Taklimat
Laporan Tahunan 2011 dan
Laporan Kestabilan Kewangan
dan Sistem Pembayaran 2011

Gabenor Bank Negara Malaysia
21 Mac 2012
Key challenge for 2012: To sustain the economic recovery

Global growth projection for 2012

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012f</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual change (%)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>World GDP</strong></td>
<td>5.2</td>
<td>3.8</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>World Trade</strong></td>
<td>12.7</td>
<td>6.9</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td>3.0</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Euro area</strong></td>
<td>1.9</td>
<td>1.5</td>
<td>-0.5</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>4.4</td>
<td>-0.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Developing Asia 1/</td>
<td>9.5</td>
<td>7.9</td>
<td>7.3</td>
</tr>
<tr>
<td>China</td>
<td>10.3</td>
<td>9.2</td>
<td>8.2</td>
</tr>
<tr>
<td>ASEAN-5 2/</td>
<td>6.9</td>
<td>4.8</td>
<td>5.2</td>
</tr>
</tbody>
</table>

Note: Forecasts for 2012 are IMF’s projections
1/ IMF: Asia ex-NIEs
2/ IMF: Indonesia, Malaysia, Philippines, Thailand and Vietnam

• Recent improvements:
  - Lower volatility in the global financial markets
  - Progress in addressing the European sovereign debt crisis, including alleviating the risks of a disorderly default in Greece
  - Emerging signs of recovery in the US

• Factors affecting growth in several major economies:
  - Fiscal austerity in economies
  - Deleveraging activity by private sector
  - Structural reforms that result in near-term economic dislocation

Source: National authorities, IMF World Economic Outlook, January 2012 Update
Advanced economies: Structural issues continue to affect the pace of economic recovery

1. High unemployment rate

Unemployment rate (%)

- US
- Euro area
- Japan (RHS)

2. Continued deleveraging activity

Household debt (% of disposable income)

3. Restrained credit conditions

Credit (yoy, %)

Source: National authorities, Haver, IMF
Asia: Continued growth amid the weaker external environment

- Spillovers from the advanced economies are via the trade and financial channels

- Domestic demand to be the main contributor to growth, mitigating the impact of weaker external demand.

- Several Asian economies have announced fiscal measures to support domestic demand.
Asia: Volatility in international capital flows amid uncertain global environment

Total cumulative flows (USD mn)

Source: EPFR
Global inflation to moderate amid lower commodity prices

Despite the increase in recent months, global commodity prices are expected to be lower...

... containing inflationary pressures
Monetary authorities shifting policy focus towards supporting growth

Liquidity easing measures announced by the advanced economies since end-2011

- **Oct ‘11**: BoE’s QE expansion: +£75 bn
- **Nov ‘11**: Coordinated central bank action to increase liquidity
- **Dec ‘11**: ECB’s LTRO: Gross liquidity injection +€489 bn
- **Jan ‘12**: Fed extended low interest rate to 2014
- **Feb ‘12**: BoE’s QE expansion: +£50 bn
  - ECB’s 2nd LTRO: +€530 bn

Policy Interest Rates

- **US (0-0.25%)**
- **Korea (3.25%)**
- **P.R. China (6.56%)**
- **India (8.50%)**
- **Indonesia (5.75%)**
- **Thailand (3.00%)**
- **US (0-0.25%)**

Source: National authorities
The Malaysian economy to register a growth of 4−5% in 2012 despite the weaker external environment

- Domestic demand to remain resilient and will continue to be the anchor for growth
- Weaker demand in the global economy to weigh down Malaysia’s export sector

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Domestic demand to remain resilient and will continue to be the main driver of growth in 2012

<table>
<thead>
<tr>
<th></th>
<th>2011(^p)</th>
<th>2012(^f)</th>
<th>2011(^p)</th>
<th>2012(^f)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual change (%)</td>
<td>Contribution to growth (p.p)</td>
<td>Annual change (%)</td>
<td>Contribution to growth (p.p)</td>
</tr>
<tr>
<td>Domestic demand (excluding stocks)</td>
<td>8.2</td>
<td>6.6</td>
<td>7.2</td>
<td>6.0</td>
</tr>
<tr>
<td>Private sector</td>
<td>8.2</td>
<td>6.6</td>
<td>5.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Consumption</td>
<td>6.9</td>
<td>6.2</td>
<td>3.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Investment</td>
<td>14.4</td>
<td>8.3</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Public Sector</td>
<td>8.2</td>
<td>6.7</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Consumption</td>
<td>16.8</td>
<td>0.2</td>
<td>2.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Investment</td>
<td>-2.4</td>
<td>16.2</td>
<td>-0.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Net exports</td>
<td>-14.4</td>
<td>-1.4</td>
<td>-1.4</td>
<td>-0.1</td>
</tr>
<tr>
<td>Exports of goods &amp; services</td>
<td>3.7</td>
<td>1.4</td>
<td>4.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Imports of goods &amp; services</td>
<td>5.4</td>
<td>1.6</td>
<td>5.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Real GDP</td>
<td>5.1</td>
<td>4.0 ~ 5.0</td>
<td>5.1</td>
<td>4.0 ~ 5.0</td>
</tr>
</tbody>
</table>

- Sustained expansion in domestic demand following continued expansion in private and public expenditure
- Private investment remains strong
- Public sector to remain supportive of growth, driven by higher capital expenditure

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

\(^p\) preliminary \(^f\) forecast
Private consumption will remain strong

The continued strength of consumption is underpinned by:

- Sustained income growth in the private sector
- Stable labour market with continued job creation
- Higher public sector wages
- Continued access to financing

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Private investment to expand further

Private investment to be underpinned by:

- Capital spending in consumer-related services and manufacturing industries
- Investment in the mining and agriculture sectors
- Implementation of ETP projects
- Reinforced by inflows of FDI

<table>
<thead>
<tr>
<th>Annual change (%)</th>
<th>2010</th>
<th>2011&lt;sup&gt;p&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;f&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real private investment</td>
<td>17.7</td>
<td>14.4</td>
<td>8.3</td>
</tr>
</tbody>
</table>

p preliminary; f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
FDI to remain sizeable in 2012

- Net inflows of FDI to moderate but remain sizeable in 2012
  - Moderation in global FDI flows
  - Inflows into new growth areas
  - ETP projects in the oil and gas sector to support FDI inflows.

- Further liberalisation of several services sub-sectors will also spur FDI inflows

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Public sector remains supportive of growth

<table>
<thead>
<tr>
<th></th>
<th>2011(^p)</th>
<th>2012(^f)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual change (%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector</td>
<td>8.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Consumption</td>
<td>16.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Investment</td>
<td>-2.4</td>
<td>16.2</td>
</tr>
<tr>
<td><strong>Contribution to growth (p.p)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector</td>
<td>2.0</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Despite fiscal rationalisation to contain deficit, public investment to expand significantly in 2012:

- Supported by higher Fed. Govt. development expenditure and investments by NFPEs
- Implementation of Special Stimulus Package through Private Financing Initiative

Public consumption to register a positive growth:

- Significant moderation in expenditure on supplies and services
## Continued expansion across most sectors

<table>
<thead>
<tr>
<th>% share of GDP (2011)</th>
<th>2011&lt;sup&gt;p&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;f&lt;/sup&gt;</th>
<th>Annual change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>58.6</td>
<td>6.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>27.5</td>
<td>4.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7.3</td>
<td>5.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Mining</td>
<td>6.3</td>
<td>-5.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Construction</td>
<td>3.2</td>
<td>3.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Real GDP</td>
<td>100.0</td>
<td>5.1</td>
<td>4.0 ~ 5.0</td>
</tr>
</tbody>
</table>

- Performance of domestic-oriented industries expected to remain firm
- Weaker external conditions to adversely affect the export-oriented manufacturing industries and trade-related services
- Construction sector to be lifted by civil engineering projects

<sup>p</sup> Preliminary  <sup>f</sup> Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Domestic-oriented industries to continue to support growth

- Growth in domestic-oriented industries expected to remain firm going forward:
  - Construction-related manufacturing industry to benefit from civil engineering projects
  - Resilient domestic demand to support consumer-related manufacturing and distributive trade services activity

Source: Department of Statistics, Malaysia
## External trade to moderate in 2012

<table>
<thead>
<tr>
<th>Annual change (%)</th>
<th>2011&lt;sup&gt;p&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;f&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross exports</td>
<td>8.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Manufactured</td>
<td>3.4</td>
<td>4.5</td>
</tr>
<tr>
<td>(E&amp;E)</td>
<td>-4.1</td>
<td>-1.0</td>
</tr>
<tr>
<td>Non-(E&amp;E)</td>
<td>12.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Commodities</td>
<td>26.4</td>
<td>-1.7</td>
</tr>
<tr>
<td>Agriculture</td>
<td>32.9</td>
<td>-9.3</td>
</tr>
<tr>
<td>Minerals</td>
<td>20.4</td>
<td>6.1</td>
</tr>
<tr>
<td>Gross Imports</td>
<td>8.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Capital</td>
<td>9.7</td>
<td>6.8</td>
</tr>
<tr>
<td>Intermediate</td>
<td>5.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Consumption</td>
<td>19.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Trade balance (RM bn)</td>
<td>120.3</td>
<td>125.6</td>
</tr>
</tbody>
</table>

- Exports to moderate on weak external demand
- E&E exports to decline, but non-E&E exports will support manufactured exports
- Imports to moderate faster than exports, widening the trade balance

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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

<sup>p</sup> preliminary  <sup>f</sup> forecast
Current account surplus to remain large

Large surplus in the current account to be supported by

• Sustained large trade surplus

• Lower deficits in services and income accounts

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Headline inflation to range between 2.5 – 3.0% in 2012

Note: Inflation forecast refers to the central bank’s official forecast. The inflation forecast for China is its central bank’s inflation target.
Headline inflation to range between 2.5 – 3.0% in 2012

Note: Inflation forecast refers to the central bank’s official forecast. The inflation forecast for China is its central bank’s inflation target.
Monetary policy in 2012

- The OPR was normalised and raised further to 3.00% in 2011

- For 2012, monetary policy will focus on:
  - Promoting sustainable growth amidst the more challenging external environment
  - Ensuring price stability
  - Preventing a build-up in financial imbalances
Financing conditions to continue to remain favourable

Net financing growth sustained… … supported by robust demand for loans by businesses and households

Total Financing

Loan growth: 12.1%

Net financing growth: 13.5%

Annual change (%)

RM billion

Loans Applications by Businesses and Households

- Businesses
- Households

January-09 to January-12

Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4

2009 2010 2011
Volatile portfolio flows expected to persist

Portfolio flows largely driven by global events in 2011...

Malaysia: Portfolio Capital Flows in 2011

<table>
<thead>
<tr>
<th>Period in 2011</th>
<th>Net Portfolio flows (RM billion)</th>
<th>Drivers</th>
</tr>
</thead>
</table>
| 1H             | +56.4                           | • Emerging economies’ (EE) strong stock market performance  
                 |                                 | • Strong economic data by EE  
                 |                                 | • Fed announcement to keep interest rates low |
| 2H             | -26.1                           | • Downgrade of US credit rating  
                 |                                 | • News on possible downgrade of France  
                 |                                 | • Concerns over Greek sovereign debt crisis |
| Year           | +30.2                           | -       |

Note: Numbers may not necessarily add up due to rounding

Source: DOSM

Cumulative net equity fund flows (since Jan 07)

- All Emerging Economies (LHS)
- Malaysia (RHS)

Source: EPFR
Ringgit performance driven by external developments

- Despite volatile capital flows, ringgit adjustments remained orderly
- Ringgit has strengthened in 2012 amid inflows

MYR performance against selected currencies in 2010 and 2011
International reserves remain at healthy levels

- International reserves remain high, mainly supported by current account surplus
  - Also reflected inflow of *portfolio* and foreign direct investments.
  - Partially offset by higher outflow of direct investment abroad.

Source: BNM
Financial position remained strong in 2011:

- Total assets of BNM amounted to RM473 billion with International Reserves of RM423.4 billion (USD133.6 billion)
- Net profit of RM4.7 billion
- Dividend of RM2 billion to the Government
FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT 2011

Press Conference
Financial stability was preserved throughout 2011

### Banking Sector (%)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>Jan-12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Adequacy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-Weighted Capital Ratio</td>
<td>14.8</td>
<td>14.7</td>
</tr>
<tr>
<td>Core Capital Ratio</td>
<td>13.0</td>
<td>12.9</td>
</tr>
<tr>
<td>Capital Buffer (RM bil)</td>
<td>64.8</td>
<td>71.1</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Assets</td>
<td>1.5</td>
<td>1.6^</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>16.6</td>
<td>17.4^</td>
</tr>
<tr>
<td><strong>Asset Quality</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net impaired loans ratio</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Loan in arrears (1-&lt;3 months)</td>
<td>4.1</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Liquidity Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity buffer (&lt;1 mth, % of deposits)</td>
<td>16.2</td>
<td>17.5</td>
</tr>
</tbody>
</table>

### Insurance/Takaful Sector (%)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Adequacy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
<td>224.6</td>
<td>222.5</td>
</tr>
<tr>
<td>Capital Buffer (RM bil)</td>
<td>18.6</td>
<td>20.1</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits (RM bil)</td>
<td>16.3</td>
<td>14.5</td>
</tr>
</tbody>
</table>

- Financial indicators at strong levels
- Financial intermediation supportive of the economy
- Orderly functioning of financial markets despite higher volatility
- Confidence in banking system preserved
- Stress tests reaffirm financial sector resilience under adverse market and credit risk scenarios

*Source: Bank Negara Malaysia  ^ Reflects 2011 position*
Early implementation of wide-ranging measures have begun to show results

- **More moderate expansion in indebtedness**
  - HH debt grew 12.5% (2010: 13.7%)
  - HH debt-to-GDP: 76.6%

- **Lower growth in borrowers with multiple housing loans**
  (2011: 2.9%; 2010: 14.9%)

- **Slower increase in house prices**
  - The MIER residential property index moderated to 120 points in 4Q 2011 (1Q 2011: 130 points)

*Source: NAPIC*

*MIER: Malaysian Institute of Economic Research*
Risks to financial stability from household indebtedness remains contained

- Households continue to maintain sound financials
  - Household financial asset-to-debt ratio of 2.3 times

- Banks maintain prudent loan underwriting standards and risk management practices

- Trends in delinquency declining
  - Declining loan-in-arrears
  - Credit card revolving balances grew at slower pace (Apr-Dec 2011: 11.9%, Jan-Mar 2011: 20.3%)

ILR = Impaired loans ratio
Lower income households in urban centres face greater challenges

- More highly leveraged, with borrowings mainly concentrated in hire purchase and/or personal loans

- But exposure to the banking system is relatively small
  - Bank exposures to borrowers earning <RM3,000 account for less than 13% of total banking system loans

- Responsible lending guidelines to contain accumulation of debt above levels that are affordable, particularly for more vulnerable households

- Further supported by established and well-functioning debt management mechanisms at individual banks and AKPK, and Government initiatives to ease financial burden

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>Total Leverage (times of annual income)</th>
<th>Outstanding Loans (RM bil)</th>
<th>% Banking System Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; RM3k</td>
<td>4.4 – 9.6</td>
<td>127.4</td>
<td>12.7</td>
</tr>
<tr>
<td>&gt;= RM 3k</td>
<td>2.3 - 4.1</td>
<td>425.5</td>
<td>42.4</td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia, Department of Statistics, Malaysia and Internal Estimate
Contagion risks from external developments well-contained

Volatility in prices and portfolio flows effectively intermediated

Volatility remains elevated but well below levels at height of the global financial crisis

Favourable trading liquidity

<table>
<thead>
<tr>
<th>Monthly turnover ratio (%)</th>
<th>2010 average</th>
<th>2011 average</th>
</tr>
</thead>
<tbody>
<tr>
<td>• FBM KLCI</td>
<td>2.0</td>
<td>2.1</td>
</tr>
<tr>
<td>• Public debt</td>
<td>21.1</td>
<td>27.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bid ask spread (bps)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• FBM KLCI</td>
<td>4.4</td>
<td>4.7</td>
</tr>
<tr>
<td>• MGS</td>
<td>12.1</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: Bloomberg
Contagion risks from external developments well-contained

Foreign currency liquidity conditions tighter but manageable

Low reliance by banks on external funding

Overall USD funding and liquidity mismatches are manageable

RM billion

- 2008
- 2009
- 2010
- 2011

Domestic
External
External funding as % total funding (RHS)

All maturity  < 1-week  < 1-month
Limited credit exposure to counterparties in Europe

- External claims of Malaysian banks on counterparties in Europe totalled RM 23.1 bil or 16.9% of external assets

- Banks’ credit exposures to businesses with trade relations in Europe represented only 1.6% of total financing

- Insurance counterparty risks mainly to Euro reinsurers with strong ratings
  - Reinsurance exposures to Europe account for only 11.6% of total capital available for general insurers
Impact from European banks’ deleveraging lower than implied by international statistics

- Excluding UK banks, foreign claims by European banks on Malaysia were 5% of GDP
  - Mainly comprising claims of locally incorporated European banks (LIEBs) on Malaysian entities

- Low likelihood of material scale back by LIEBs
  - Dedicated capital for domestic operations
  - Mainly funded by domestic sources
  - Stable market share through 2011, with continued healthy profits
  - No material increase in capital repatriation observed

- Other banks in Malaysia have strong capacity to ensure continued financial intermediation

Source: Moody’s Investor Service and BIS

Total Assets, Financing and Deposits Accepted by LIEBs as % of Banking System

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>8.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Total financing</td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>Total deposits accepted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Strengthened regulatory and supervisory framework to support financial stability

- Implementation of reform package in Malaysia
- Continued efforts to ensure responsible financial behaviour and fair outcomes for consumers
- Basel III
- Risk management and governance
- Consumer and market conduct
- Integrity of financial system
- Continuous improvements to standards and practices
- Enhanced legal framework to reduce risk of misuse of financial system
Malaysian banking system to implement Basel III

• Implementation will be consistent with globally agreed timelines
  – Gradual phasing-in of standards from 2013 until 2019

• Key components of Basel III
  – Higher levels and quality of capital with greater capacity to absorb losses
  – Minimum leverage ratio to be observed as a backstop to risk-based capital requirement
  – Sufficient high quality liquid assets to withstand stressed funding scenarios and with greater emphasis on more stable funding sources to address liquidity mismatches

• Banks in Malaysia are well positioned to meet new standards
  – Majority of banking institutions already operating at levels consistent with Basel III targets

<table>
<thead>
<tr>
<th>Common equity</th>
<th>Tier 1 capital</th>
<th>Total capital</th>
<th>Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum requirement</td>
<td>4.5%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Minimum requirement + conservation buffer</td>
<td>7%</td>
<td>8.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Estimated position (Dec 2011)</td>
<td>9.0%</td>
<td>9.0%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>
Financial sector development initiatives focused on reinforcing growth potential and stability of the financial sector

• Launch of the Financial Sector Blueprint 2011-2020

• Continuous access to financing to meet changing needs of economy
  – Enhancements to SME financing environment
  – Enhanced capacity of financial sector to support new growth areas and innovative industries

<table>
<thead>
<tr>
<th>Outstanding Financing by Banking System</th>
<th>Value (RM bil)</th>
<th>Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>1,003.5</td>
<td>13.6%</td>
</tr>
<tr>
<td>Large Enterprises</td>
<td>224.7</td>
<td>9.8%</td>
</tr>
<tr>
<td>SMEs</td>
<td>153.2</td>
<td>19.4%</td>
</tr>
<tr>
<td><em>Pemiayaan Mikro</em></td>
<td>0.9</td>
<td>14.3%</td>
</tr>
<tr>
<td>Households</td>
<td>552.6</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

• Enhanced market structure
  – Further consolidation and rationalisation of banks and insurers
  – New motor cover framework to ensure continuous access to affordable motor cover and to enhance sustainability of motor insurance industry
  – Annual tax relief to further spur development of robust pension framework

• Talent development in financial sector a key priority
  – Enhanced programme offerings by FSTEP, AIF, INCEIF and Iclif
  – Establishment of Financial Inclusion Centre in AIF
Increased depth and diversity of financial markets

- **Malaysia has the largest bond market in Southeast Asia accounting for 103.8% of GDP**

- **Robust growth in foreign exchange market**
  - Average daily turnover increased 44.2% to USD12.3 billion

- **Positive developments in collaboration between financial institutions and Danajamin in enhancing access to long term funding through the bond market**
Significant growth and broader innovation in Islamic finance

- Growing multi-currency sukuk market

- Foreign currency sukuk issued in Malaysia grew by 33.4% to USD 4.07 billion

- Outside GCC, Malaysia has the highest USD-denominated sukuk
Strengthened position as international Islamic financial hub

Malaysia remains at forefront of the global Islamic finance industry

- The Banker’s Report

Global Ranking

1. No. 1
   Sukuk Outstanding
2. No. 2
   Islamic Banking Assets
3. No. 3
   Takaful Assets

- 39 Malaysian Islamic FIs in the world’s top 500 largest Islamic financial institutions
- 21 institutions within top 100

reinforced by multi-pronged strategic initiatives

Enhancing international liquidity management in Islamic finance
Building sustainable supply of global talent for Islamic finance
Strengthening linkages through strategic cooperation & continued initiatives to develop a common global Shariah understanding

BANK NEGARA MALAYSIA CENTRAL BANK OF MALAYSIA
Electronic payments continue to gain momentum

- Value of e-payment transactions increased from 0.6 times GDP in 2005 to 14.8 times in 2011
- Declining cheque usage
- Continue to focus on priority sectors
- Enhance operational efficiency and user convenience

![Graph showing the increase in e-payment turnover to GDP from 2005 to 2011](image)

![Pie charts showing the share of non-cash retail payments by volume in 2005 and 2011](image)
Strengthened financial inclusion

High financial inclusion levels by global standards

Achievements in 2011

- Outreach of financial services
  All districts in Malaysia now have access to essential financial services

- Pembiayaan Mikro Framework
  Increased by 14.3% to benefit 71,535 accounts

- Consumer education and literacy
  - Continued collaboration with relevant agencies in implementing consumer education initiatives nationwide
  - Targeted initiatives such as POWER! Programme for young adults and first-time borrowers

Holistic Financial Inclusion Strategy Moving Forward

- Develop cost-effective agent banking and mobile banking channels to enhance outreach of affordable financial services

- Expand product and services to meet distinct financial needs of the underserved

- Introduce greater operational flexibility for financial institutions to establish delivery channels

- Promote fair and responsible practices among financial service providers

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2. ‘Ease of Access to Loans’ WEF Global Competitiveness Report 2011/2012
3. 92% of Malaysians have deposit accounts BNM Survey
Outlook for domestic financial stability in 2012 remains positive

• Risks to financial stability to be largely externally-driven

• Wide-ranging measures have begun to take effect, with strong institutional arrangements in place, including an effective financial safety net and debt resolution mechanism

• Financial system well-placed with sufficient capacity and flexibility to respond to emerging risks

• Macrosurveillance and supervisory activities in 2012 will focus on:
  – Promoting prudent and responsible risk-taking and market conduct by FIs
  – Ensuring resilience and robustness of major payment and settlement systems
  – Further strengthening of regulatory laws and prudential guidelines
  – Further enhancing cooperation and coordination with domestic regulators and regional authorities in regulation, supervision and crisis management
## Financial Sector Blueprint: “Strengthening our Future”

<table>
<thead>
<tr>
<th>Areas of growth</th>
<th>Safeguards for stability</th>
<th>Enabling environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Effective and efficient intermediation</td>
<td>Regulatory and supervisory regime to safeguard financial system stability</td>
<td>Strong, stable, competitive &amp; inclusive financial system that supports effective &amp; efficient intermediation of funds, the development of financial markets and contributes toward meeting needs of the economy</td>
</tr>
<tr>
<td>2. Deep and dynamic financial markets</td>
<td>Empowering consumers</td>
<td>Integrated ASEAN financial market driven by ASEAN Economic Community</td>
</tr>
<tr>
<td>3. Financial inclusion for greater shared prosperity</td>
<td>E-payments for greater economic efficiency</td>
<td>Strong financial linkages to facilitate trade &amp; investment and supporting effective intra-regional intermediation</td>
</tr>
<tr>
<td>4. Strengthened regional and international financial integration</td>
<td>Talent development</td>
<td>Evolving into an international Islamic financial hub with strong connectivity, diversity and specialisation in areas with strong competitive advantage</td>
</tr>
<tr>
<td>5. Internationalisation of Islamic finance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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*Supported by a robust surveillance, regulatory & supervisory framework and robust cross-border arrangements to ensure preservation of financial stability*
Press Release
Renminbi Settlement Services in RENTAS

**New Services**

- Renminbi (RMB) Settlement Services for
  - Real time Inter-bank funds transfer
  - Real time securities settlement services
  - Scripless securities depository for all unlisted debt instruments

**Purpose**

- Provide a safe and efficient clearing and settlement platform to support trade and investment flows in RMB
- Promote the use of RMB as a currency for trade settlement
- Enhance financial stability by eliminating settlement risk
- Facilitate RMB securities issuance

**Launch date**

- 21 March 2012
Thank you