

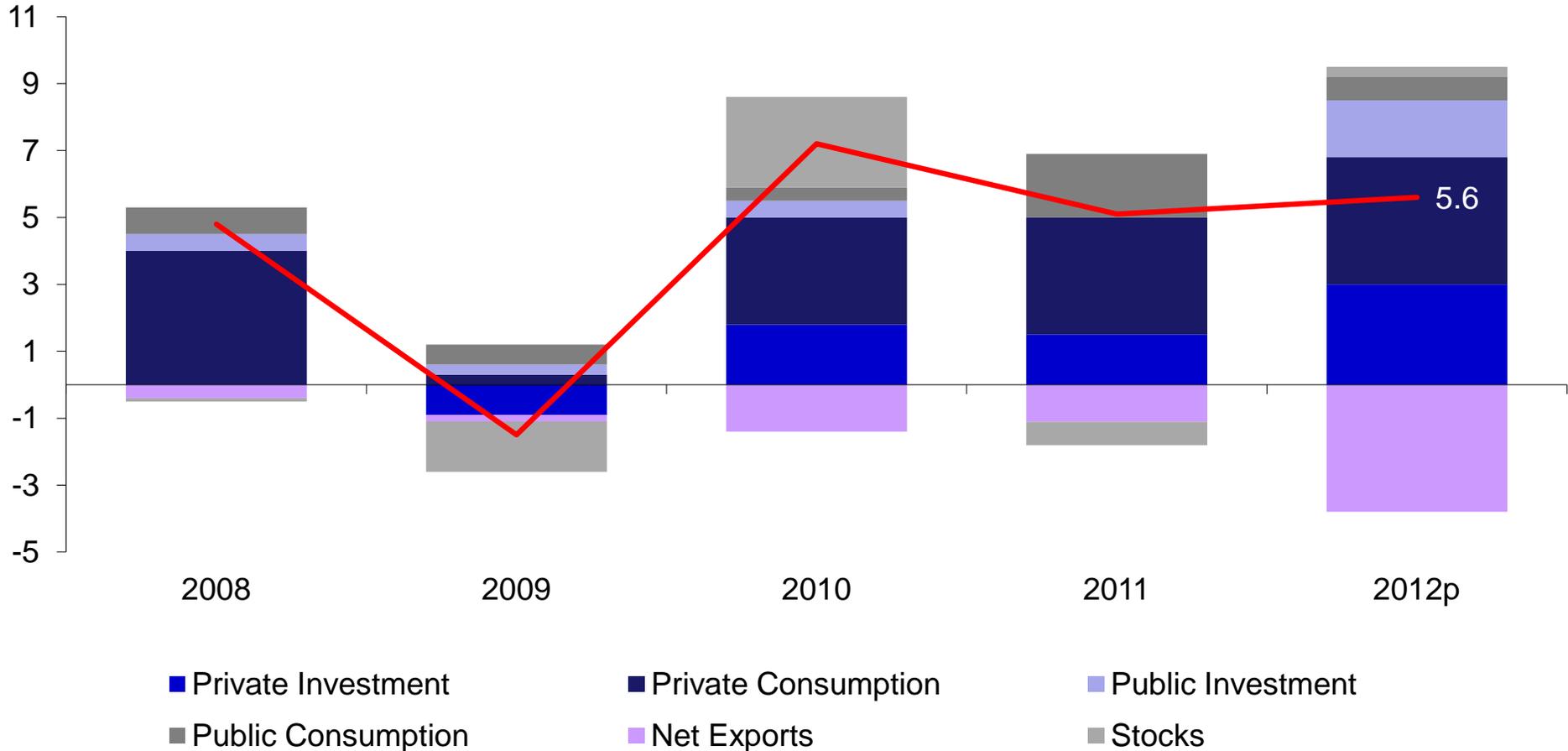
# **Taklimat Laporan Tahunan 2012 dan Laporan Kestabilan Kewangan dan Sistem Pembayaran 2012**

**Gabenor Bank Negara Malaysia  
20 Mac 2013**



# The Malaysian economy delivered faster and higher quality growth in 2012

Contribution to growth (ppt)



p preliminary

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

# Key highlights

- Strong growth of 5.6% amid challenging external environment
- Robust domestic demand underpinned by strong investment and consumption activity
- Low headline inflation of 1.6%
- Resilient external position
- Capital flows remain well intermediated



# Global growth to be sustained in 2013

## Global growth projection for 2013

	2011	2012	2013 <sup>f</sup>
	Annual change (%)		
<b>World GDP</b>	<b>3.9</b>	<b>3.2</b>	<b>3.5</b>
<b>World Trade</b>	<b>5.9</b>	<b>2.8</b>	<b>3.8</b>
US	1.8	2.2	2.0
Euro area	1.6	-0.6	-0.2
Japan	-0.6	2.0	1.2
Developing Asia <sup>1/</sup>	8.0	6.6	7.1
PR China	9.3	7.8	8.2
ASEAN-5 <sup>2/</sup>	4.5	5.7	5.5

Note: 2013 projections based on IMF

1/: Asia ex-NIEs

2/: Indonesia, Malaysia, Philippines, Thailand and Vietnam

### • Modest upturn in 2013

- Improvements in advanced economies although overall growth remains weak
- Strong growth in emerging economies, particularly in Asia, underpinned by domestic demand and gradual recovery in exports
- Modest increase in global inflation

### • Downside risks remain high

- Sharper-than-expected spending cuts in US
- Re-intensification of European sovereign debt crisis

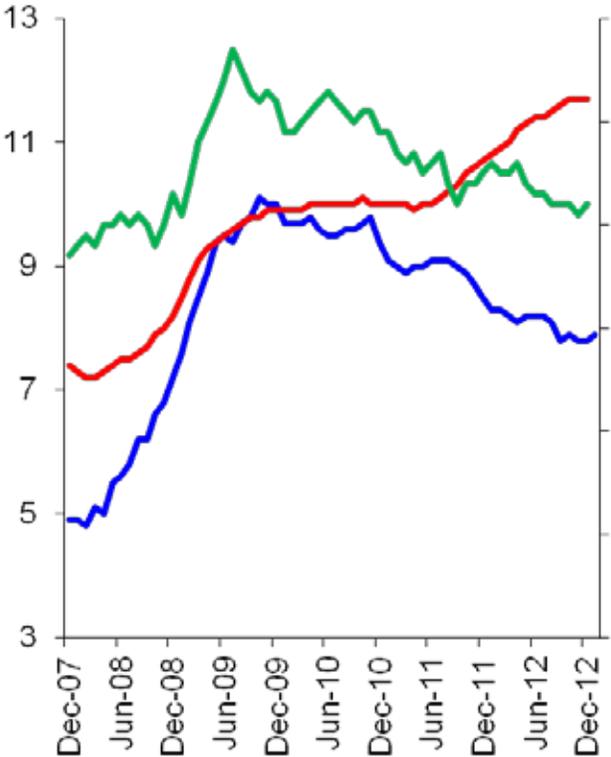
Source: National authorities and IMF World Economic Outlook (January 2013 Update)



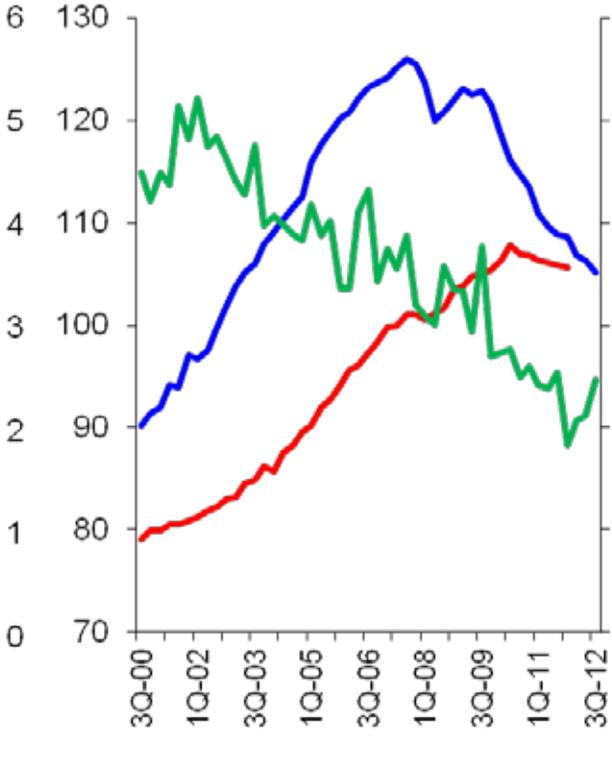
# Advanced economies: Growth prospects dependent on resolution of structural concerns

- 1
- High unemployment rate
- 2
- Continued deleveraging activity
- 3
- Mild credit conditions

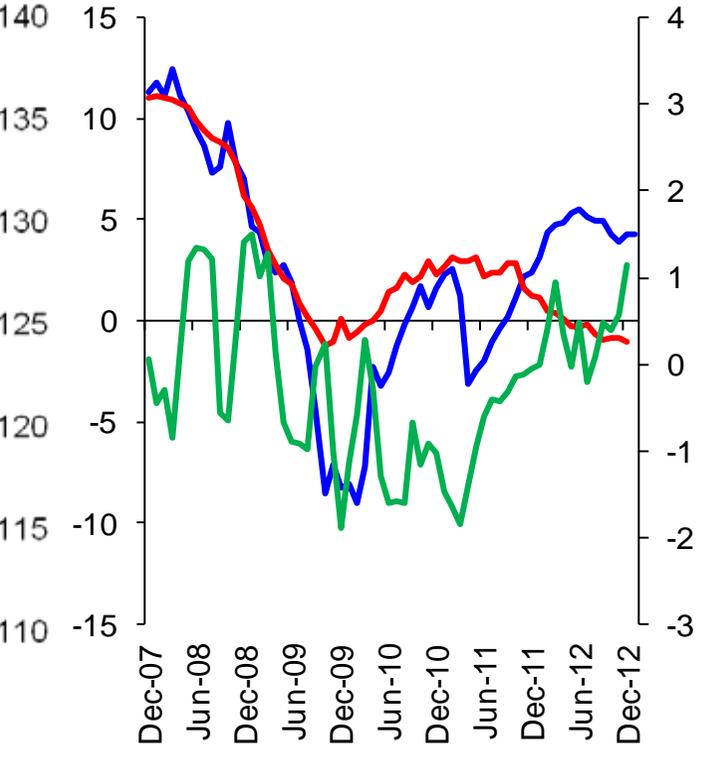
Unemployment rate (%)



Household debt (% of disposable income)



Credit to private sector (yoy, %)

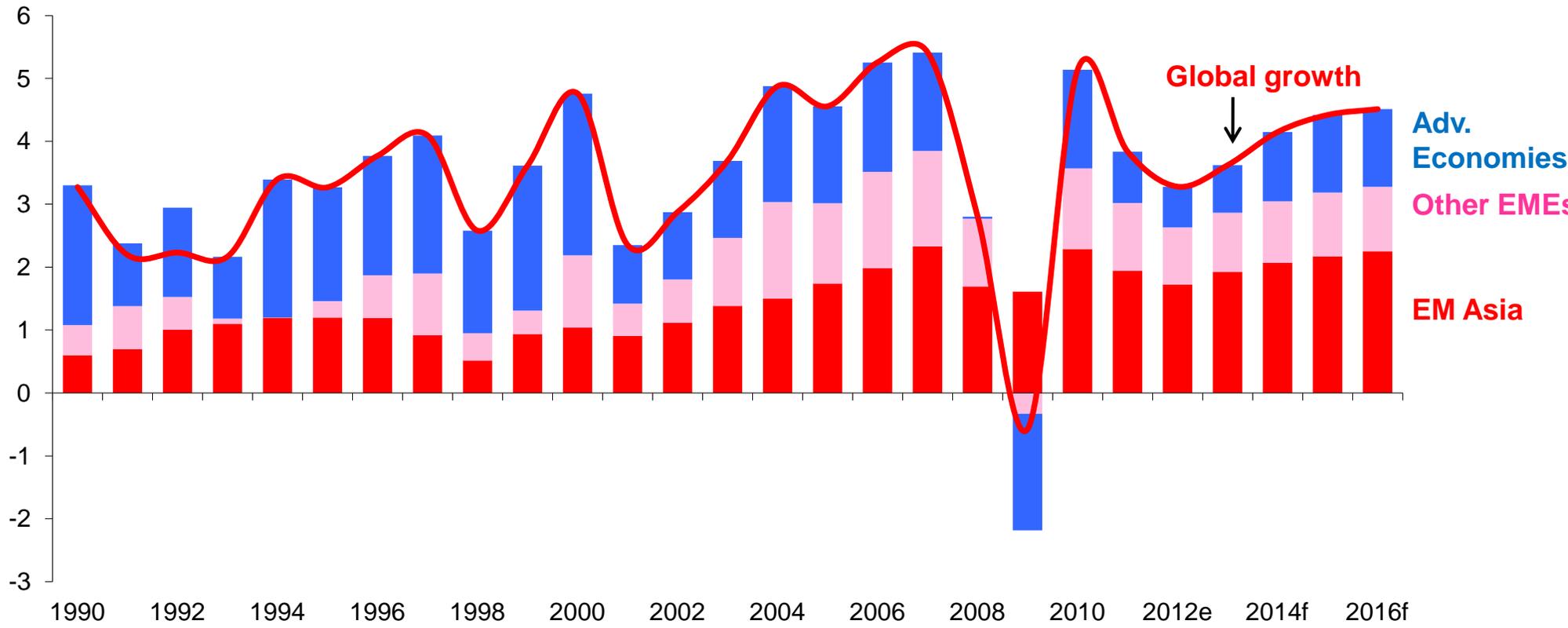


— US      — Euro area      — Japan (RHS)

Sources: National authorities, Haver and IMF

# Significant contribution of EMEs to global growth

Contribution to global growth (ppt)



Advanced economies includes G7 economies, euro area, Australia, New Zealand, Israel and NIEs

Developing Asia includes China, South Asia and Southeast Asia

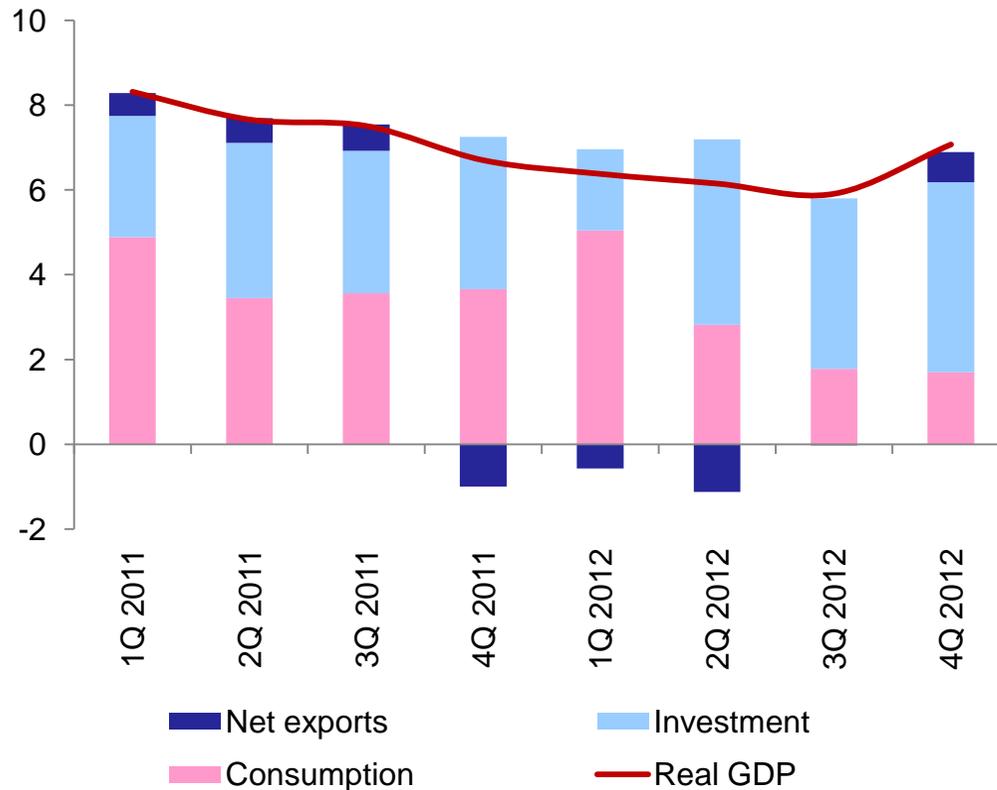
e estimate f forecast

Source: IMF World Economic Outlook October 2012, BNM calculations

# Asia: Domestic sources of growth complemented by a gradual recovery in exports

## Emerging Asia-9

Contribution to growth (ppt)



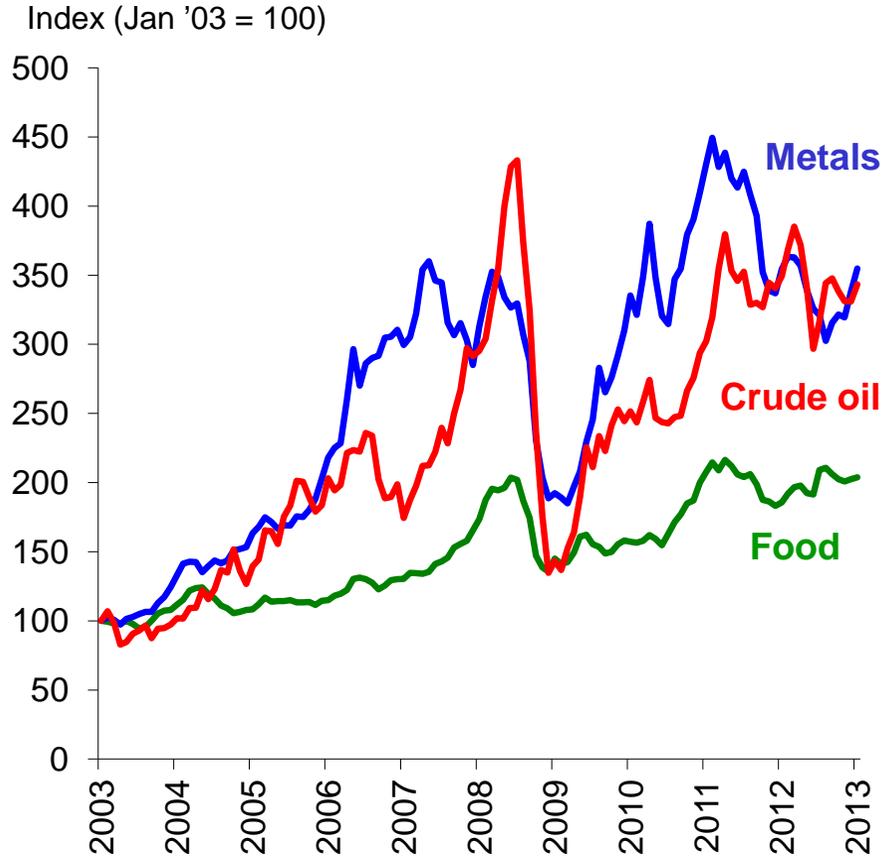
- Domestic demand remains main contributor to growth
- Investment activity supported by infrastructure projects
- Higher intra-regional demand

Source: National authorities and Bank Negara Malaysia calculations

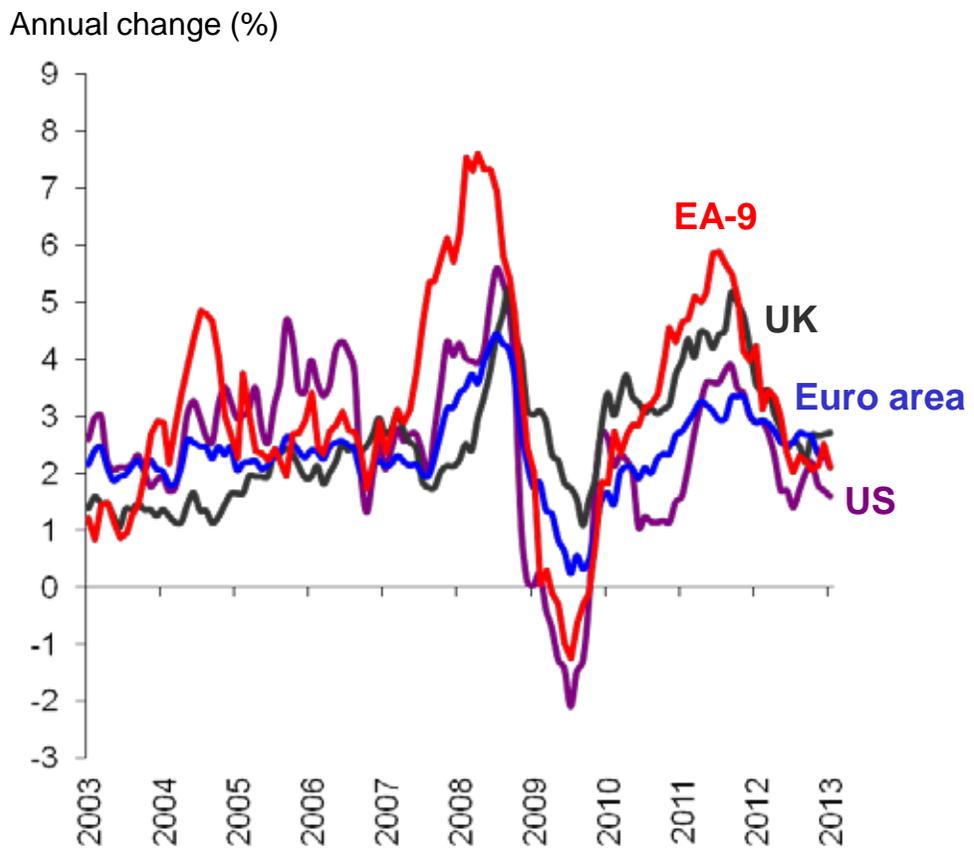


# Global inflation expected to remain modest

**Modest increase in commodity prices**



**Contained inflationary pressures**



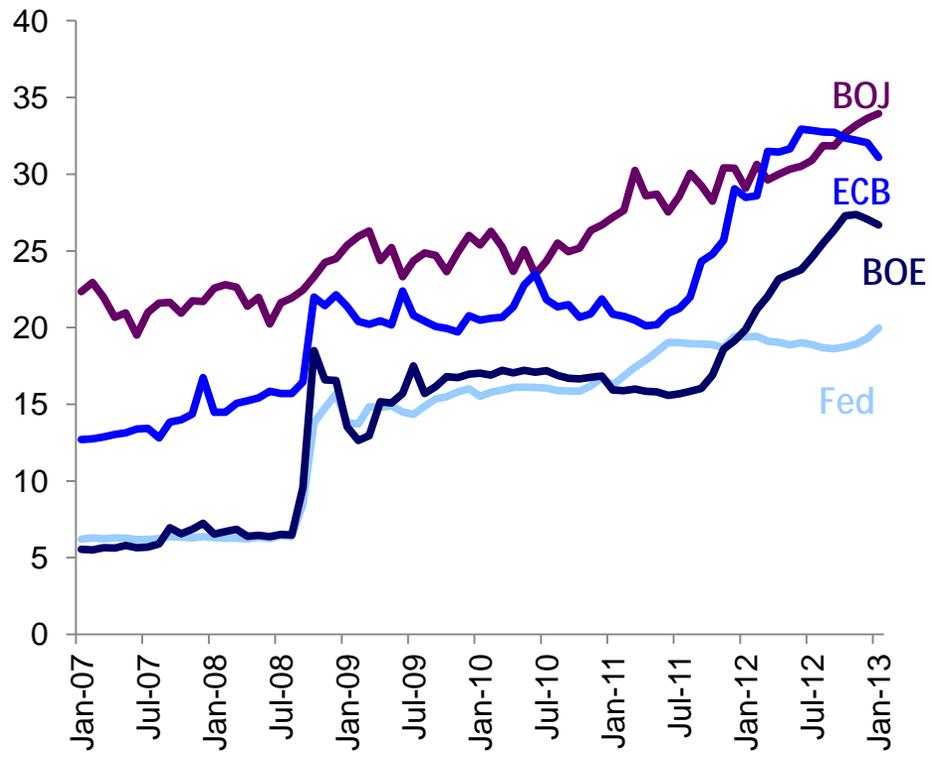
Sources: IMF and Haver

# Monetary policy remains accommodative

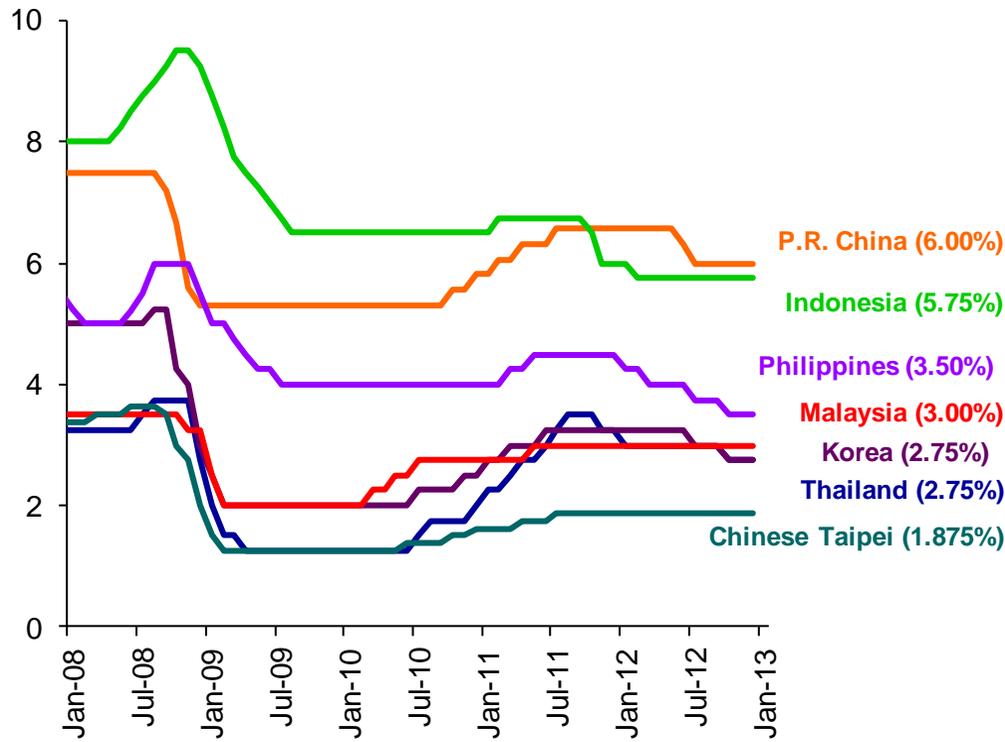
Advanced economies continued to adopt quantitative easing measures...

...while several regional economies maintain accommodative policy stance

Central bank balance sheet to GDP ratio (%)

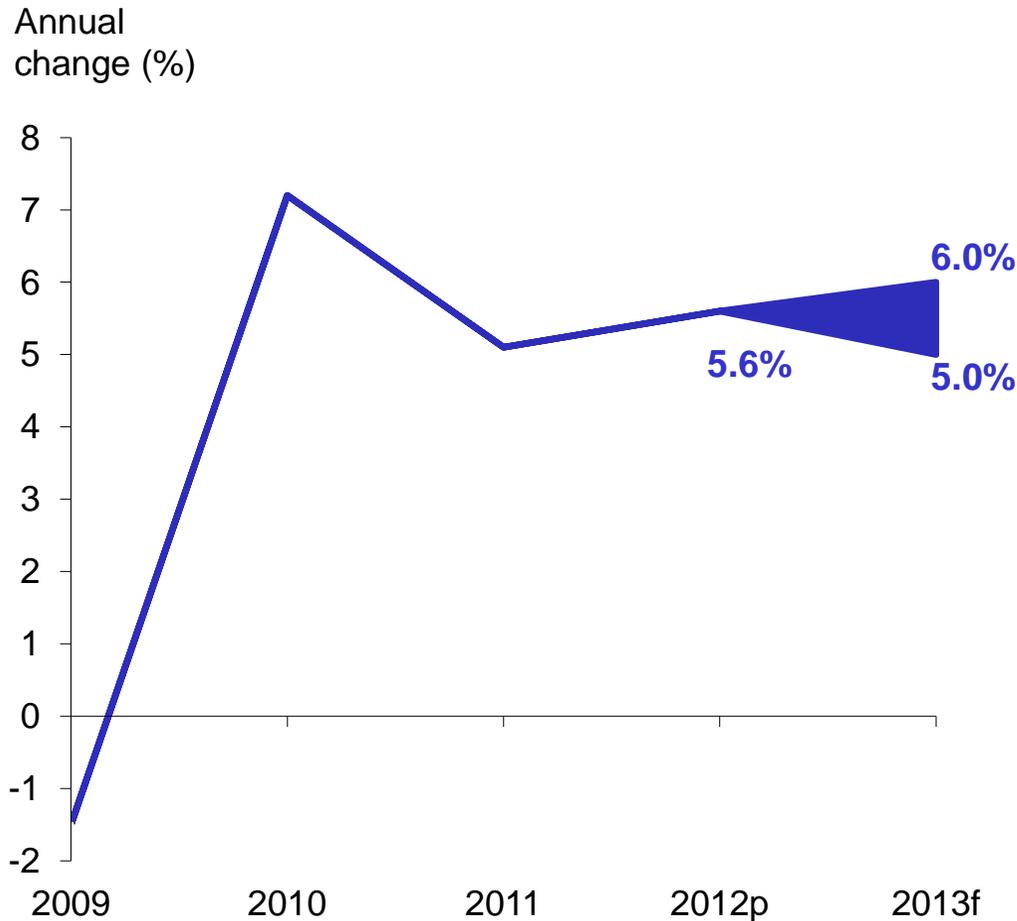


Key interest rates (%)



Source: National Authorities and BNM calculations

# The Malaysian economy to remain on a steady growth trajectory of 5 – 6% in 2013



p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

- Domestic demand will continue to anchor growth
- Private investment and consumption to remain firm
- Gradual improvement in external demand will further support growth



# Domestic demand continues to anchor growth, driven by private sector activity

	2012 <sup>p</sup>	2013 <sup>f</sup>
	Annual change (%)	
<b>Domestic demand (excluding stocks)</b>	<b>10.6</b>	<b>8.1</b>
<i>Private sector</i>	<i>10.7</i>	<i>9.1</i>
<b>Consumption</b>	<b>7.7</b>	<b>7.1</b>
<b>Investment</b>	<b>22.0</b>	<b>15.6</b>
<i>Public Sector</i>	<i>10.3</i>	<i>5.4</i>
<b>Consumption</b>	<b>5.0</b>	<b>3.6</b>
<b>Investment</b>	<b>17.1</b>	<b>7.5</b>
<i>Net exports</i>	<i>-29.4</i>	<i>-19.1</i>
<b>Exports of goods &amp; services</b>	<b>0.1</b>	<b>1.8</b>
<b>Imports of goods &amp; services</b>	<b>4.5</b>	<b>3.9</b>
<b>Real GDP</b>	<b>5.6</b>	<b>5.0 ~ 6.0</b>

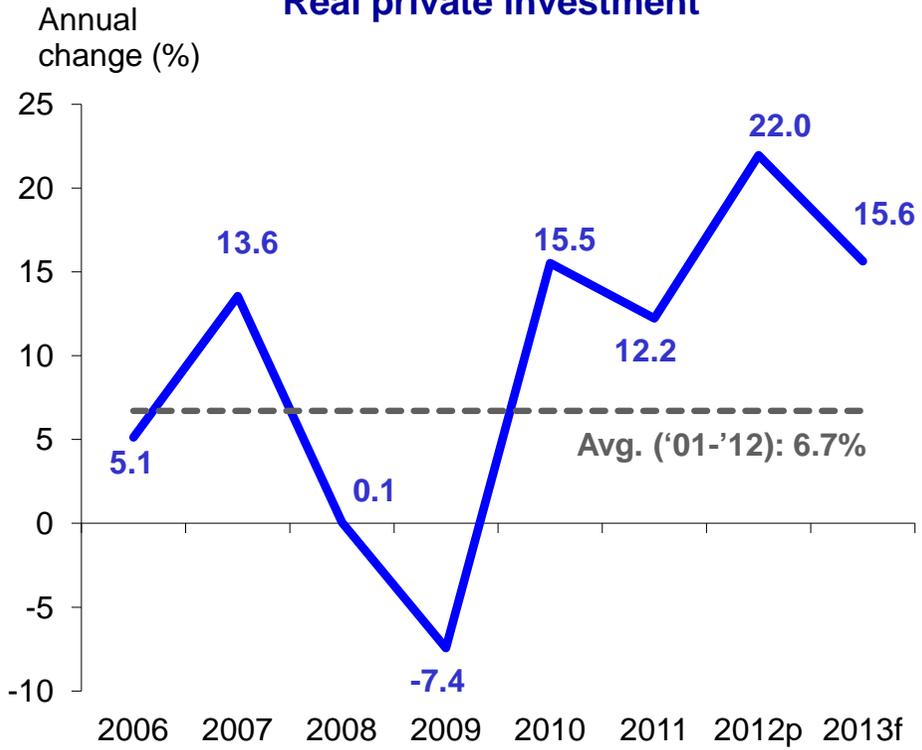
<sup>p</sup> preliminary    <sup>f</sup> forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

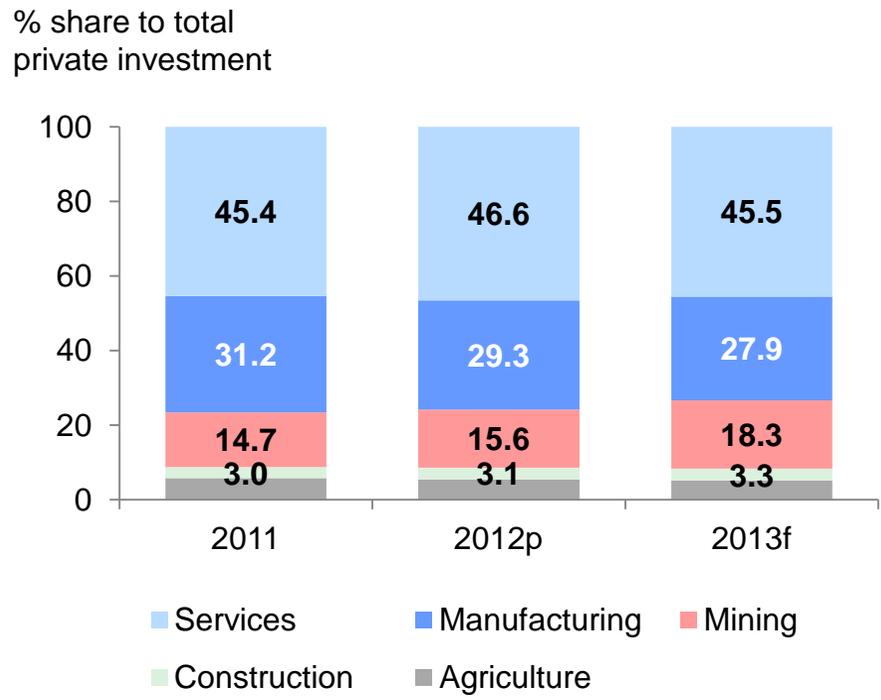


# Private investment to remain robust...

**Real private investment**



**Real private investment by sector**



p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

# ...driven by implementation of projects with long gestation periods

Sectors (% share pvt. inv.)	Projects	Cost (RM bn)	Years			
			'11	'12	'13	'14
<b>Mining</b> (16% share)	<b>Mining<sup>1</sup></b>					
	Gumusut Kakap	>5.0		2007-13		
	Malikai	>3.0		2009-15		
	Kebabangan Cluster	>3.0		2008-14		
<b>Manufacturing</b> (29% share)	<b>Manufacturing</b>					
	Polycrystalline silicon plant in Samalaju	>6.0		2009-15		
	Automotive and related components	>2.5		2012-14		
	Medical devices	>2.0		2010-21		
<b>Services</b> (47% share)	<b>Services</b>					
	Transportation - Aircraft purchase	>3.0		2011-17		
	Utilities - Tanjung Bin	>6.0		2012-16		
	Iron Ore Distribution Hub	>4.0		2012-14		
	New hospitals and expansion	>1.5		2011-15		
	Broadband expansion - 4G	>5.0		2011-14		

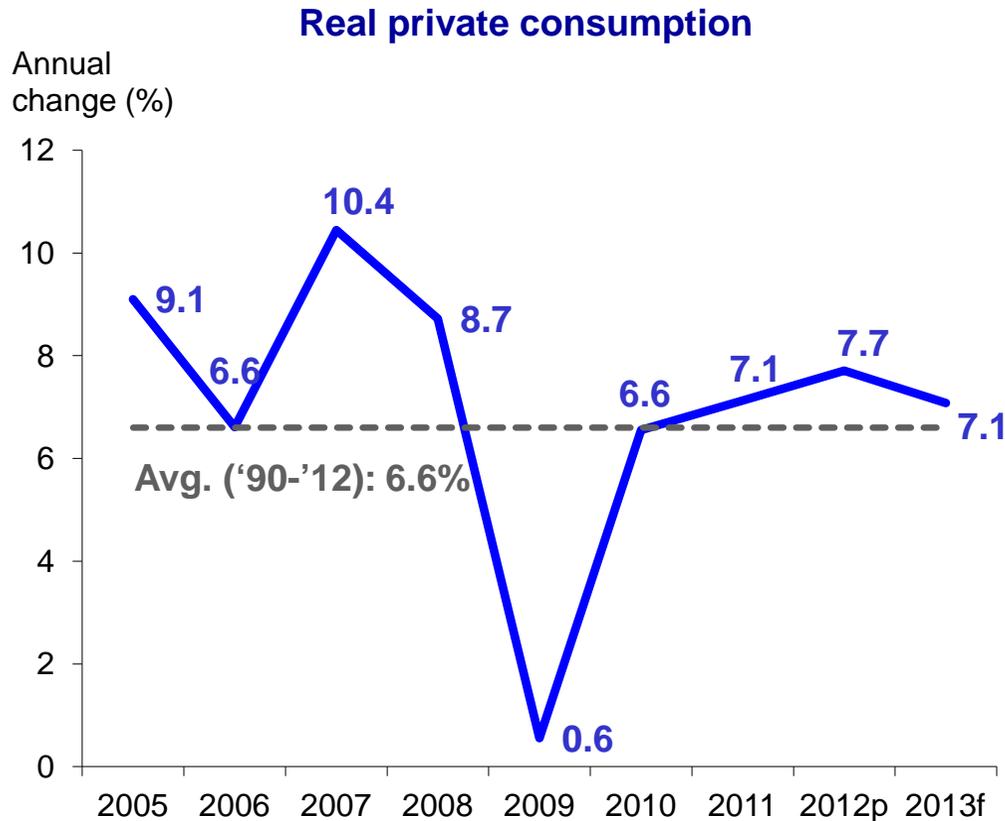
p preliminary f forecast

<sup>1</sup> Public and private investment projects will be separated accordingly in National Account compilation based on the respective contribution of the project partners

Source: BNM compilation and estimates based on publicly available information which is referred to at the time of publication



# Private consumption to remain firm



- **Consumption growth underpinned by:**

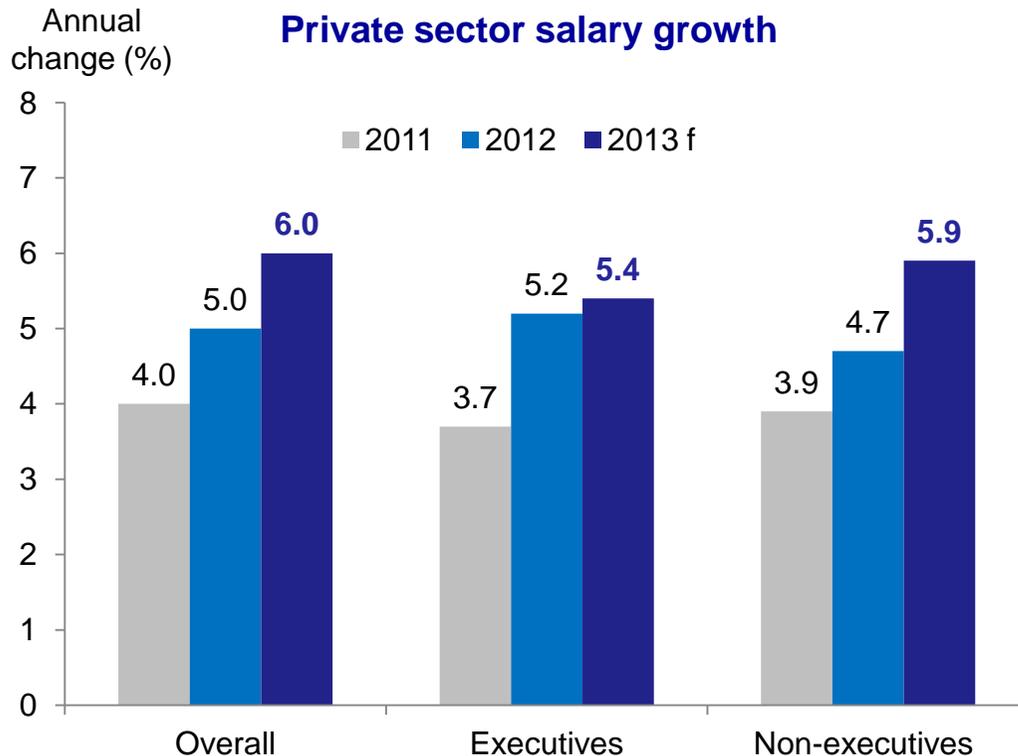
- Sustained income growth
- Stable employment prospects

p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia



# Labour market conditions to remain favourable



- **The minimum wage policy will contribute positively to income growth**
- **Unemployment rate to remain low**
  - Job creation to be sustained by continued resilience in domestic demand
  - Further supported by the gradual recovery in the external sector

f Forecast

Source: BNM Annual Survey



# Continued expansion in all economic sectors...

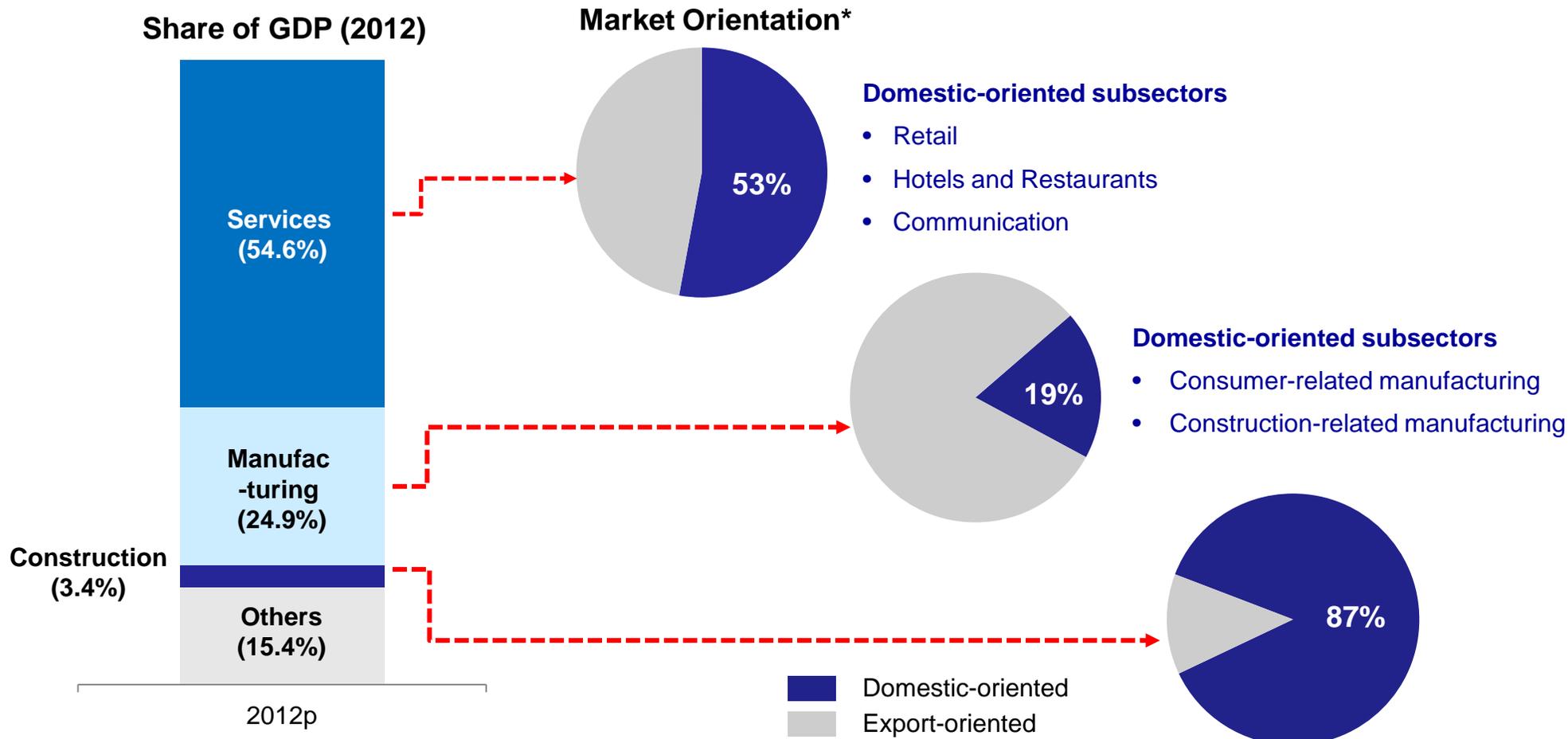
	% share of GDP (2012)	2012 <sup>p</sup>	2013 <sup>f</sup>
		Annual change (%)	
Services	54.6	6.4	5.5
Manufacturing	24.9	4.8	4.9
Mining	8.4	1.4	5.0
Agriculture	7.3	0.8	4.0
Construction	3.4	18.5	15.9
<b>Real GDP</b>	<b>100</b>	<b>5.6</b>	<b>5.0 ~ 6.0</b>

- **Services and manufacturing sectors**
  - Key drivers of growth
  - Supported by resilient domestic demand and recovery in the international trade activity
- **Commodity sector**
  - Driven by higher production of natural gas, crude oil and palm oil
- **Construction sector**
  - Remain strong supported by major infrastructure projects

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

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

# ...with growing significance of domestic-oriented sectors



\*These estimates are based on the 2005 Input-Output Table

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

# External trade: Higher export growth amid continued expansion in imports

Annual change (%)	2012 <sup>p</sup>	2013 <sup>f</sup>
<b>Gross exports</b>	<b>0.6</b>	<b>1.4</b>
<b>Manufactured</b>	<b>3.1</b>	<b>4.1</b>
<i>E&amp;E</i>	-1.8	-0.2
<i>Non-E&amp;E</i>	8.4	8.2
<b>Commodities</b>	<b>-6.7</b>	<b>-6.3</b>
<i>Agriculture</i>	-15.3	-13.1
<i>Minerals</i>	1.9	-0.5
<b>Gross Imports</b>	<b>5.9</b>	<b>5.7</b>
<i>Capital</i>	20.5	18.5
<i>Intermediate</i>	-3.4	1.9
<i>Consumption</i>	11.6	9.6
<b>Trade balance (RM bn)</b>	<b>94.8</b>	<b>70.1</b>

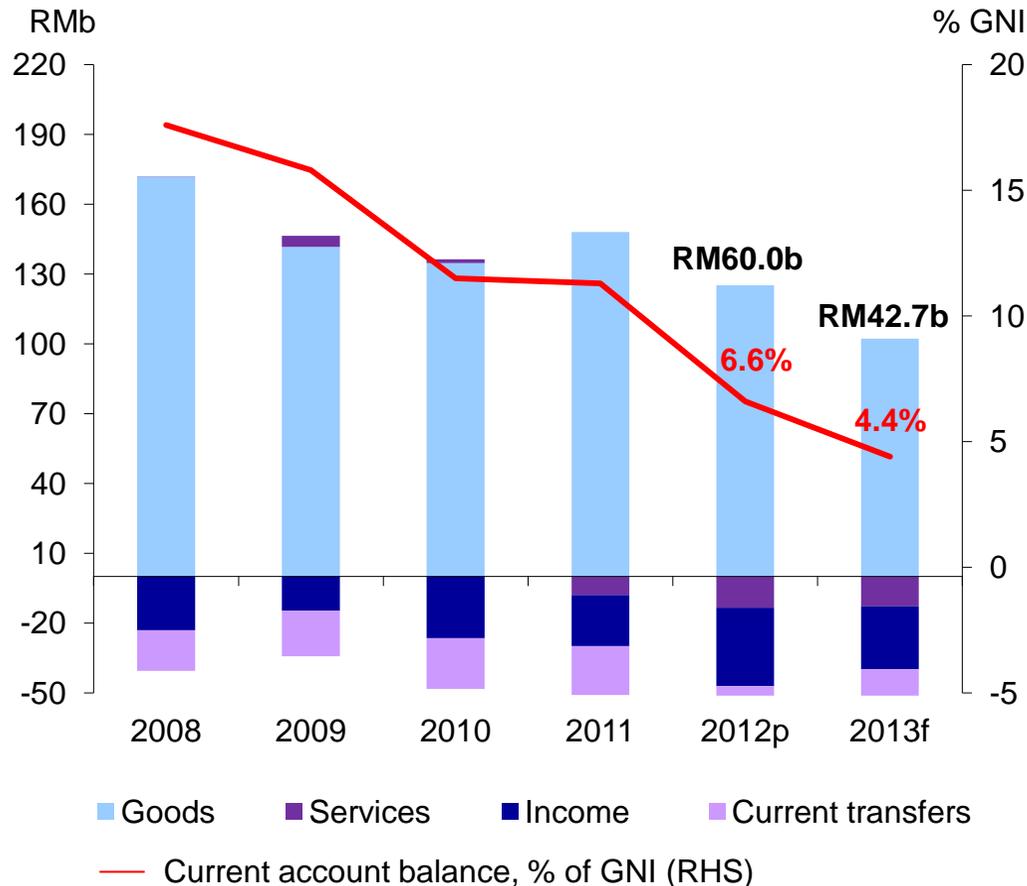
- Gross exports to be supported by growth in manufactured exports in line with improvements in the global economy
- Softer prices may weigh in on commodity exports
- Gross imports driven by improvement in intermediate imports and firm growth in capital imports

<sup>p</sup> preliminary <sup>f</sup> forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

# Current account balance remains sustainable

Current account



- The current account reflects ongoing structural shifts in domestic economy
- Lower trade surplus as imports continue to outpace exports
- Export diversification and investment in growth areas will improve Malaysia's productive capacity and trade performance, ensuring sustainability of current account balance

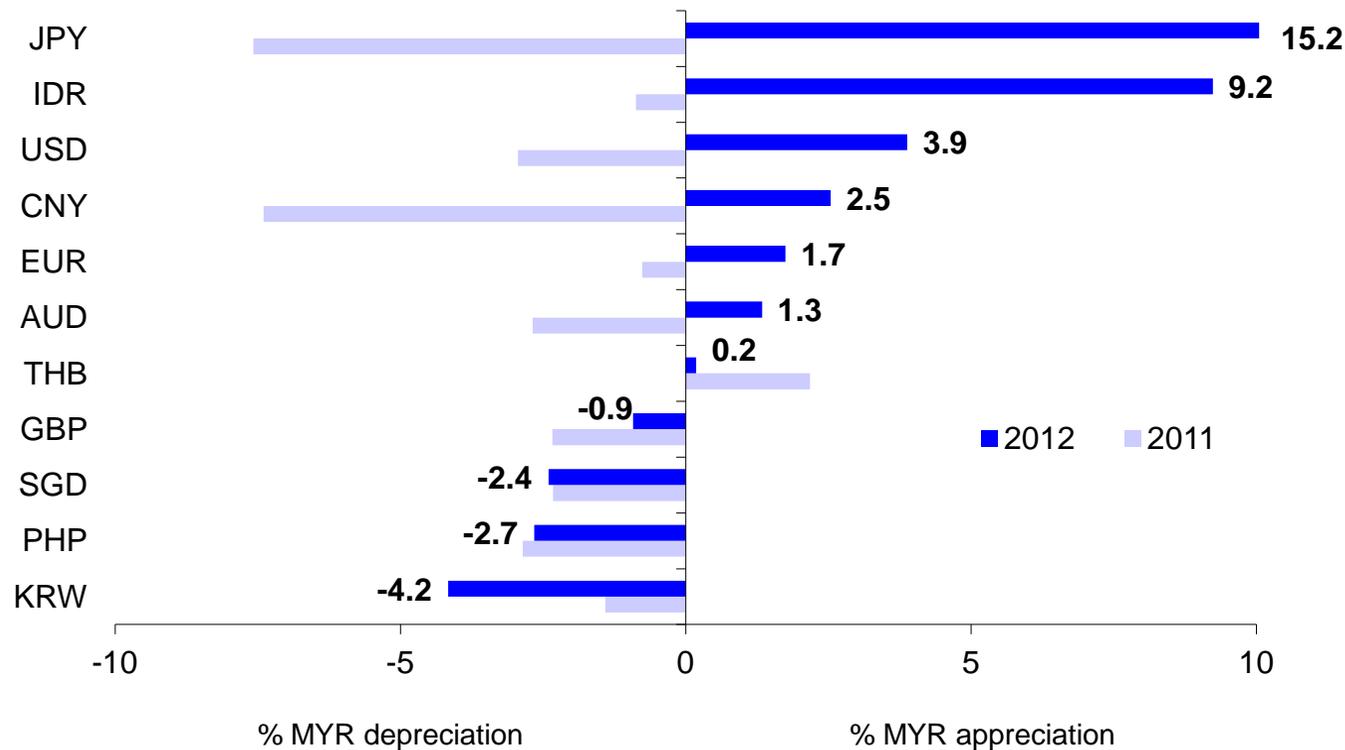
p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

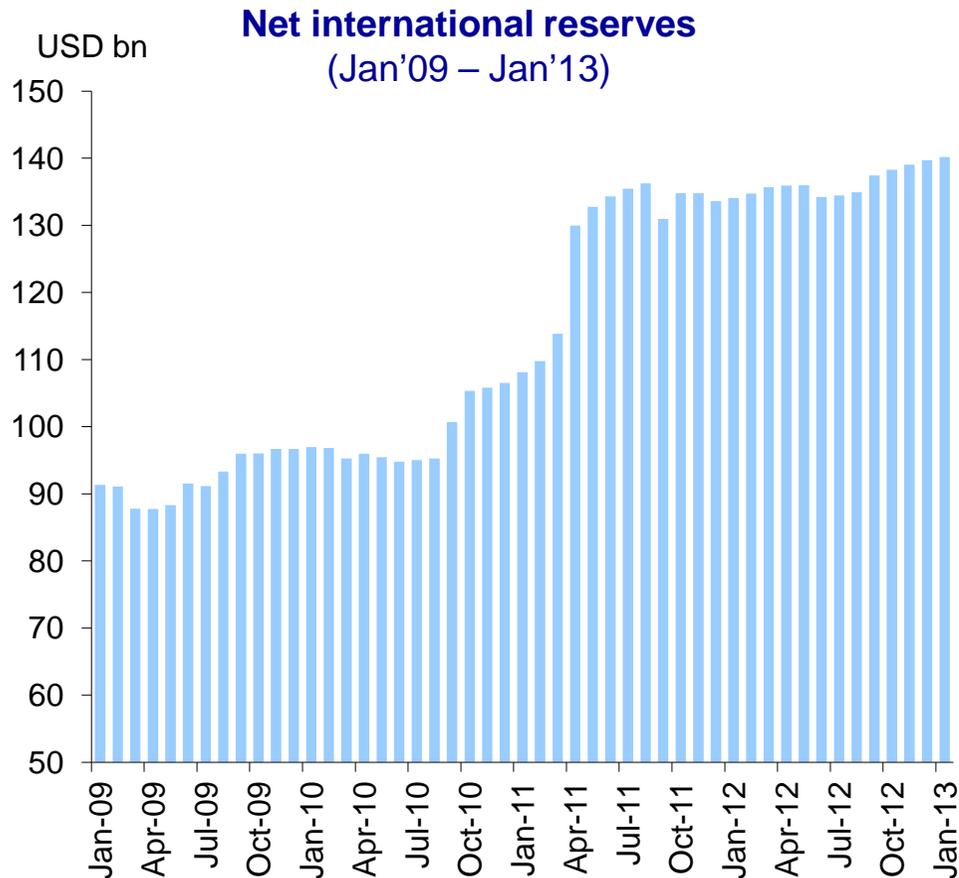
# Foreign exchange market remained orderly

- Ringgit adjustments remained orderly, driven by two-way flow of funds
- Ringgit recorded a mixed performance against major and regional currencies

MYR performance against selected currencies in 2011 and 2012



# International reserves remain at healthy levels



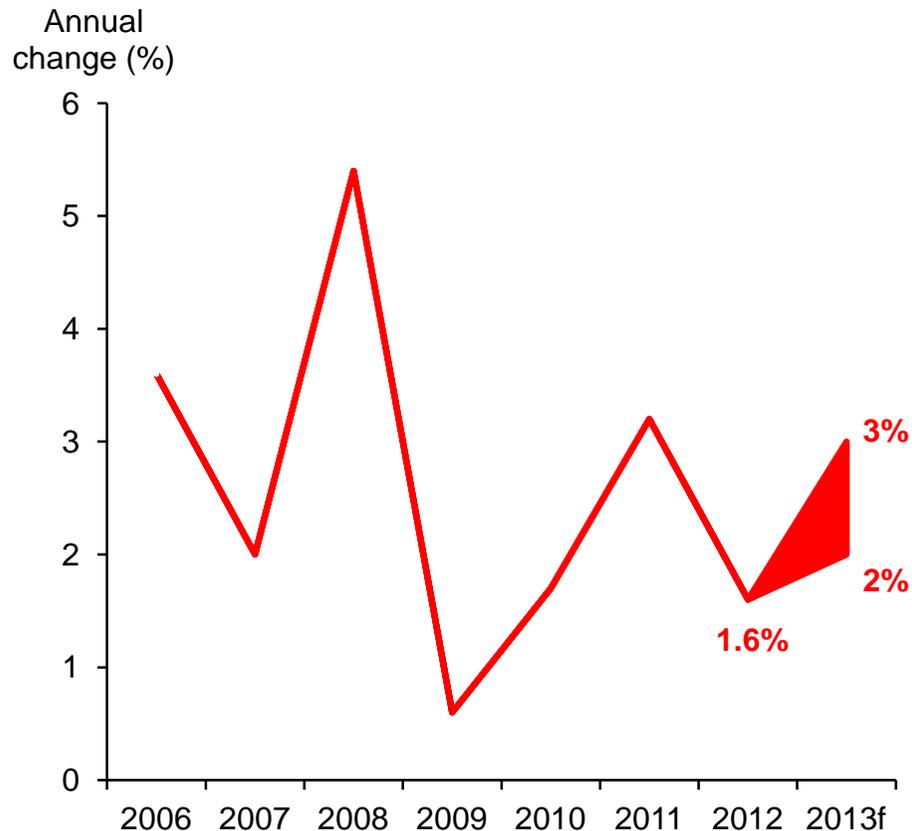
- **International reserves remain high, mainly supported by current account surplus**
  - Also reflected inflows of **portfolio and foreign direct investments**
  - Partially offset by higher outflows of direct investment abroad as well as outflows of other investments

Source: Bank Negara Malaysia



# Headline inflation to range between 2 – 3% in 2013

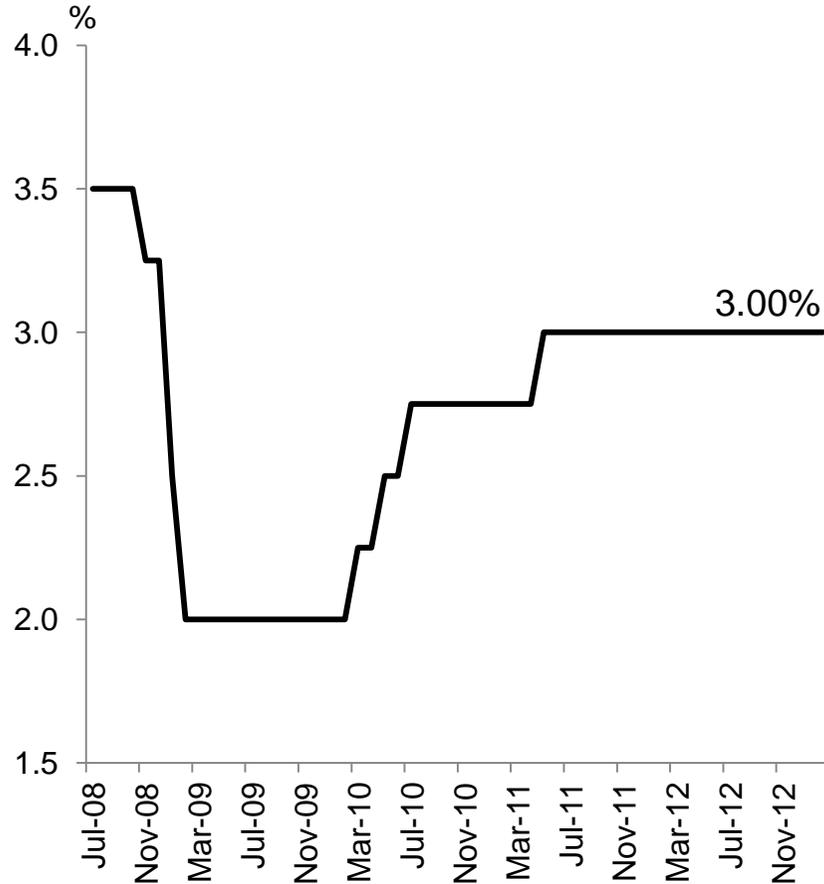
Inflation forecast 2013



- **The inflation projection reflects:**
  - Higher global prices of selected food commodities
  - Adjustment to domestic administered prices
- **Upside risk to inflation remains**
  - Any disruption to global supply of commodities could lead to a broad-based increase in global food and energy prices

# Monetary policy in 2013 will focus on addressing potential risks to inflation and growth

Overnight Policy Rate (OPR)



- The OPR was unchanged in 2012
- Monetary policy in 2013 will focus on:
  - Managing upside risks to inflation
  - Ensuring economic growth remains at sustainable levels



# Bank Negara Malaysia: Annual Financial Statements 2012

## Financial position remained strong in 2012:

- Total assets of BNM amounted to RM476 billion with International Reserves of RM427.2 billion (USD139.7 billion)
- Net profit of RM5.6 billion
- Dividend of RM1.5 billion to the Government



# Bank Negara Malaysia: Annual Financial Statements 2012

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# FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT 2012

*Press conference*



# Financial stability remained intact

<b>Banking Sector (%)</b>	<b>2011</b>	<b>Jan-2013</b>
<b>Capitalisation</b>		
Common equity tier 1 ratio	13.7	12.1*
Total capital ratio	15.7	14.5*
Capital buffer (RM bil)	79.7	73.5*
<b>Profitability</b>		
Return on assets	1.6	1.6^
Return on equity	17.4	17.5^
<b>Asset Quality</b>		
Net impaired loans ratio	1.8	1.4
Loan in arrears (1-<3 mths)	3.6	3.4
<b>Liquidity Position</b>		
Liquidity buffer (<1 mth, % of deposits)	17.9	16.4
<b>Insurance/Takaful Sector (%)</b>	<b>2011</b>	<b>2012</b>
<b>Capitalisation</b>		
Capital adequacy ratio	222.5	222.3
Capital buffer (RM bil)	20.1	22.5
<b>Profitability</b>		
Profit (RM bil)	14.5	20.6

- Growth in credit and insurance activities supportive of economy
- Orderly financial markets despite higher capital flows
- Confidence in financial system preserved
- Smooth implementation of Basel III capital standards, in line with global timeline
- Banking sector resilient to stress, reaffirmed by FSAP assessment

Source: Bank Negara Malaysia

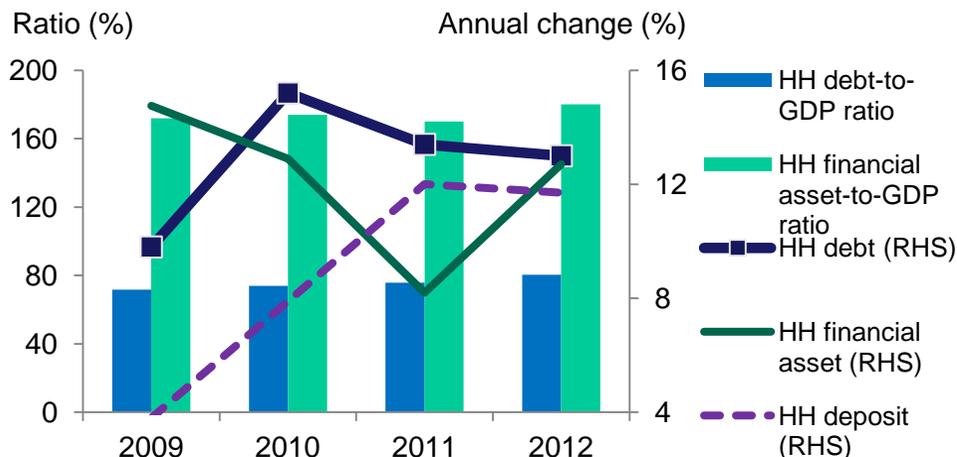
\*Based on Basel III capital requirements

^Reflects 2012 position



# Risks to financial stability from household indebtedness well-contained, unchanged from 2011

## Household Sector (HH): Debt and Financial Asset



- **Growth in household borrowings moderated (2012: 13%, 2011: 13.4%)**

- Growth in banks lending moderated to 11.6%, mainly in housing loans
- But non-banks recorded higher lending growth of 23.4%

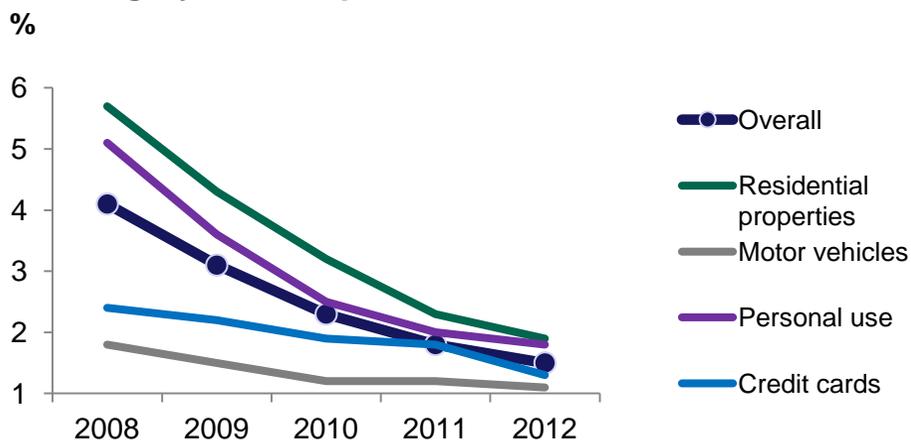
- **High quality of household financing of banks with improving borrowing behaviour**

- Repayments remained strong
- Decline in revolving balances for credit cards
- Lower delinquencies, gross impaired loan ratio improved to 1.5%
- Potential losses from household portfolio is small vis-à-vis capital buffers

- **Sound lending practices of banks**

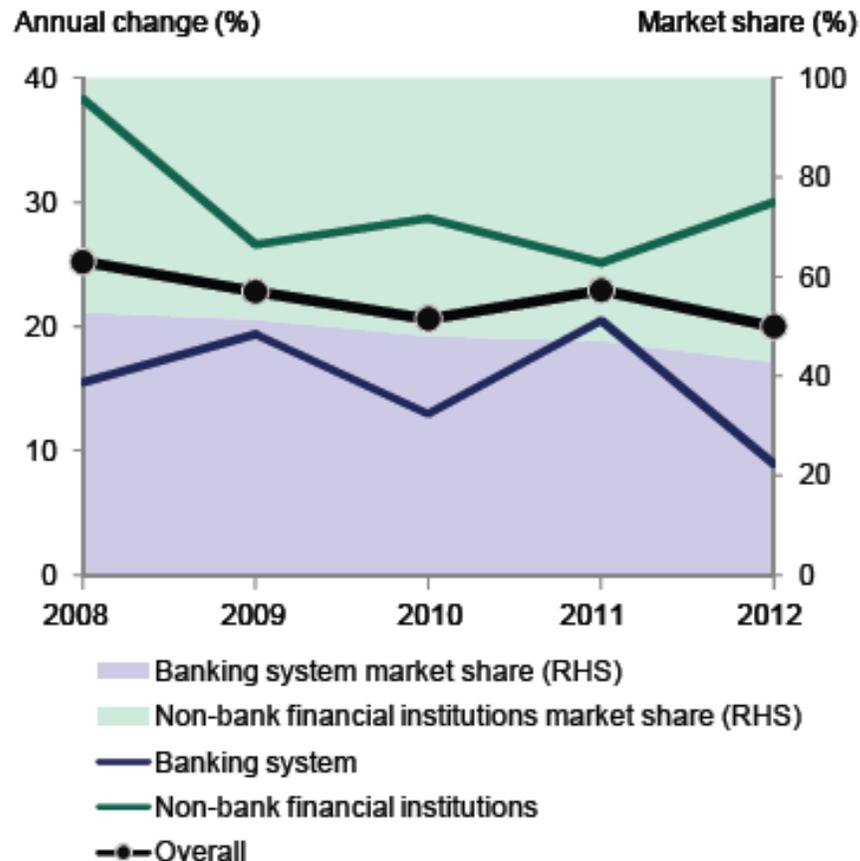
- Continued underwriting discipline despite increased competition
- More robust assessment of affordability
- Risk management practices further enhanced

## Banking System: Impairment Ratio for HH Loans



# Pace of personal financing however continued to increase

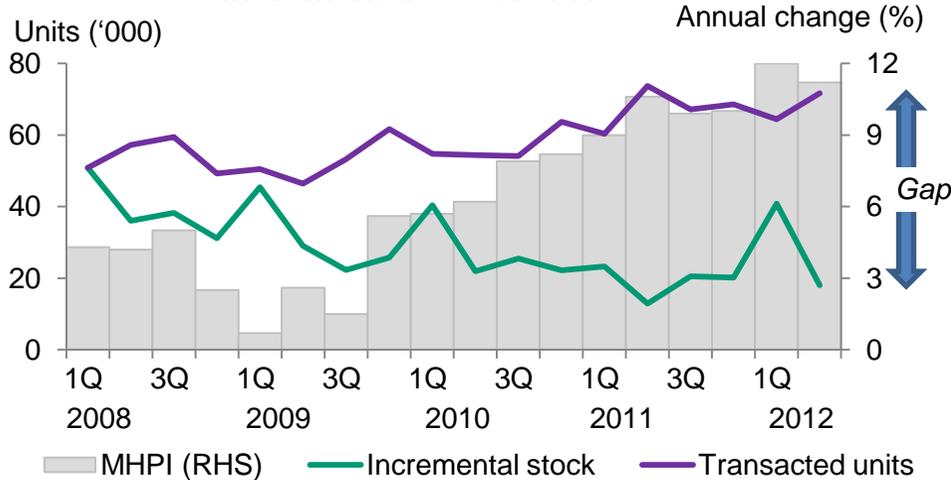
Household Sector: Personal Financing by Banks and Non-bank Financial Institutions



- **Personal financing (PF) by non-banks grew at a faster rate of 30%, while growth in PF by banks was only 9%**
  - PF as a share of household debt increased to 17% (2011: 16%)
- **Credit risk remains low**
  - Low impairment: 1.8% (banks) and 1.6% (non-banks)
  - PF by non-banks supported by automatic salary deduction scheme for individuals with stable employment
- **Continued engagement necessary to ensure households do not become overly indebted**
  - Effective implementation of responsible lending practices

# Developments in property market being closely monitored

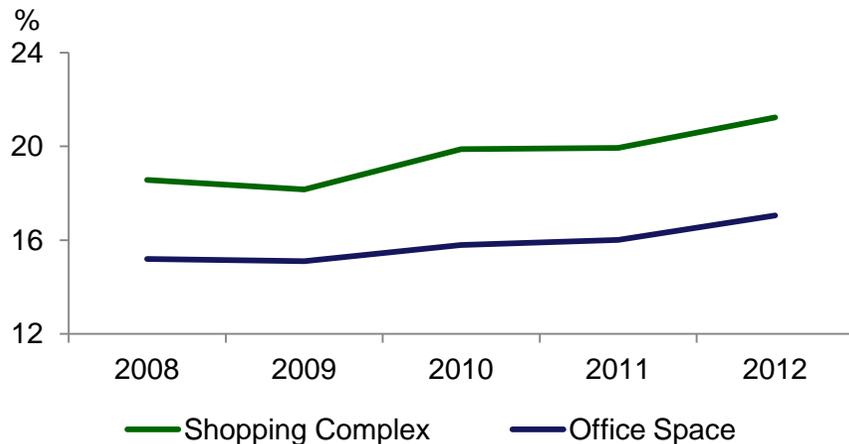
Malaysian House Price Index (MHPI), Transaction and Incremental Stock of Houses



## Increase in house price driven largely by mismatch between supply and demand for housing

- Macroeconomic, rather than financial, factors more pronounced
- Some moderation in speculative activity since implementation of macroprudential and fiscal measures
- Supply measures including PR1MA would help to address mismatch over medium term

Vacancy Rates of Office Space and Shopping Complex



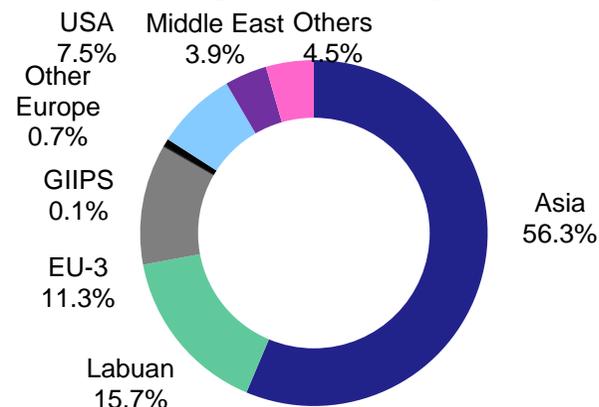
## Banks' exposures mainly in end-financing, and more vigilant lending standards observed

- Banks' exposures to non-residential properties remained low (<7% of total assets)
  - Staggering of incoming supply of office space and shopping complexes important to prevent oversupply in short term

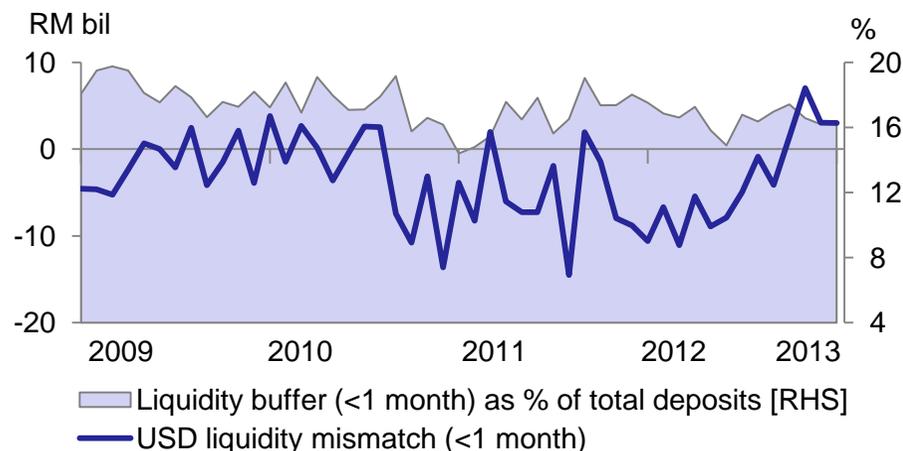
# Contagion from external developments limited, while liquidity risk was well-managed

- Counterparty exposures to euro area remained low
  - Further reduced for the most affected European countries
- Malaysian banks well-positioned to fulfil financing needs including trade financing should deleveraging occur
- Stable funding and small net open foreign currency positions
- Low contagion risk from cross-border operations of domestic banks
- Low counterparty risk from reinsurance exposures with European (re)insurers

Banking System: Composition of External Claims by Region or Country



Banking System: US Dollar Liquidity Mismatch and Liquidity Buffer



# Robust regulatory and supervisory framework continues to support financial stability

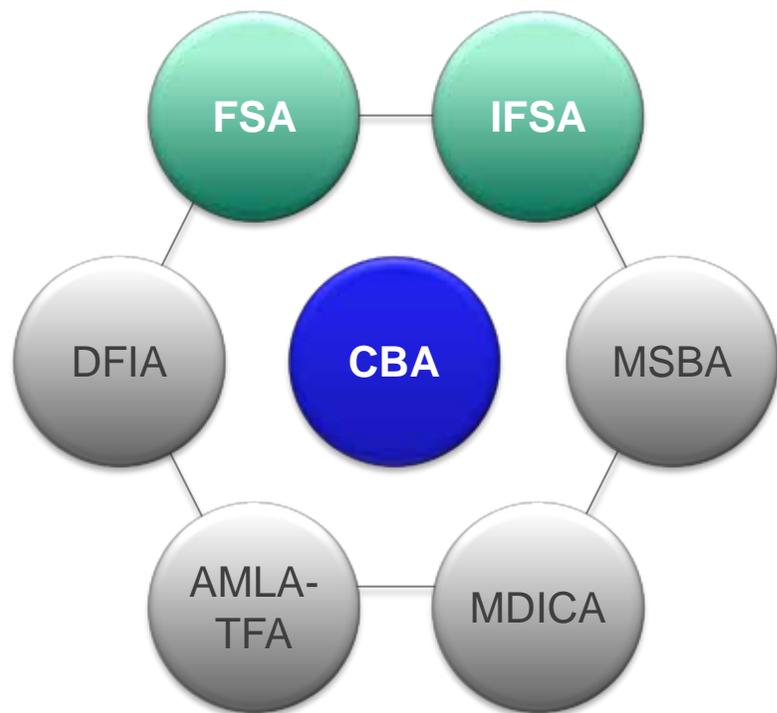
Strengthened legal framework

Strengthened capital, risk management and prudential standards

Continued efforts to promote responsible and fair practices by financial institutions



# Legislative reforms reinforce the Bank's mandate to safeguard financial stability



<b>CBA</b>	Central Bank of Malaysia Act 2009	<b>DFIA</b>	Development Financial Institutions Act 2002
<b>FSA</b>	Financial Services Act 2013	<b>AMLATFA</b>	Anti-Money Laundering and Anti-Terrorism Financing Act 2001
<b>IFSA</b>	Islamic Financial Services Act 2013	<b>MDICA</b>	Malaysia Deposit Insurance Corporation Act 2010
<b>MSBA</b>	Money Services Business Act 2011		

- **Enactment of FSA and IFSA further strengthened the legal framework for the financial sector**
  - Expanded rule-making and supervisory powers to address risks to financial stability in a more complex financial landscape
  - Clear mandate and accountability, supported by strengthened inter-agency coordination
  - Regulatory regime proportionate to risks
  - Stronger enforcement framework
  - Strengthened foundation for development of Islamic finance
  - Strengthened business conduct and consumer protection requirements

# Favourable assessment of Malaysia's regulatory and supervisory framework by the IMF and World Bank

- **Malaysia received positive review under the Financial Sector Assessment Program (FSAP) conducted in 2012**
  - Comprehensive legal framework supports the Bank's mandates and objectives of maintaining financial stability
  - Robust and effective regulatory and supervisory regimes with high degree of compliance with international standards in the following areas:
    - Ø Basel Core Principles for Effective Banking Supervision (BCP)
    - Ø IAIS Insurance Core Principles (ICP)
    - Ø Principles for Financial Market Infrastructures (PFMI)
    - Ø Core Principles for Effective Deposit Insurance Systems (IADI)



# Financial sector continues to enhance growth potential and regional and international interlinkages

- **Greater access to financing, especially for SMEs and new growth areas**

- More flexible financing products for micro-enterprises
- Higher financing for green technology
- Strong growth in financing by DFIs to strategic sectors

- **Extended regional footprint of domestic banking groups**

- Six domestic banking groups have overseas operations in 21 countries

- **Strengthening of the general insurance industry through further consolidation**

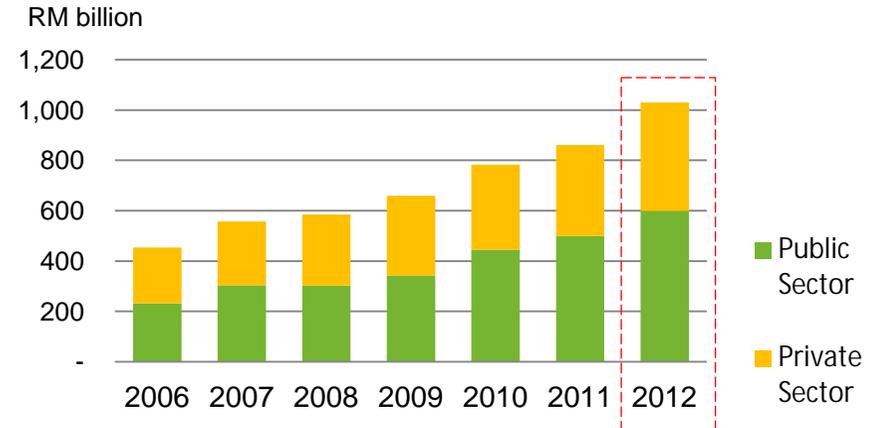
- Viability of smaller insurers improved
- Enhanced capacity of industry to tap growth potential

Outstanding Financing by Banking System	Value (RM bil)	Annual Growth
<b>TOTAL</b>	<b>1,108.0</b>	10.4%
Large Enterprise	242.0	16.6%
SME	177.0	15.5%
• <i>Including financing from DFIs</i>	189.0	14.3%
Household	616.4	11.6%

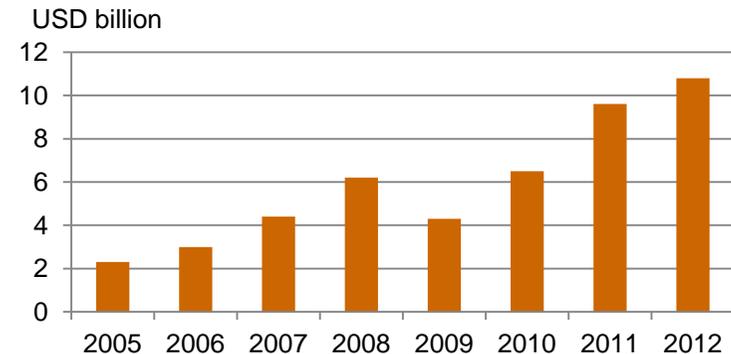
# Financial markets supportive of funding and risk management requirements of corporations

- **Total outstanding sukuk and debt securities surpassed RM1 trillion (2011: RM860.9 billion)**
  - Debt securities market accounts for 110% of GDP (2011: 101%)
  - Accounts for 61% of total outstanding corporate financing (2011: 58%)
- **Wider range of Shariah-compliant instruments for liquidity management**
- **Deeper foreign exchange (FX) market**
  - Average daily turnover of the FX market increased by 12.5% to USD10.8 billion (2011: USD9.6 billion)
  - Foreign exchange rules further liberalised to encourage greater innovation in FX product offerings

**Outstanding debt securities and sukuk**

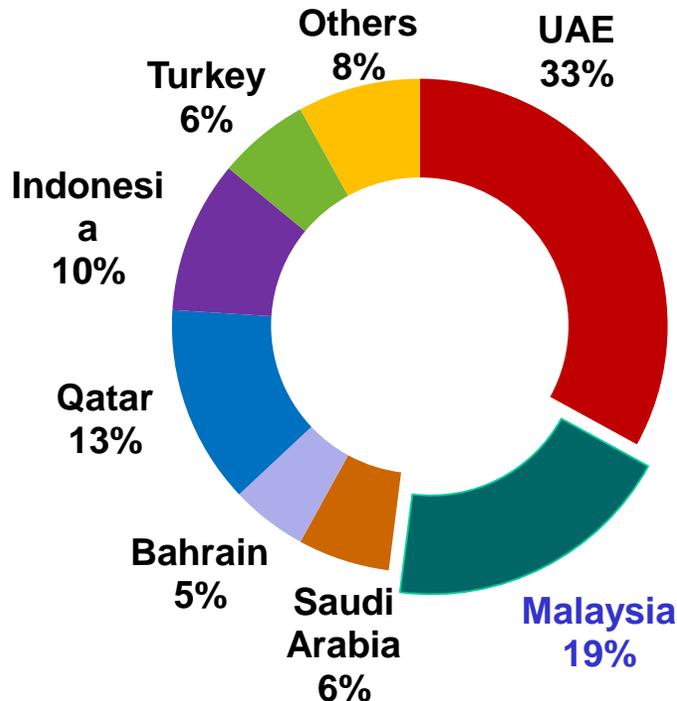


**Average daily turnover in the foreign exchange market**



# Continued growth and vibrancy of Islamic finance

Total Outstanding US Dollar-Denominated Sukuk Globally 2012



*Bloomberg Professional Service Terminal (end Dec 2012)*

- **Robust growth in Islamic banking and takaful assets, sukuk and foreign currency business**
- **Malaysia remains a major marketplace for global sukuk issuance**
  - Significant market for USD-denominated sukuk (2012: 19%, 2011: 15%)
  - Supported by a strong regulatory and supervisory framework, well-developed market infrastructure and diverse players with global capabilities and connectivity
- **Strengthened foundation for end-to-end Shariah governance and compliance**
  - Development of contract-based regulatory framework to serve as benchmark

# Enhancing financial inclusion remained an important priority

## Agent banking framework



- Over 4,000 agents nationwide
- Increased access points by 100% to 3.4 per 10,000 adults (2011: 1.7)
- 75% out of 837 sub-districts have at least one financial access point

## Mobile banking and payment platform, MyMobile

- Coverage extended to more than 90% of mobile phone subscribers
- Registered users can view transaction history, perform balance enquiries, funds transfer, mobile prepaid reload, bills payment and credit card repayment transactions.



## High financial inclusion levels by global standards

1

**'Getting Credit' World Bank  
Doing Business Report  
since 2008**

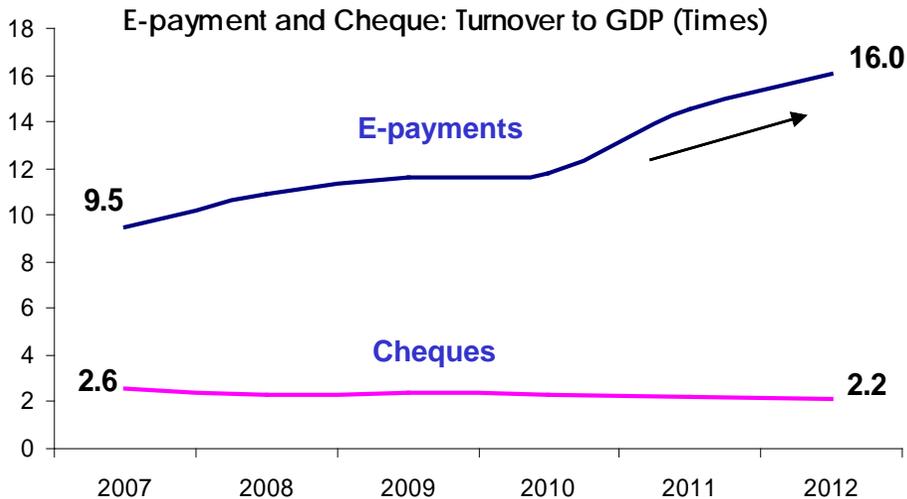
8

**'Ease of Access to Loans'  
WEF Global  
Competitiveness  
Report 2012/2013**

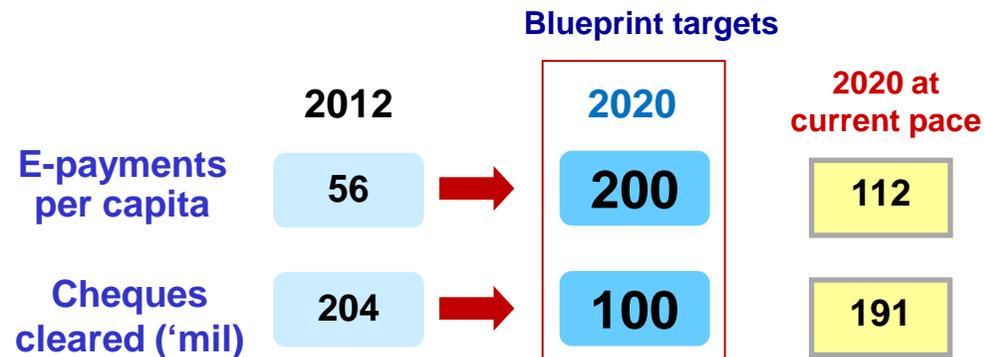
## Financial Inclusion Index

- Developed by the Bank to monitor and measure effectiveness of financial inclusion initiatives

# Electronic payments: enhancing efficiency and national competitiveness



Quantum leap necessary to achieve significant migration to e-payments



Further initiatives to transform payment system into one that is highly efficient to allow Malaysia to achieve greater economic efficiency

## Modernisation of Malaysian payments infrastructure

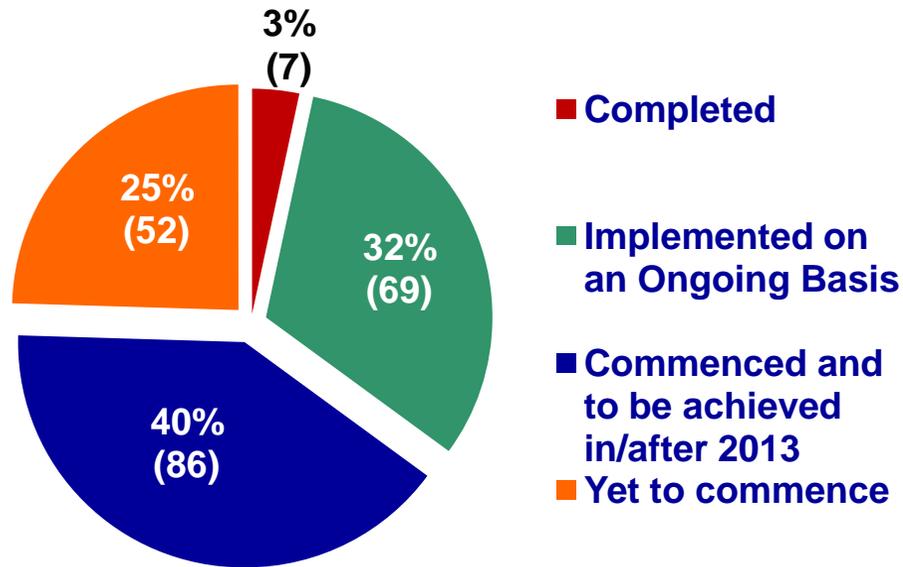
**Faster execution of payments**  
 – Interbank Giro will move towards real-time – to reach recipient within 2 hours by 2014

**Standardisation of payment reference information** – 2014 will see improvements in disclosure of payment details to all users

**National Bill Payment Scheme**  
 – by end-2014, a new system will be introduced, allowing payments to be made to any biller from any bank



# 35% of the initiatives under the Financial Sector Blueprint implemented



## Completed Blueprint initiatives

- Greater flexibility for non-resident participation in onshore interest rate derivatives market
- Allowed foreign currencies trading by institutional funds and retail investors
- Roll-out of agent banking framework
- Recognised qualified foreign currency instruments as liquid assets and eligible for use as collateral
- Enactment of FSA and IFSA

## Focus in 2013

- Accelerating migration to e-payments
- Building a **deep and sustainable talent pool**
- Reinforcing **effective regulation and supervision** in the financial sector

# Positive outlook for domestic financial stability maintained in 2013

- **External environment expected to remain challenging**
  - Key risk to financial sector will continue to stem from the general deterioration in external conditions
- **Financial sector is well placed to cope with adverse external developments**
  - Strong buffers of financial institutions
  - Sound and continuous improvements in risk management practices
  - Deep financial markets to absorb volatility
  - Comprehensive institutional arrangements to respond to system-wide risks
- **Macrosurveillance and supervisory activities in 2013 will focus on:**
  - Sound underwriting practices of financial institutions
  - Leverage position of lower income households
  - Business expansion and lending activities of non-bank financial institutions
  - Developments in the property market



# Press Release



# Liberalisation of Foreign Exchange Administration rules to enhance competitiveness of the economy and further develop domestic financial market

Further develop the domestic financial market in line with Financial Sector Blueprint and enhance business efficiency

- (1) Residents free to invest in onshore foreign currency-denominated assets offered by residents
- (2) Resident insurers and resident takaful operators free to undertake investments abroad
- (3) Residents allowed to issue securities, provided that the issuance of debt securities is subject to prevailing rules on borrowing from non-residents
- (4) Non-residents free to issue foreign currency securities in Malaysia

# Liberalisation of Foreign Exchange Administration rules to enhance competitiveness of the economy and further develop domestic financial market

Enhance flexibility on risk management

- (1) Residents free to undertake anticipatory hedging involving ringgit for financial account transactions with onshore banks
- (2) Non-residents free to undertake anticipatory hedging involving ringgit for current account transactions with onshore banks
- (3) Non-residents free to hedge ringgit exposure arising from investments acquired prior to 1 April 2005 with onshore banks

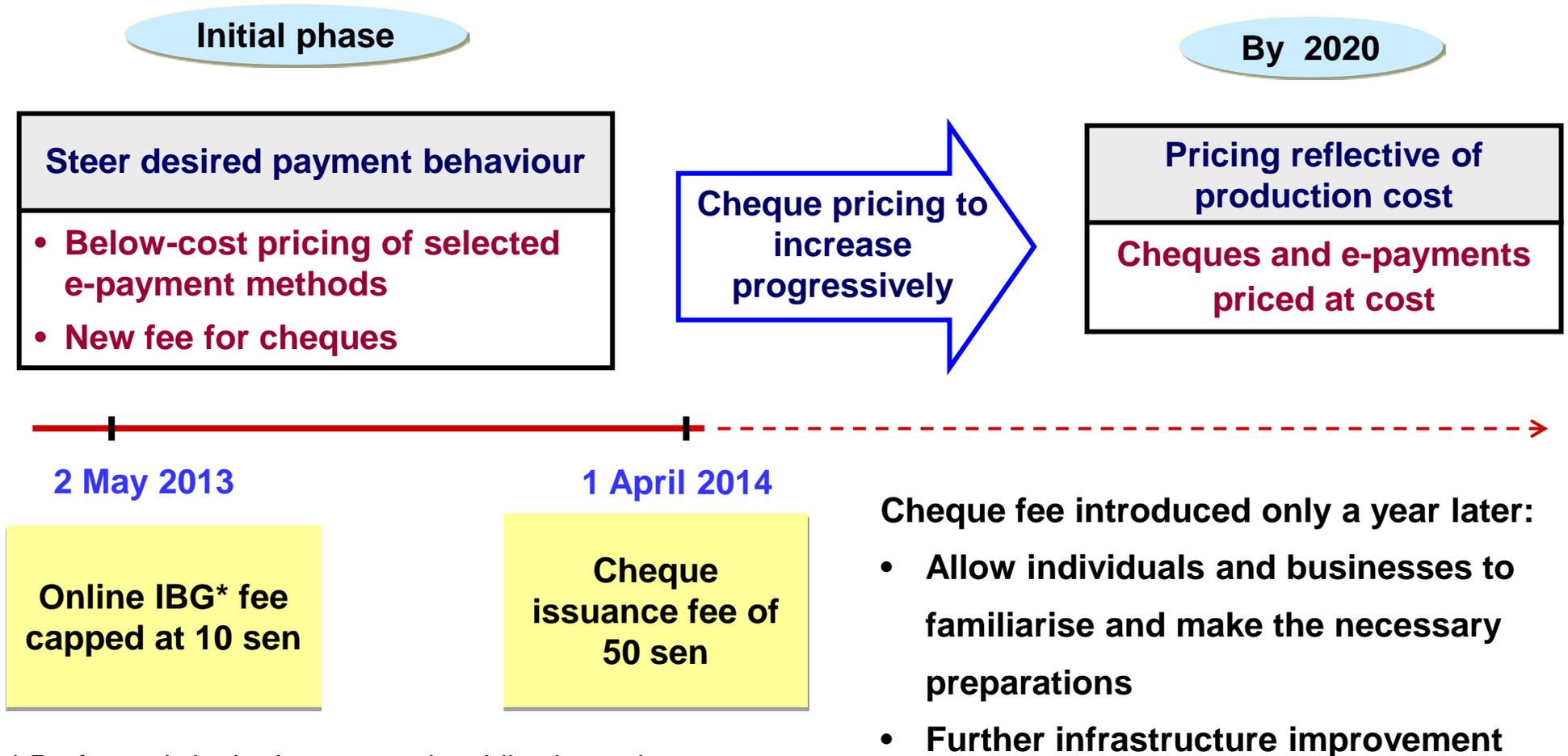
Enhance business efficiency and reduce cost of doing business

- (1) Automatic designation of entities registered with the Financial Services Authority of Labuan (Labuan FSA) as non-residents



# Incentive structure to accelerate migration to e-payments

A new pricing strategy would be implemented effective May 2013



\* Performed via the Internet and mobile channels

# Efficiency gains in the longer term for the benefit of the country

Support from both providers and users of payment services is important

Strategic tool to elevate the migration to e-payments agenda to the next level

Reduce inefficiencies associated with paper-based payments



Promote cost savings

Achieve higher productivity

Enhance national competitiveness

Key strategy to achieve greater economic efficiency

# Thank you

