28.1	53.3	
Purchase of residential properties	39.9	10.8	12.0	12.2	7.3	25.4	
Consumption credit	109.4	29.1	30.1	29.9	17.8	21.5	
<i>Of which:</i>							
<i>Credit cards</i>	57.9	15.0	14.4	14.8	8.8	3.3	
<i>Purchase of passenger cars</i>	27.8	7.8	9.6	9.0	5.3	13.9	
Others	20.2	5.4	4.8	5.2	3.1	6.5	
Total	575.3	159.3	162.4	168.1	100.0	100.0	

* Include loans to individual businesses.

Lower net funds raised in the capital market

Net funds raised in the capital market amounted to RM6.6 billion in the third quarter (2Q 08: RM23.7 billion).

Net funds raised in the public sector were lower due to large redemptions of government securities. Gross funds raised amounted to RM14.8 billion. Funds were raised through issuances of 5-year Government Investment Issues (GII) and 20-year Malaysian Government Securities (MGS), as well as through the re-opening of the 3-year and 10-year MGS.

In the private sector, gross funds raised from the PDS market amounted to RM11.0 billion (2Q 08: RM19.7 billion). The decline in funds raised was mainly due to weak sentiment in the PDS market following the imposition of a windfall tax on Independent Power Producers. Market sentiments, however, improved following the withdrawal of the windfall tax. Most of the funds were raised by companies in the finance, insurance, real estate and business services sector. By purpose, PDS was mostly issued for the funding of new investments (76%) and for the refinancing of existing debts (6%). During the quarter, there were also issuances by two non-resident corporations amounting to RM500 million.

Meanwhile, funds raised through the equity market rose to RM2.2 billion (2Q 08: RM1.7 billion). The bulk of the funds raised was through rights issues (RM1.5 billion), while the remaining (RM700 million) were raised through five initial public offerings; two on the Main board and three on the Second Board. On a net basis, funds raised by the private sector amounted to RM5.9 billion during the quarter.

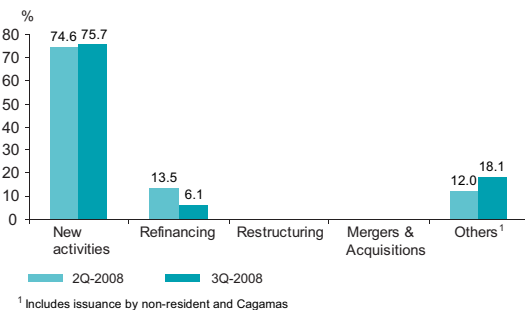
Secondary trading in the bond market increased

Total trading in the secondary market rose to RM160.7 billion in the third quarter (2Q 08: RM153.2 billion). Government securities (MGS and GII) accounted for 92% of the total trade. In terms of liquidity, the MGS was the most

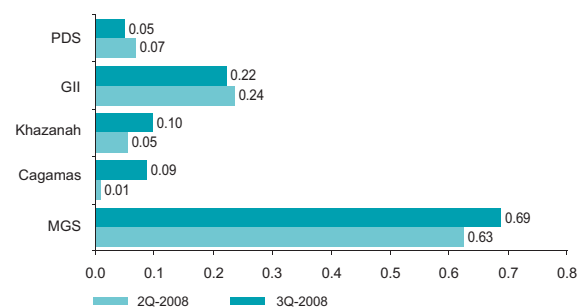
Funds Raised in the Capital Market

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
	RM million				
By Public Sector	13,038	(5,948)	10,633	11,016	680
Government Securities, net	13,424	(5,552)	10,633	10,533	1,688
Malaysian Government Securities	9,924	14,048	14,283	7,033	11,337
Government Investment Issues	3,500	-	2,000	3,500	3,500
Less: Redemptions	-	19,600	5,650	-	13,149
Khazanah Bonds, net	-	-	-	(1,000)	(1,000)
Merdeka Savings Bond, net	(386)	(394)	-	1,483	(8)
By Private Sector	(510)	6,513	1,827	12,666	5,915
Shares	1,136	3,819	1,101	1,697	2,201
Debt securities, net	(1,645)	2,694	726	10,969	3,714
Private Debt Securities	12,057	28,746	9,996	19,709	11,001
Cagamas	-	-	-	-	-
Less: Redemptions	13,702	26,052	9,270	8,740	7,287
Total	12,528	567	12,460	23,682	6,595

Private Debt Securities Issued by Purpose (% of total)

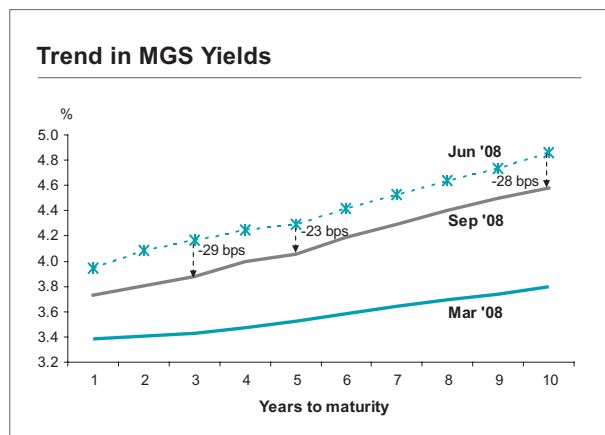


Liquidity Ratio: Turnover / Outstanding

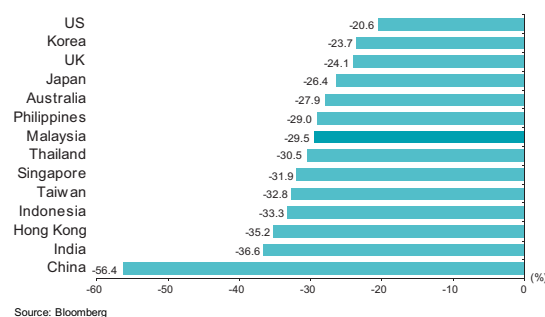


liquid paper, registering a liquidity ratio of 0.69, followed by the GII with a liquidity ratio of 0.22.

MGS yields remained elevated in the months of July and August on heightened inflation expectations. By September, however, yields began to fall as inflation expectations eased.



Performance of Selected Global and Regional Markets (31 December 2007 - 30 September 2008)



In addition, the deepening global financial turmoil resulted in flight-to-quality amongst investors. Investors shifted their investments from the equity to the bond market, pushing yields further downwards. As at end-September, the 3, 5 and 10-year MGS fell by 29, 23 and 28 basis points respectively.

KLCI declined

In the third quarter, the KLCI ended lower as most regional markets were affected by the global financial turmoil. The weak performance was largely due to concerns over the deepening financial turmoil in the US and Europe, as well as the decline in crude palm oil prices. The KLCI ended the third quarter lower at 1,018.7 (2Q 08: 1,186.6). Market capitalisation declined to RM770.5 billion (2Q 08: RM901.2 billion) and trading activity decreased to a daily average turnover of 437.0 million units (2Q 08: 570.3 million units).

Bursa Malaysia: Selected Market Indicators

	As at end				
	2007		2008		
	3Q	4Q	1Q	2Q	3Q
Price Indices					
Composite	1,336.3	1,445.0	1,247.5	1,186.6	1,018.7
FBM30 ¹	8,413.5	9,343.7	8,232.9	7,656.7	6,577.7
FBMEMAS ²	8,997.5	9,810.8	8,423.7	7,900.4	6,755.9
Second Board	105.8	-	-	-	-
Mesdaq	122.9	-	-	-	-
FTSE Second Board	6,950.0	6,732.4	5,884.6	5,535.6	4,978.8
FTSE Mesdaq	6,624.1	6,109.2	4,923.2	4,404.8	3,968.3
Average daily turnover					
Volume (million units)	1,326.7	1,268.5	930.4	570.3	437.0
Value (RM million)	2,176.3	1,898.7	2,035.2	1,324.3	893.3
Market capitalisation (RM billion)	1,031.3	1,106.2	952.3	901.2	770.5
No. of companies listed	1,001	987.0	989	986	981

¹ FBM30 stands for FTSE Bursa Malaysia 30 Index
² FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
Source: Bursa Malaysia

On 27 November 2008, the KLCI closed at 870.0 (since end-2007: -39.8%), with market capitalisation lower at RM659.3 billion (since end-2007: -40.4 %).

Bursa Malaysia: Turnover of Corporate Securities

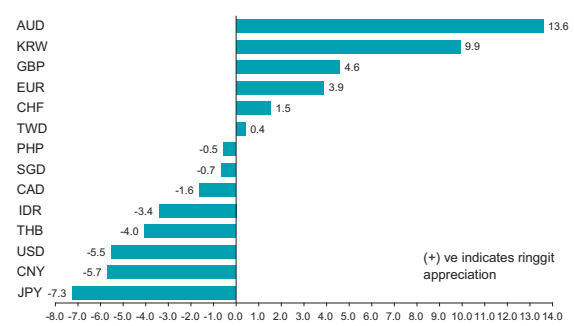
	2007				2008					
	3Q		4Q		1Q		2Q		3Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	84,908	139,127	78,648	117,720	53,962	118,044	35,927	83,429	27,965	57,172
Of which:										
Main Board	62,201	127,213	50,667	106,134	36,488	111,552	28,347	80,553	23,195	55,867
Of which:										
Consumer Products	1,904	5,069	1,752	4,777	931	3,622	891	2,999	903	2,874
Industrial Products	7,223	11,812	4,906	8,213	3,409	7,002	3,341	6,271	3,507	4,981
Construction	6,338	15,975	3,486	9,748	4,722	13,820	3,326	6,427	2,995	5,855
Trading/Services	17,798	43,370	15,545	38,069	10,383	38,521	9,165	28,490	6,950	19,311
Finance	4,309	19,752	3,728	17,445	3,391	21,975	2,992	18,139	1,812	9,155
Properties	13,361	14,211	7,300	7,814	4,234	5,027	3,054	3,442	2,500	1,802
Plantations	1,738	7,542	2,177	9,658	2,262	13,866	1,528	9,922	1,723	9,166
Infrastructure	2,221	4,388	1,408	4,694	1,148	3,671	952	2,960	511	1,912
Second Board	6,836	5,265	7,254	4,707	4,098	3,038	2,403	1,825	1,983	919
Mesdaq	9,022	5,268	6,139	3,050	5,621	2,438	2,519	858	1,412	331

Source: Bursa Malaysia

The US dollar has strengthened against most currencies

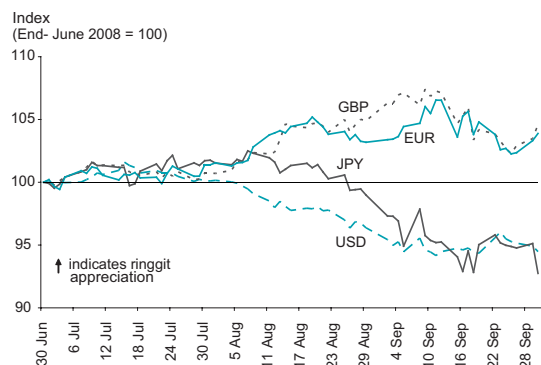
Amidst the ongoing global financial turmoil, the US dollar strengthened largely due to the de-leveraging process taking place in the international financial markets. Carry trades were also unwinding rapidly, causing significant reversal in the trends of the high yielding currencies, notably the New Zealand and the Australian dollar. Against this backdrop, the ringgit depreciated by 5.5% against the US dollar and 7.3% against the Japanese yen during the third quarter. The ringgit has, however, appreciated against the pound sterling (4.6%) and the euro (3.9%) amid indications of slowing economic growth in the European economies. Against most regional currencies, the ringgit experienced a depreciation in the range of 0.5% and 5.7%, with the exception of the Korean won, against which the ringgit appreciated by 9.9%. This trend has continued into October, while stabilising towards the later part of November.

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 July - 30 September 2008)

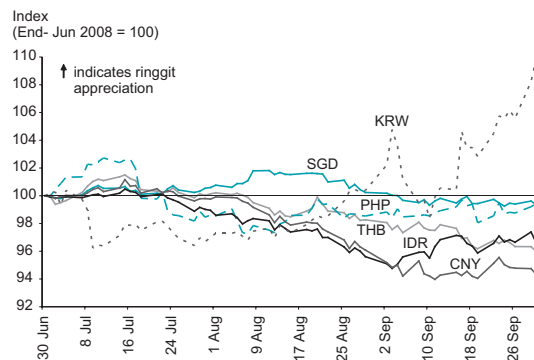


During the period 1 October to 27 November 2008, the ringgit continued to depreciate against the US dollar (-4.5%) and the Japanese yen (-12.8%), and appreciated against the pound sterling (11.8%) and euro (6.1%). The ringgit appreciated against regional currencies in the range of 0.9% to 24.1%, with the exception of the Chinese renminbi (-4.7%), Philippine peso (-1.2%) and the Thai baht (-0.8%).

Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	3Q 07	2Q 08	3Q 08	21 Jul 05	3Q 07	2Q 08
US dollar	3.8000	3.4170	3.2665	3.4575	9.9	-1.2	-5.5
Euro	4.6212	4.8410	5.1565	4.9636	-6.9	-2.5	3.9
Pound sterling	6.6270	6.9167	6.5114	6.2254	6.5	11.1	4.6
100 Japanese yen	3.3745	2.9649	3.0749	3.3154	1.8	-10.6	-7.3
Singapore dollar	2.2570	2.2916	2.3995	2.4153	-6.6	-5.1	-0.7
100 Thai baht	9.0681	9.9723	9.7435	10.154	-10.7	-1.8	-4.0
100 Philippine peso	6.8131	7.5992	7.2759	7.3159	-6.9	3.9	-0.5
100 Indonesian rupiah	0.0386	0.0373	0.0354	0.0367	5.3	1.9	-3.4
100 Korean won	0.3665	0.3726	0.3128	0.2846	28.8	30.9	9.9
Chinese renminbi	0.4591	0.4548	0.4764	0.5051	-9.1	-10.0	-5.7

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

DEVELOPMENTS IN THE BANKING SECTOR

The banking sector remained resilient in the third quarter of 2008, supported by strong capitalisation, sustained profitability and continued improvement in the level of non-performing loans (NPLs). Given the sound financial position and ample liquidity in the system, banking institutions remained well-positioned to continue meeting the financing needs of the economy.

Banking system capitalisation level remained high

As at end-September 2008, the banking system remained well-capitalised with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of 13% and 10.5% respectively. Capital base declined marginally by 0.01% on account of a large investment in a subsidiary by a banking institution. With excess capital of RM41.1 billion, the banking system remains in a strong position to withstand economic and financial shocks to our system.

Banking System: Capital Position

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
Capital					
CCR (%)	10.3	10.2	10.4	10.5	10.5
RWCR (%)	13.2	13.2	13.3	13.3	13.0

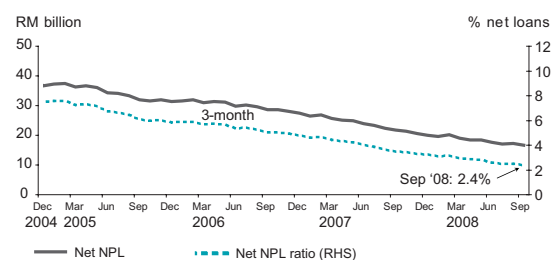
Continued profitability amid more challenging business environment

The banking system recorded a pre-tax profit (PBT) of RM4.1 billion (2Q 08: RM 4.5 billion) during the quarter, supported by sustained revenue from financing-related activities and fee-related income. The annualised average returns on assets and equity stood at 1.5% (2Q 08: 1.6%) and 18.7% (2Q 08: 20.6%) respectively.

Level of non-performing loans continued to decline

The asset quality of the banking system recorded a further improvement. Net NPLs based on 3-month classification declined by 4.6% to RM16.7 billion (2Q 08: RM17.5 billion) to account for 2.4% of total net loans (2Q 08: 2.6%). This was attributed to continued recoveries and reclassifications of NPLs to performing status. Net NPL ratio remained unchanged at 2.4% at end-October 2008.

Banking System: Non-performing Loans



Banking Industry Seminar: Enhancing SMEs' Awareness on Access to Financing Kuala Lumpur, 9 July 2008

Keynote Address by

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

It is my pleasure to be here this morning to speak at this seminar, to enhance greater SME awareness on access to financing organised by the Association of Banks in Malaysia. The development of a strong and dynamic SME sector is a priority on the national agenda. It is part of the efforts towards creating sustainable and balanced economic growth. The reasons for this are clear. SMEs account for 99% of the total business establishments in Malaysia and for 56% of total employment and contribute about 32% to gross domestic product and 19% of total exports of the nation.

Over the recent five years, SMEs have also increased their contribution to growth. In several developed countries, SMEs contribute at least half of the gross domestic product. Taking SMEs in these economies as a benchmark, there is clearly significant potential for SMEs in Malaysia to increase their contribution to the economy.

My remarks today will focus on three areas. Firstly, the implications of global economic and financial developments on the Malaysian economy, and in particular on businesses and SMEs. Secondly, on the strategy adopted by the Government and Bank Negara Malaysia to develop the potential of the SME sector as a source of economic growth. And finally, the further measures that need to be implemented by the banking institutions and the SMEs in a more challenging environment of rising costs.

Economic and Financial Developments

Going forward, the international economic and financial environment is expected to remain challenging with slower global growth and continued uncertainties in the international financial markets. The moderation in global

growth is also occurring in an environment of increasing inflation arising from the higher energy and commodity prices.

The Malaysian economy has been on a steady growth path averaging about 6% in the recent three years. In 2007, the economy expanded by 6.3% and has continued to register a strong growth in the first half of 2008. This stronger growth has been achieved despite the more challenging external environment and increased uncertainties in the international financial markets.

One of the important contributing factors has been the successful transformation of the Malaysian economy in this recent decade which has resulted in a more balanced and diversified growth, in which the services and agriculture sectors have become increasingly more important drivers of growth. In addition, domestic demand has a more significant role in driving the growth. The stronger domestic demand and growth in the services and agriculture sectors have benefited the SME sector since the majority of the SMEs are operating in these sectors.

However, the rising international prices of energy and commodities have confronted economies globally with rising costs and intensifying inflationary pressures. This has prompted several emerging economies to restructure their fuel subsidies in an effort to create more efficient economies and to achieve more sustainable fiscal positions. This has been followed by the consequent adjustments in consumer prices as the gap between international market prices and domestic prices narrow. In Malaysia, petrol prices were adjusted by 40.6% while diesel prices by 63.3%. This adjustment would be reflected in

the consumer price inflation in June, which is expected to exceed 6%. Beginning 1 July, electricity tariffs have also been raised by up to 18% for households and an average of 26% for some commercial and industry users. While domestic inflation is expected to remain elevated for the remaining part of this year and early next year, it is expected to moderate in the second half of 2009.

In the current international environment, the policy response needs to be contextualised to the conditions prevailing in each individual economy. In those economies that are experiencing overheating and strong demand conditions, there is greater clarity in terms of the need for policy to rein in demand. However, for economies that are experiencing moderating growth, the risks to growth and inflation need to be carefully evaluated. In addition, consideration needs to be given to the deflationary impact of the fuel price increases on consumption. Trends in consumption and the conditions in the labour market will provide signs of potential second round effects following rising costs and the extent to which a generalised price increases are occurring.

In such an environment, SMEs need to consider repositioning of business strategies and to find new markets and avenues of growth. Reengineering of processes would also be required to better manage the higher cost conditions. The key is for the SMEs to use their inherent flexibility and agility to create new products and reorient the business. Given that the current inflationary pressures is a global phenomenon, with many of our trading partners and neighbors having similar or higher inflation rates, the inflation is unlikely to erode Malaysia's comparative advantage.

In this more challenging economic environment, sustaining growth will also require concerted efforts by the public and private sectors to reduce costs and become more efficient and more productive. To assist SME businesses in this environment, the Government has recently established a Special Committee to recommend potential measures to reduce the impact of rising costs on SMEs. The measures to be announced

later this month are aimed at enhancing efficiency and productivity of SMEs, reducing the cost of doing business and ensuring that SMEs have sustainable access to financing.

The SME Development Agenda

In view of the important role of SMEs in the economy, the Government has accorded significant emphasis on the development and strengthening the SME sector. Culminating from the recommendations of the National SME Steering Committee, the Government took a landmark decision in June 2004 to establish the National SME Development Council. The Council, chaired by the Prime Minister and supported by Bank Negara Malaysia as the Secretariat, provides policy direction for the programmes to support the development of SMEs, and to ensure the effective coordination and implementation of these programmes. Currently, members of the Council comprise of the Prime Minister, 15 Ministers and four Heads of Agencies, that are involved in SME development.

Since the establishment of the Council in 2004, the national SME strategy has focused on the development of high performing and resilient SMEs by capacity building and providing an enabling environment for the SMEs. The measures undertaken have been clustered under three broad strategic thrusts, namely, strengthening the enabling infrastructure; enhancing the capacity and capability of SMEs; and enhancing access to financing. The basic principle adopted has been to help SMEs to help themselves.

An annual SME Blueprint Management Framework has been implemented to ensure more focused, holistic and effective SME development programmes with greater collaboration between the Ministries and Agencies involved. In 2007, more than 286,000 SMEs received assistance through the implementation of 189 key development programmes, involving expenditure of RM4.9 billion. For 2008, 198 key programmes are being implemented, involving an expenditure of RM3.2 billion.

With the foundations now in place, on 2 June 2008 the Council announced the formation of the SME Central Coordinating Agency to further build on the successes that have been achieved and to take the SME sector to the next stage of development. This dedicated SME Agency represents a major structural enhancement in the SME development agenda and marks another milestone for SME development in Malaysia. The Small and Medium Industries Development Corporation or SMIDEC, will be transformed and repositioned to undertake this role. This new entity, that will be known as the SME Corporation Malaysia or SME Corp, will be a one-stop agency that undertakes the overall coordination of SME policy formulation and assessment of the SME development programmes. The SME Corp will serve as the central point of information, reference and advisory services for SMEs for all sectors and will assume the role of Secretariat to the Council, a role which has until now been undertaken by Bank Negara Malaysia.

Increasing SME Access to Financing

Bank Negara Malaysia's own efforts have been focused on ensuring that SMEs, at different stages of the business life cycle, have adequate access to financing. The initiatives have been directed at four broad areas. Firstly, the strengthening of financial service providers. This has involved strengthening the role of the banking institutions in providing financing to SMEs. This recent five years have seen the financial institutions accord greater focus to the SME sector. We have also seen a paradigm shift in the approach by financial institutions in the business of SME financing. Increasingly, banks have introduced strategies for interfacing with SME customers, evolving new business cultures for the SME segment and enhancing the financial products and services offered to the SME industry. The share of SME financing has increased from 30% of the total business financing of banking institutions in 1999 to 44% at end-May 2008.

In addition, a sustainable and comprehensive Microfinance Institutional Framework was implemented in 2006. Since its implementation, there has been considerable progress in the participation of financial institutions in providing microfinance. Currently, nine financial institutions have launched microfinance products, which has helped to increase access to financing to micro-enterprises. The outstanding micro-financing now amount to RM325 million with more than 31,000 customers.

In addition, the financial service providers such as the Credit Guarantee Corporation and Bank Pertanian Malaysia, now known as Agrobank, have been transformed into institutions that are more effective, efficient and financially sustainable. In relation to this, the SME Credit Bureau, a key initiative under the transformation plan of the CGC has officially commenced operations on 1 July 2008. The Bureau serves as a source of reliable credit information for both the SMEs and their potential financiers. The Bureau will assist SMEs to build a track record and thereby enhance access to financing on more favourable terms, leading to faster decisions on loan applications, and providing a balanced profile of the credit standing of the SMEs. This will also promote a better understanding by SMEs of their financial conditions, drawn from the analysis provided through the Bureau reports.

Initiatives have been taken to continuously develop new financing products that meet the evolving needs of SMEs in various segments and stages of growth. This includes the introduction of the new CGC guarantee scheme to assist start-up SMEs that have insufficient collateral and insufficient financial track record to obtain bank financing.

Finally, to complement the financial infrastructure, initiatives have been taken to develop comprehensive financial advisory services. Bank Negara Malaysia's Laman Informasi Nasihat dan Khidmat or BNMLINK, and BNMTLELINK, which is a dedicated Contact Centre, provide financial advisory services to the SMEs. In addition,

Bank Negara has also established the Small Debt Resolution Scheme where viable SMEs that are constrained by non-performing loans are assisted through loan restructuring and the provision of additional funding.

Today, SME financing has become robust with financial institutions being the main provider of SME financing. In 2007, banking institutions approved RM55 billion in new financing to more than 109,000 SME accounts. For the first five months of 2008 alone, a total of RM22.7 billion in new financing was approved to more than 55,800 SME accounts. As at end-May 2008, outstanding SME financing by banking institutions amounted to RM120.3 billion. In 2008, banking institutions are projected to approve RM61 billion of financing to more than 115,000 SME accounts, increasing at an annual growth rate of 10%.

Over the years, SME customers have gained a more prominent standing in the books of banking institutions in Malaysia. Consequently, it is in the banking institutions' best interest to meet the requirements of viable SME customers, which may face difficulties in the current challenging environment. Banking institutions need to engage and regularly interface with the various associations that represent SMEs to ascertain and formulate solutions to address issues confronting the SMEs while also communicating the requirements expected of the SMEs. Banks also need to provide greater flexibility in structuring the financing facility including customisation of the repayment periods within acceptable risk management levels. Banks may also expand the provision of advisory services to SMEs and proactively seek out SME customers that may be facing stress in this difficult business environment well before their conditions deteriorate. Adequate advice on financial management could pre-empt and avoid problems with respect to the financing facility.

Bank Negara Malaysia has also advocated for the migration to electronic payments as a measure to improve efficiency levels. This cannot be overemphasised in the current environment. The adoption of electronic

means of payments would result in greater business efficiency in addition to reducing the cost of doing business. It is important for the businesses including the SMEs to place high priority on the adoption of more expedient and efficient means of payments. In facilitating this transition, Bank Negara Malaysia is reducing transaction fees for the RENTAS system (the real time gross settlement system operated by Bank Negara Malaysia) for payments made by financial institutions on behalf of their customers. With effect from 15 July 2008, the RENTAS transaction fee imposed on the member banks will be reduced by RM1.00, from RM2.50 to RM1.50. This reduction in fees will result in a corresponding reduction in bank charges imposed by member banks on their customers for RENTAS payments with effect from the same date. In addition, the banking industry will be reviewing the fee structure for fund transfers to apply a fixed fee instead of the existing Inland Exchange Commission of 0.03%.

In this environment, the SMEs also need to initiate their own measures to complement those undertaken by the Government and the banks. Achieving cost efficiency and productivity improvements needs to be a priority for SMEs. SMEs should look at every facet of their business operations to identify ways to streamline processes, eliminate waste, consolidate activities and adopt new technology and energy-efficient processes. SMEs that operate in common geographical locations and that have similar production inputs, should also consider pooling their purchase requirements to benefit from bulk discounts by suppliers, in addition to sharing common costs such as transportation. In this regard, the Chambers of Commercences and industry associations can have a key role. They can facilitate the bulk purchase of raw materials for their members. Experience-sharing sessions can also be organized for successful members to share their experiences in achieving cost efficiency and productivity improvements.

As important as achieving cost efficiency is the need to raise the level of value creation and to find new areas of growth. This will require shifting resources to new areas of competitive advantage. In striving towards

long-term competitiveness, SMEs should adopt best practices in their governance and risk management processes. An aptitude for hard work and prudent practices, the agility to adapt to changing conditions, perseverance and entrepreneurial skills and the ability for reinvention - these are the qualities that will enable SMEs to ride through the near term challenges and allow them to grow and enhance their contribution to our economy.

Today's seminar provides a platform for SMEs to widen their knowledge on the numerous financing arrangements offered by the banking institutions. Take advantage and benefit from this opportunity. On this note, I would like to congratulate the Association of Banks in Malaysia for organising this important seminar on "Enhancing SME Awareness on Access to Financing". I wish you a productive and successful seminar.

**Malaysian Islamic Finance 2008 Issuers and Investors Forum
(Launch of the MIFC Global Communications campaign)
Kuala Lumpur, 11 August 2008**

Keynote Address by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Chairman of the MIFC Executive Committee and Governor of Bank Negara Malaysia

It is my pleasure to be here this morning at this third Malaysian Islamic Finance (MIF) 2008 Issuers and Investors Forum. It was at the first MIF Forum in August 2006 that the Malaysia International Islamic Financial Centre or MIFC initiative was launched. This was part of our efforts to strengthen further our economic and financial linkages with the rest of the world. It is our firm conviction that as an international Islamic financial hub this will be an important element facilitating the realisation of this aspiration. Since our launch, other traditional financial centres such as Hong Kong, Singapore, Dubai and London have also intensified their participation in the Islamic financial system.

As one of the fastest growing segments in the international financial system, there is a growing number of Islamic financial institutions and an increasing range of innovative Islamic financial products. Of importance is that this progress has been supported by a rigorous and well developed legal, regulatory and Shariah framework, thereby ensuring its stability and sustainability.

The Operating Environment for Islamic Finance

With the internationalisation of Islamic finance and the rapidly changing international Islamic financial landscape, Islamic finance is becoming increasingly integrated to the international financial system. This development has taken place in all segments of the Islamic financial system including the Islamic banking and takaful industry, and in the Islamic money and capital markets.

There are now a large number of diverse players and institutions in the Islamic financial

system. There has also been a growing range of products and services being offered. The pace of product innovation has intensified with more sophisticated Islamic financial products including the structured and investment-linked products. These products have become competitive both in terms of product structure and pricing. There has also been enhanced depth of the Islamic financial markets. This has increased the attractiveness of the Islamic financial instruments as an asset class for investment.

The Prudential standards are developed by the Islamic Financial Services Board (IFSB) to govern the operations of Islamic financial institutions. The IFSB has, not only, an important role in the harmonisation of prudential standards, but also contributes towards the consistent development of Islamic finance across different jurisdictions. Several parts of the world, including in Malaysia, have implemented the prudential standards issued by the IFSB. These prudential standards which have been designed to take into account the unique features specific to Islamic finance will contribute towards ensuring its soundness and stability.

Developments in the Sukuk Markets

The year 2007 saw an exceptional growth of the global sukuk market which expanded by more than 70 percent during the year. New issues during the year reached a record high to about USD47 billion and the outstanding global sukuk market has now surpassed the USD100 billion mark. Despite the more challenging international financial environment arising from the financial crisis that has occurred in a number of the advanced economies in the recent twelve months, the sukuk market while also affected, it has been to a lesser extent. Up until June 2008, it has held its ground with a total global

issuance now exceeding USD10 billion. With greater recognition of the sukuk market as a competitive and attractive form of financing, the global sukuk market is expected to continue its growth going forward.

The International Islamic financial hub evolving in Malaysia is supported by five pillars.

Pillar 1: Sukuk Origination

Following the first ever sukuk in the world that was issued in Malaysia in 1990, Malaysia has now developed a deep, liquid and vibrant sukuk market. Recently, the largest sukuk ever was raised in the Malaysian sukuk market in 2007. The magnitude was approximately RM15 billion or about USD5 billion equivalent. Despite being issued during the height of the sub-prime crisis, it attracted huge demand and was oversubscribed by more than two times. Sukuk origination has thus been identified as one of the important pillars of the Malaysian Islamic financial system. As of the end of 2007, more than 60 percent of the outstanding global sukuk originated from Malaysia. It has been increasing by an annual rate of about 20 percent and it accounts for about 56 percent of the outstanding bond market in Malaysia.

Several foreign multilateral development banks, quasi sovereign agencies and MNCs have received the approval of the authorities for the issuance of sukuk in our domestic sukuk market. The Malaysian foreign exchange administration rules have been extensively liberalised to enable non-resident corporations to raise ringgit and foreign currency denominated funds from our market. International issuers may thus issue multi-currency sukuk in addition to having the flexibility to swap domestic currency funding into other currencies.

Pillar 2: Islamic Fund and Wealth Management

The sukuk market has been an important source of financing for productive investment activities, while for investors it provides potential for diversification into new asset classes. The second pillar in the Malaysia Islamic financial

hub is the Islamic fund and wealth management industry. Malaysia is centrally located in the ASEAN region that has a population of 570 million. It is also positioned centrally between the major Asian economies of India, China, Japan and Korea. Malaysia has always been a highly open economy in trade and investment activities and has been a major recipient of foreign direct investment for more than a hundred years.

As a destination for financial investment, the Malaysian capital market offers a wide range of world class financial products. More than 85 percent of the listed companies in the equity market are Shariah compliant, representing about 60 percent of total market capitalisation. Other investment opportunities include in Shariah-compliant real estate investment trusts (REIT), in unit trusts and in the Islamic exchange traded fund (ETF). The capital market intermediaries in Malaysia, that is, the investment banks and Islamic fund management companies have had a key role in supporting the development of this industry. Both retail and wholesale products are being offered in ringgit and non-ringgit currencies. There is also no restriction in investing 100 per cent of the funds abroad. The foreign exchange administration rules now allow for the free mobility of inward and outward movement of funds.

Pillar 3: International Islamic Banking

The Islamic financial system has also been extensively liberalised to allow for the entry of foreign Islamic financial institutions that offer both domestic and international banking business. In addition, the foreign equity ceiling in Islamic financial institutions has been raised to a maximum of 49 percent as part of the effort to promote strategic alliances. The Islamic banking business in foreign currencies can be conducted by the international currency business units (ICBUs) that may be set up within existing financial institutions and the international Islamic banks. Such international Islamic banks may be established as either a branch or a subsidiary. Currently, about 16 percent of total assets in the Malaysian banking system is Shariah compliant.

Pillar 4: International Takaful Business

The fourth pillar is takaful and retakaful business. There are now eight takaful operators, several of which are joint ventures with foreign shareholding that conduct both domestic and international takaful business. In addition, licences have been granted to three reinsurance players to undertake retakaful business in Malaysia. Several existing takaful operators have set up international currency business units (ICBUs) and one new international takaful company has been licensed as an international takaful operator to conduct foreign currency takaful business.

Pillar 5: Human Capital and Thought Leadership

The fifth pillar is human capital and thought leadership. Several important human capital development projects have been implemented to foster Islamic finance thought leadership and to create a supply of talent for the Islamic finance industry. Having a sufficient pool of the talent and expertise has been key to the development of the Islamic financial hub in Malaysia. The International Centre for Education in Islamic Finance (INCEIF) which has an international faculty and students from more than 40 countries, is focused on programmes for Islamic finance professionals and specialists to meet the human capital requirements of the global Islamic financial services industry. The first group of students for the Chartered Islamic Finance Professional, or CIFP, offered by INCEIF is expected to graduate at the end of this year after completing a three year programme that includes an internship with an Islamic financial institution.

Strengthening the MIFC Initiative

Let me turn to today's event. Malaysia's Islamic financial hub has been built on the foundation of a comprehensive and progressive Islamic financial system that has been developed in the recent three decades. Activity in the Islamic financial system has become vibrant, in particular, in the sukuk market and in the other wholesale Islamic financial transactions. Going forward, Malaysia will collaborate with other financial centres with the aim of strengthening the international interlinkages in the global Islamic financial system.

Today, Malaysia is taking another step forward and launching a global communication campaign to the world. The campaign is part of our efforts to strengthen our connectivity with the rest of the world. The MIFC global communication campaign highlights the opportunities and offerings – here in Malaysia – for investors, issuers, industries in the economic sectors and for professionals and practitioners with interest in the Islamic financial services industry. Malaysia presents itself as a meeting place for those with surplus funds and those who seek to raise funds from any part of the world. As an Islamic financial hub, the Islamic financial intermediaries are supported by institutions of learning for human capital development in Islamic finance.

It is Malaysia's aspiration to participate in this exciting journey at the frontier of Islamic finance as it progresses as the fastest growing segment in the global financial industry today. In conjunction with the opening session of the MIF 2008, it gives me great pleasure to launch the MIFC Global Communication Campaign. To all the participants, I wish you a successful and productive conference. Thank you.

**4th SEACEN/ABAC/ABA/PECC Public-Private Dialogue for the Asia Pacific Region
'Basel II Implementation and the Development of Asia's Financial System:
Experiences, Challenges and Regional Cooperation'
Kuala Lumpur, 18 August 2008**

Keynote Address by

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

It is my pleasure to be here today, to speak on the occasion of this Public-Private Dialogue organised by the SEACEN Centre in collaboration with the APEC Business Advisory Council (ABAC), the Asian Bankers Association (ABA) and the Pacific Economic Cooperation Council (PECC) on the development of Asia's financial systems and the implementation of Basel II.

The implementation of Basel II across the Asia Pacific region is occurring at a time of heightened risks, during a time in which our economies and financial systems are confronted with significant challenges and increased uncertainties. As the underpinnings of Basel II are concerned with enhancing the responsiveness to risk by banking institutions, there are enormous expectations that Basel II will stand up to the test of capturing the complexities and the more uncertain direction of risk in the current environment. There is also enormous interest in assessing the pre-emptive capabilities of the framework to anticipate the direction of risk and thus ensure the provision of adequate capital buffers for such risk. The sharing of experience on the implementation of Basel II in this region and the greater engagement between the supervisory and financial communities will provide further insights to these issues. The ultimate objective of Basel II is to achieve more resilient banks, and thus preserve the broader financial stability.

In the Asia Pacific region, thirteen countries have adopted the standardized approaches under Basel II for credit and operational risks. A number of countries have also either

already adopted or announced plans to adopt the more advanced approaches by 2010 or earlier. Malaysia adopted the standardised approach this year and has recently issued a concept paper detailing the parameters for the implementation of the more advanced approach to be adopted in 2010.

The global economy has entered a period of greater uncertainty, with a number of developments that are taking place in some of the developed economies having destabilising implications on the global economy. The international financial markets continue to be in turmoil, triggered by the developments in the subprime market in the United States and resulting in the tightening of liquidity in the credit markets. The impact of these developments on the financial position of financial institutions has affected the functioning of the financial markets and the financial intermediation process. This has required interventionist policies to contain its systemic implication. In addition, the global economy has been through a period of high commodity and energy prices which has not only translated into higher inflation but has also contributed to dampening economic growth.

While the Asian region has experienced robust growth in the first half of 2008, the regional economies will be affected by these developments. Although growth is expected to moderate, most economies will continue to see a reasonable growth performance. The region will, however, continue to face inflationary pressures arising from high commodity and energy prices. This is however, expected to recede with the substantial correction that has recently taken place following the slower pace of global growth.

The Asian region is expected to weather this challenging period with the growing intra-regional trade and the expansion of its economic links with Eastern Europe and Russia, the Middle East and Latin America. At the same time, increased infrastructure spending in several of the large economies will provide further support to domestic demand. In addition, the strengthened economic fundamentals of the Asian economies, including the high level of reserves, low external debt, strengthened financial systems and improved fiscal position, will allow the flexibility to better manage the risks to the economy and the financial systems.

In this environment, the implementation of Basel II presents a powerful lever for banks to significantly enhance both their long term resilience and their competitive advantage. It promises greater financial stability through the closer alignment of risk with capital. To realise the full benefits from the implementation of Basel II, its multi-faceted dimensions need to be well understood and well integrated with the financial structures, institutional practices, and supervisory systems. Emerging markets in particular will need to ensure that supervisory interpretations of the framework are contextualised to the local conditions, and the preconditions for its effective implementation are adequately developed to avoid the potential market distortions.

At the institutional level, Basel II provides a unique opportunity for banks to integrate risk considerations with their business strategies. Indeed, several leading financial institutions have successfully taken Basel II beyond the narrow and mechanistic risk applications to a more strategic implementation of the framework across the organisation. Such institutions have leveraged on the upgraded risk infrastructures that have been established for Basel II to create competitive advantages through the application of new business and management tools. This enables the risk function to have a central role in informing strategic moves into new markets or products. In the process, this will ensure that the strategies are aligned with the bank's risk appetite and policies.

The benefits of Basel II cannot be achieved with just a strict regulatory compliance approach. While Basel II serves as a powerful catalyst to reposition the role of, and the attention to, risk management in banking institutions, significant efforts need to be directed at strengthening the financial structure, corporate governance, risk management and data capabilities within the banking institutions. The approach adopted by Bank Negara Malaysia has been for these efforts to complement and reinforce the positive outcomes of Basel II. These are important preconditions for, and not automatic outcomes from the adoption of Basel II.

In the wake of the sub-prime mortgage crisis in the United States, several aspects of Basel II have attracted attention. Among them has been the use of ratings in the regulatory framework and whether this has unintentionally discouraged investors from performing their own due diligence. The underestimation of risk for structured credit securitisations has now come under greater scrutiny. There has also been increased debate over the cyclical impact of Basel II. The effectiveness of the supervisory review process in ensuring that additional capital buffers are provided by banks for risks not fully captured under Pillar 1 of the framework has also been the subject of this review by authorities.

The relative importance of these issues will be different for different countries, depending on the stage of development of the financial markets and the banking system, as well as the supervisory structure that is in place. Among Asia Pacific countries, experiences with the implementation of Basel II have been varied.

For emerging economies, Basel II has arguably a more far reaching impact. This is on account of several factors. Firstly, many emerging economies continue to depend heavily on the banking system to finance economic activity. With a few exceptions, commercial banks are the main providers of credit in most emerging economies, accounting for an average of 90% of total credit. This produces a higher correlation to the economic sectors where the

implications on the banking system could result in significant disruptions to credit supply which could in turn affect economic activity.

Secondly, the more advanced approaches of Basel II are calibrated to the environment of the G10 countries, with significant acceleration of capital charges as the probability of default ratings deteriorate. To the extent that this inappropriately amplifies economic cycles by inducing the systemic misperception of risk in emerging economies, this can exacerbate a credit crunch during periods of weak economic performance.

Thirdly, the anticipation of lower regulatory capital requirements and hence, a competitive cost advantage, provides a strong incentive for banks especially in the developed countries to move towards the more advanced approach under Basel II. This could result in an uneven competition between the domestic and international foreign banks operating in the domestic financial system. Capability gaps in the adoption of the more onerous approaches under Basel II may place domestic banks at a competitive disadvantage in such countries.

These considerations have meant that for many emerging economies, the translation of the Basel II framework to suit the local environment needs to be approached carefully. The Basel II text provides a range of options which can be considered by national supervisors to re-balance the calibration of Basel II to reflect the local environment. It is also important that Basel II is implemented as part, and not in isolation of, the overall financial sector development programme. This has been Malaysia's approach.

The highly fragmented banking system and relatively weak risk management systems within the domestic financial institutions which prevailed in Malaysia prior to the financial restructuring and reforms that were undertaken from 2001 would have rendered the implementation of Basel II extremely difficult, if not impossible to achieve without risking disruptions to the intermediation process. The financial reforms that were undertaken to

strengthen the underpinnings of our banking system are therefore instrumental in facilitating the smooth transition to the adoption of Basel II in Malaysia without adverse market outcomes.

In the more recent period, the Asian region as a whole has made significant strides towards strengthening market structures and institutional arrangements for financial stability. Two developments deserve mention, in view of their important contributions towards mitigating some of the concerns surrounding Basel II for emerging economies.

First, in the decade following the Asian crisis, the emerging economies in Asia have extensively developed their bond and equity markets. Measured in terms of market capitalisation, East Asia's equity markets have more than trebled since 1997. The bond markets in the East Asian region have also seen significant growth during this period with significantly improved liquidity conditions in these markets. There is therefore now a more diversified structure in the financial system.

Second, within Asia, the regional cooperative framework has been substantially strengthened to support financial sector development, surveillance, crisis management and capacity building. An important achievement within the EMEAP process has been the establishment of a Monetary and Financial Stability Committee, or MFSC, which is charged with the mandate of facilitating greater regional collaboration in preserving monetary and financial stability as well as in the development of regional financial markets. Since its establishment, the MFSC has exceeded expectations in terms of the commitment towards supporting regional monetary and financial surveillance, and in advancing efforts to institutionalize cross-border crisis management and resolution arrangements.

These developments will contribute towards reducing any procyclical impact of Basel II and facilitating over time, refinements to the risk parameters that are more appropriate to local and regional experiences. The continuation of such efforts at the national and regional

levels will reduce the prospects for potential disruptions in the regional financial systems.

One of the most important consequences of Basel II lies in the effect that it will have in sharpening the focus on corporate governance in banking institutions. While there has been considerable attention focused on the quantitative implications and operational aspects of the Basel II framework, there has been less attention given to the corporate governance dimensions associated with its implementation.

The expectations on the board and senior management oversight are significantly higher under Basel II. The board of directors is expected to ensure that a sufficiently strong risk control framework is in place before banks can adopt the more advanced approach. Boards and senior management must have a sound understanding of the risk profile of the respective banking institution and ensure that it holds sufficient capital that is commensurate with that profile. This is reinforced by the greater attention being accorded by supervisors to the risk management control functions within the banking institutions and how they are effectively governed. Improved market disclosures under the third pillar of the framework further subjects the banking institutions governance practices to closer market scrutiny.

These developments have challenged governance practices that may have been tolerated in the past, but which would be grossly inadequate to provide the oversight that is demanded in today's far more complex business environment. Such practices have included vague reporting of risks to the board, boards that are disengaged, and boards that have no or little expertise in risk and financial matters. Boards and supervisors need to confront these issues with firm resolve. This will entail the more rigorous scrutiny of board members and senior management, both prior to their appointments and on an ongoing basis. Boards need to also assert themselves more actively in advocating and driving risk reforms, and demanding the appropriate level and amount of information from management that would enable the oversight responsibility to be discharged effectively.

In many respects, Basel II remains a work in progress. As we continue to ponder its broad and complex dimensions, platforms such as this for open and active dialogue between public and private interest groups are important to provide further insights on the many issues that will provide the direction forward for the wider and effective global implementation of Basel II.

On that note, I wish you all productive and successful discussions. Thank you

CALENDAR OF EVENTS July – September 2008

9 July 2008

Governor Dr. Zeti, in her keynote address at the Banking Industry Seminar “Enhancing SMEs’ Awareness on Access to Financing”, said that SMEs have significant potential to increase their contribution to economic growth. She urged Malaysian SMEs to take proactive measures such as finding new market and avenues of growth as well as reengineering business processes to achieve cost efficiency and improving productivity in order to overcome the current slowdown in global economic and financial environment. She also highlighted that banking institutions should assist the SMEs by providing greater access to financing, improving advisory services on financial management and according greater flexibility in structuring the financing facility.

On the same day, the Bank announced that effective 15 July 2008, the transaction fee imposed on banks for third party payments using the real time gross settlement system (RENTAS) is reduced from RM2.50 to RM1.50. At the same time, the banking industry will also review its fee on fund transfers from the existing structure, based on Inland Exchange Commission of 0.03%, to a fixed fee structure to defray the cost involved. The review shall result in reduction of the transaction fee charged on customers for inter-states funds transfer in Malaysia. All these are part of the Bank’s initiatives to promote greater use of electronic payments and to reduce the cost of doing business.

24 July 2008

The Bank as the Secretariat of the National SME Development Council (NSDC) released the SME Annual Report 2007. The report highlighted success stories of SMEs which benefited from the Government’s programmes and incentives. The report also provided information on the SMEs performance, as well as major programmes undertaken by the Government to promote the development of SMEs. The Bank also announced the official handover of the NSDC Secretariat function to the Small and Medium Industries Development Corporation (SMIDEC), which would be known as SME Corporation Malaysia (SME Corp) and takes effect in January 2009.

25 July 2008

At its fifth meeting for 2008, the Bank’s Monetary Policy Committee (MPC) decided to leave the Overnight Policy Rate (OPR) unchanged at 3.50%. The MPC stated that the Malaysian economy had performed well in the first-half of 2008 driven by robust domestic demand and reinforced by favourable export performance. In the subsequent twelve months, however, the country’s economy would experience a more challenging environment in which both the risks to higher inflation and slower growth have increased considerably mainly due to higher international energy and commodity prices. The MPC, at its subsequent meeting on 25 August, decided to maintain the OPR at the same level.

11 August 2008

The Malaysia International Islamic Financial Centre (MIFC) global communications campaign was jointly launched by Governor Dr. Zeti as the Chairman of the MIFC Executive Committee, and Dato’ Zarinah Anwar, Chairman of Securities Commission Malaysia at the Malaysian Islamic Finance 2008 Investors and Issuers Forum in Kuala Lumpur. In her opening remarks Governor highlighted that Islamic finance in Malaysia, developed over thirty years, is supported

by five key pillars namely sukuk origination, Islamic fund and wealth management, international Islamic banking, international takaful business and human capital and thought leadership. The global campaign captures key value propositions and aspirations of the MIFC initiative and strives to promote Malaysia as a leading Islamic financial hub.

12 August 2008

The Bank signed a Memorandum of Understanding (MoU) with Bangladesh Bank in Kuala Lumpur on the exchange of financial intelligence concerning money laundering and terrorism financing. This brings the total number of MoUs signed with foreign counterparts on the similar scopes of cooperation to 15 MoUs. The signing of the MoU is in line with the Bank's continuous efforts to combat money laundering and terrorist financing by forging alliances and collaboration with foreign institutions.

18 August 2008

At the 4th SEACEN Centre, Apec Business Advisory Council (ABAC), the Asian Bankers Association (ABA) and the Pacific Economic Cooperation Council (PECC) Public-Private Dialogue for the Asia Pacific Region, Governor spoke on the significance of Basel II implementation in the development of Asia's financial system. She highlighted that the implementation of Basel II across the Asia Pacific region will enable banks to significantly enhance long-term resilience and competitive advantage, while preserving financial stability through closer alignment of risk with capital.

21 August 2008

The Bank signed a MoU with the Department of Statistics Malaysia (DOSM) on data sharing arrangements. The arrangement allow DOSM to use the Bank's data for compilation of economic and social indicators. The data is then shared with other government agencies to facilitate them in planning, monitoring and policy formulation. The MoU paved the way for more collaborative efforts among government agencies with the aim of achieving a higher level of efficiency and effectiveness in terms of data collection and dissemination.

29 August 2008

The Bank announced that the Malaysian economy registered a growth of 6.3% year-on-year in the second quarter of 2008 (1Q 08: 7.1%). The growth was sustained by strong external demand while domestic demand grew at a more moderate pace. On the supply side, growth was supported by sustained strong performance in the services sector and favourable performance in the communication, transport and storage; and finance and insurance sub-sectors. Headline inflation for the period rose to 4.8% from 2.6% in the previous quarter, mainly due to higher retail prices for fuel, as well as higher food prices. Inflation is projected to remain elevated in the second-half of the year and into early next year before moderating towards mid-2009. The OPR remained unchanged at 3.50% throughout the second quarter, as the prevailing level of the policy rate remained consistent with the outlook for economic growth and inflation.

22 September 2008

In a statement published on the Bank's website Governor said that the ringgit will continue to operate under a managed float regime which provides Malaysia with the flexibility to adjust to international economic and financial developments. She highlighted that the regime also accords exchange rate stability against Malaysia's main trading partners.

30 September 2008

Governor was appointed by Bank for International Settlements (BIS) as Chair of the BIS Asian Consultative Council (ACC) for a two-year term effective October 2008. The position was previously held by Yaga V Reddy, Governor of the Reserve Bank of India from March 2007 to September 2008. The ACC comprises the Governors of the BIS member central banks in the Asia-Pacific region. It was established in 2001 to facilitate communication and deliberation between these central banks and the BIS Board and Management on matters of interest to the Asian central banking community.