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Taklimat Laporan Tahunan 2009 dan Laporan Kestabilan Kewangan & Sistem Pembayaran 2009

**Gabenor Bank Negara Malaysia
24 Mac 2010**



Uneven global economic recovery in 2010

- The global economy is on a recovery path:
 - The advanced economies to record modest growth, supported by stimulus measures
 - The emerging economies, particularly Asia, to lead the global growth
- Global financial conditions have stabilised
 - But lending activity in the advanced economies remains constrained



Emerging economies leading the recovery

Global Growth Projection for 2010

	2008	2009e	2010f
	Annual change (%)		
World GDP	3.0	-0.8	3.9
World Trade	2.8	-12.3	5.8
US	0.4	-2.4	2.7
Euro area	0.6	-4.1	1.0
Japan	-1.2	-5.2	1.7
East Asia	6.9	5.1	7.7~7.9
Asian NIEs	1.7	-0.9	4.6~4.9
China	9.6	8.7	10.0
ASEAN-4	4.6	1.1	4.4~5.2
India	7.4	6.5	7.7

- **Modest growth in the advanced economies due to:**
 - Persistent high unemployment
 - Restricted access to credit
 - Sluggish housing market
 - Continued de-leveraging by the private sector
 - Fiscal consolidation plans
- **Better growth prospects in the emerging economies:**
 - Stronger domestic demand
 - Robust financial sector
 - Growing intra-regional trade

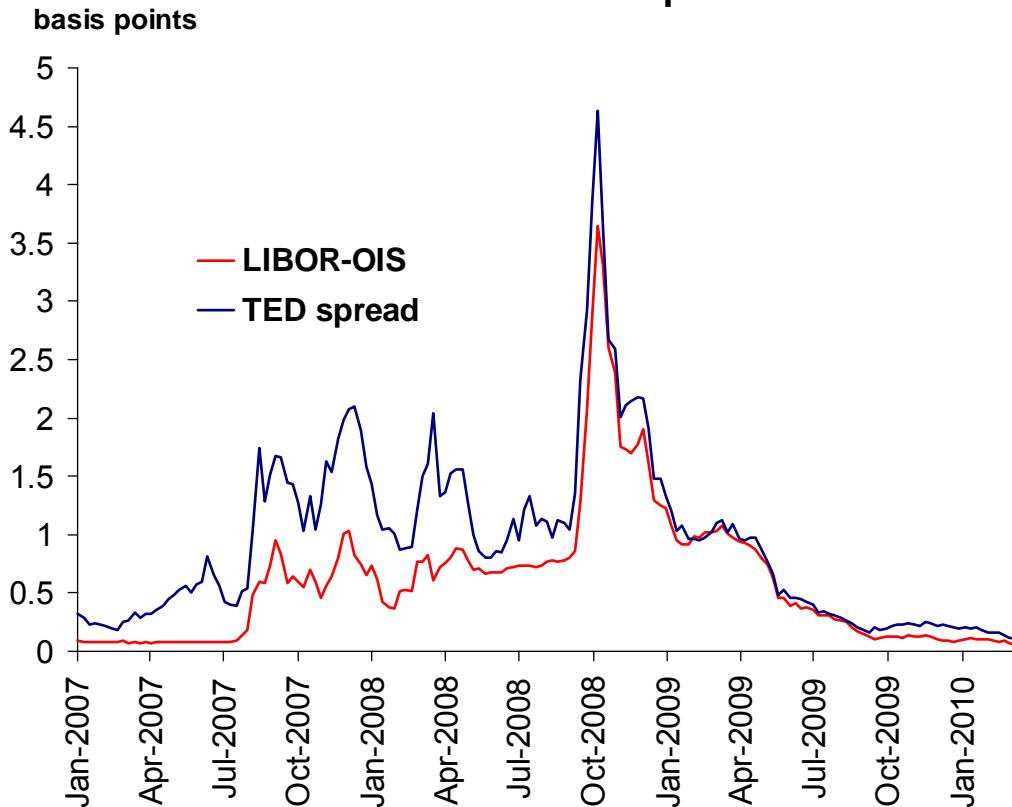
Source: IMF World Economic Outlook (WEO) (January 2010 Update), National authorities, BNM estimates



Financial conditions have improved but lending activities in the advanced economies yet to resume

Spreads have narrowed

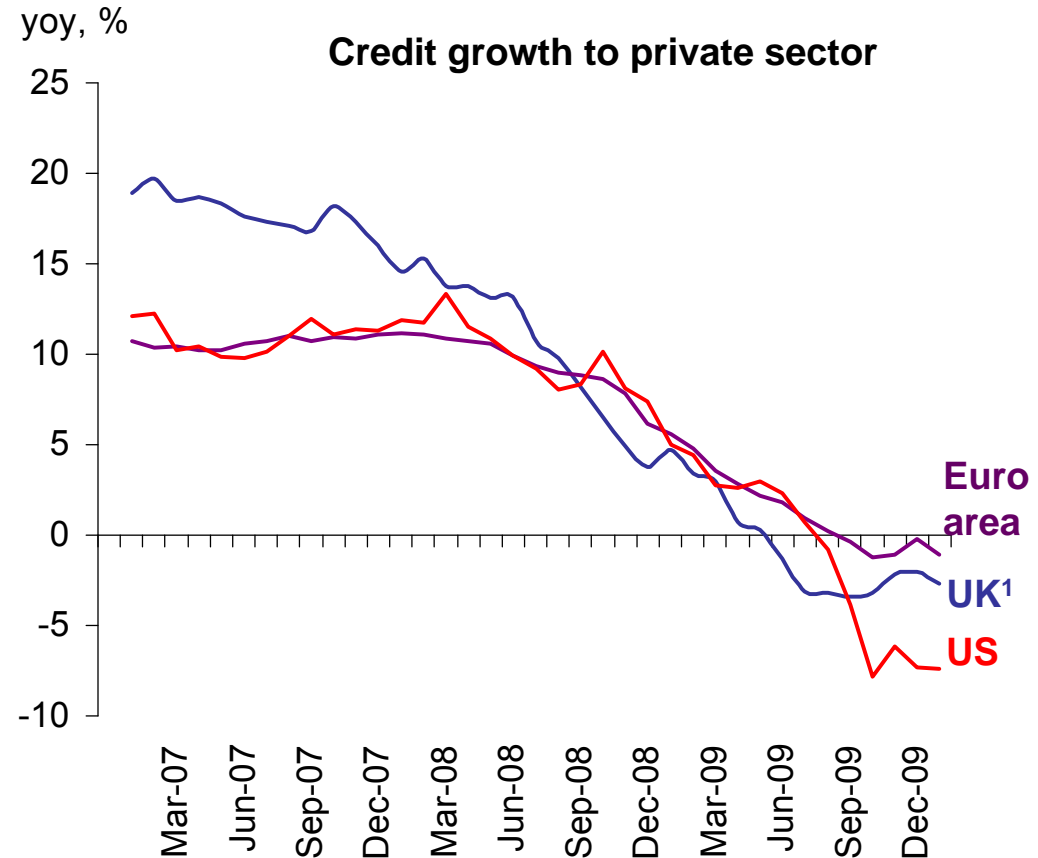
Interbank market spreads



Source: Bloomberg

But credit growth remains negative

Credit growth to private sector



¹ Lending to non-financial corporations

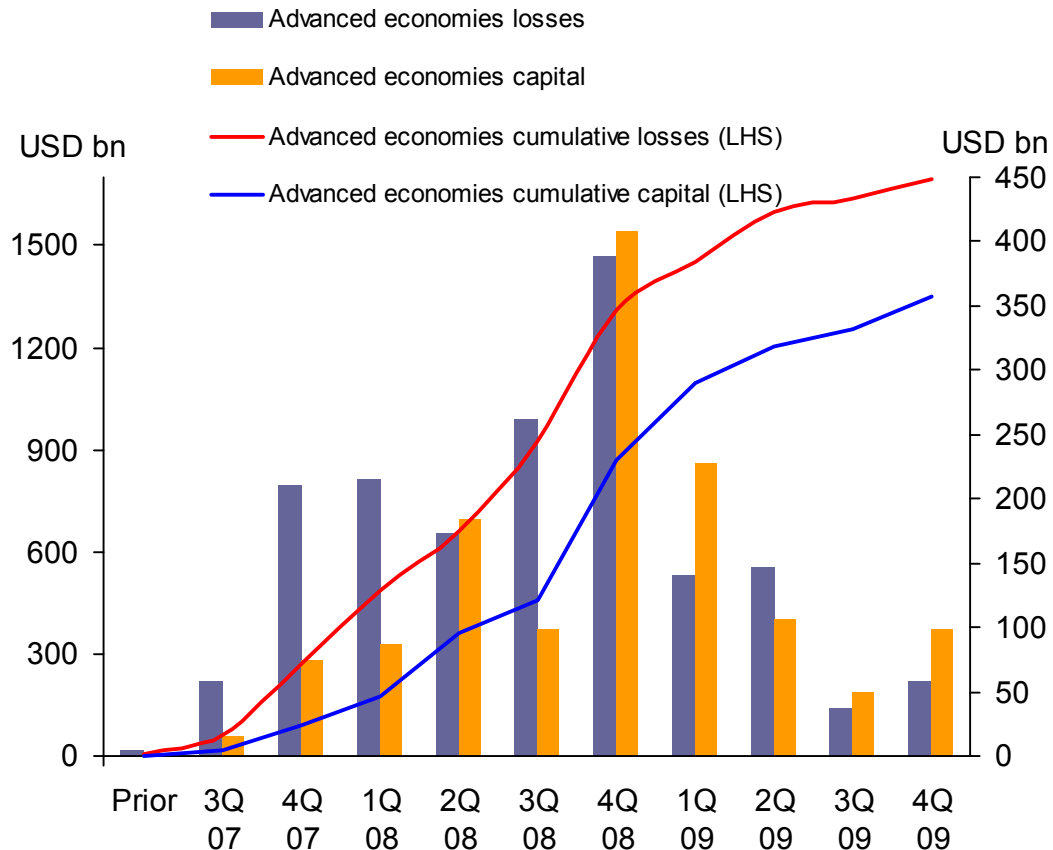
Source: National authorities & Haver



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Slow progress in financial sector resolution

Cumulative bank losses exceeding capital raised



Advanced economies refer to US and Europe

Source: Bloomberg and BNM calculations

- Cumulative bank losses for advanced economies expected to reach USD2.6 trillion¹
- As at end-2009, realised losses have reached USD1.7 trillion² (65% of expected losses)
- Continued deleveraging process
- Banks remain cautious in view of the ongoing financial reforms

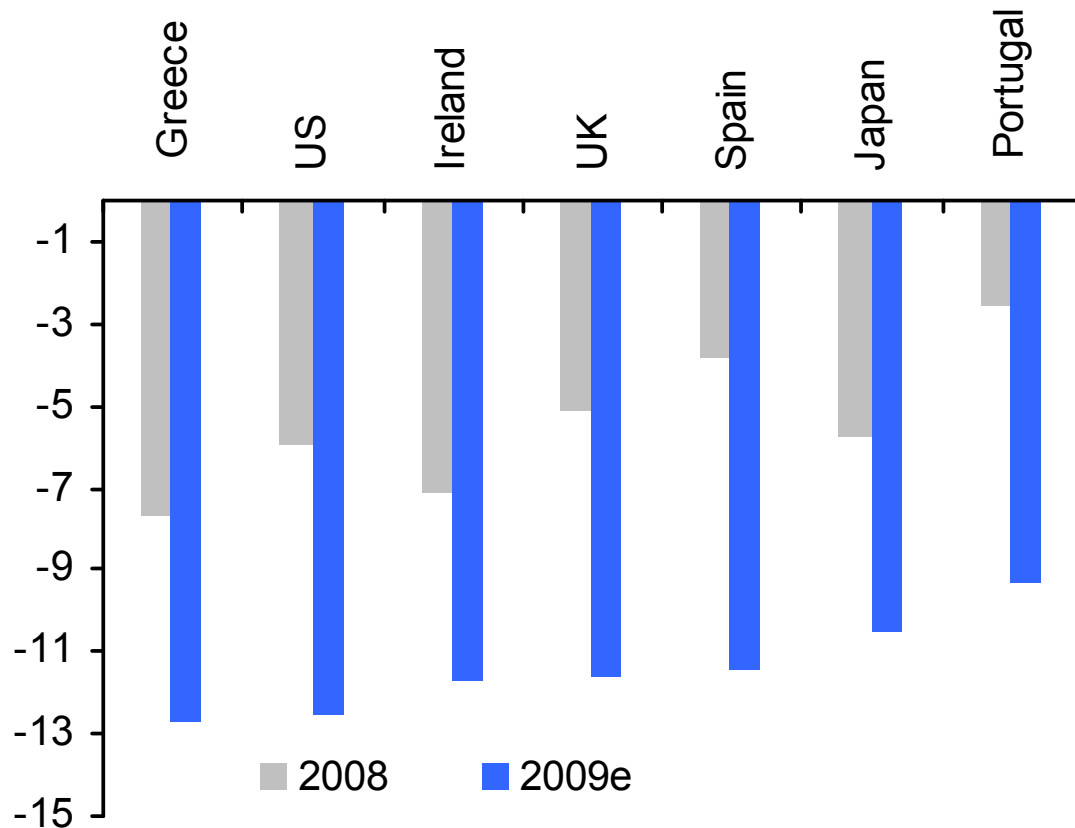
¹ Based on IMF estimate (October 2009 GFSR)

² BNM calculations based on Bloomberg data



Large fiscal deficits and rising public debt levels in several advanced economies

Fiscal balance as % of GDP



- Unprecedented stimulus measures during the crisis have led to rising fiscal deficit in many countries
- Growing sovereign debt problems and fiscal consolidation may affect strength of growth

Source: IMF and national authorities



Regional economies to lead global growth

Asian Region: Growth Outlook for 2010

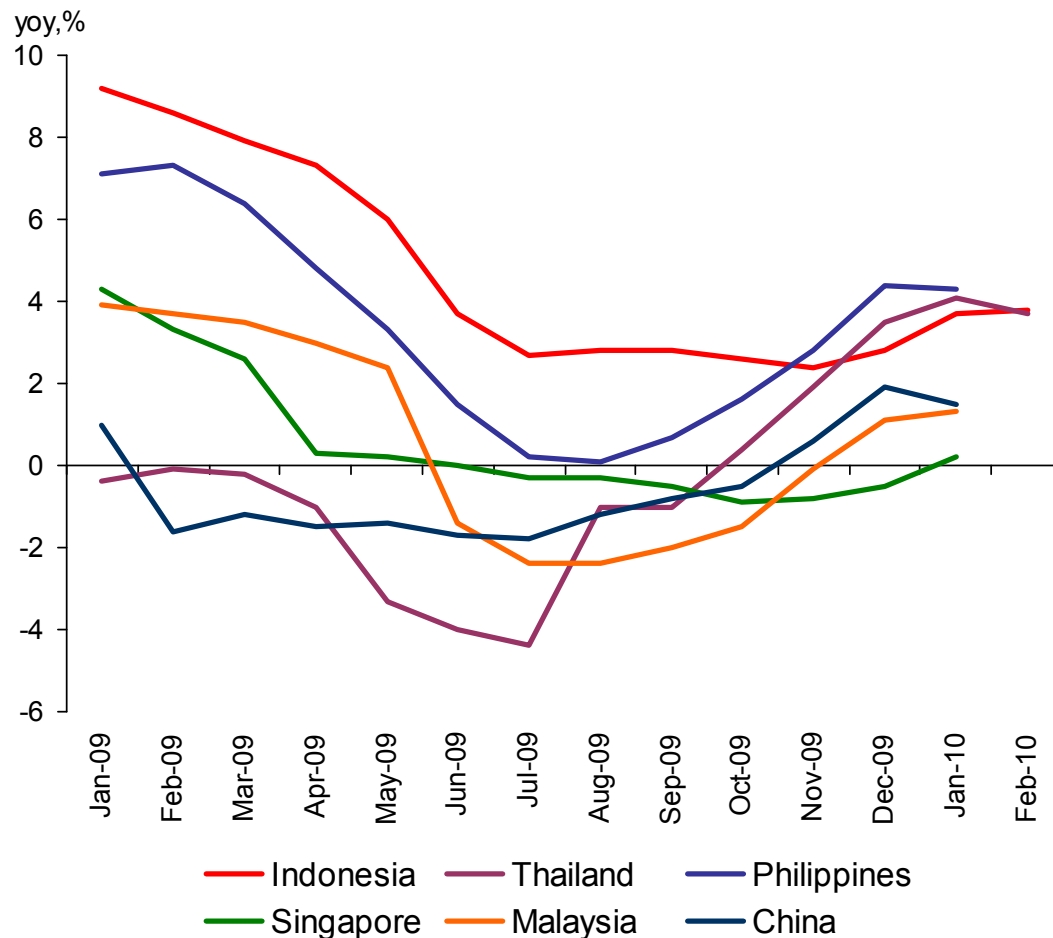
	3Q 09	4Q 09	2009	2010 ^f
	Annual change (%)			
Region¹	5.5	8.6	5.1	7.7 ~ 7.9
PR China	9.1	10.7	8.7	10.0
India	7.9	6.0	6.5	7.7
Indonesia	4.2	5.4	4.5	5.5 ~ 6.0
Singapore	0.6	4.0	-2.0	4.5 ~ 6.5
Malaysia	-1.2	4.5	-1.7	4.5 ~ 5.5
Chinese Taipei	-1.0	9.2	-1.9	4.7
Korea	0.9	6.0	0.2	4.6
Hong Kong SAR	-2.2	2.3	-2.7	4.0 ~ 5.0
Thailand	-2.7	5.8	-2.3	3.5 ~ 4.5
Philippines	0.4	1.8	0.9	2.6 ~ 3.6

^f forecast ¹ excluding India
Source: National authorities, IMF



Modest inflation in 2010

Regional inflation rates rising moderately

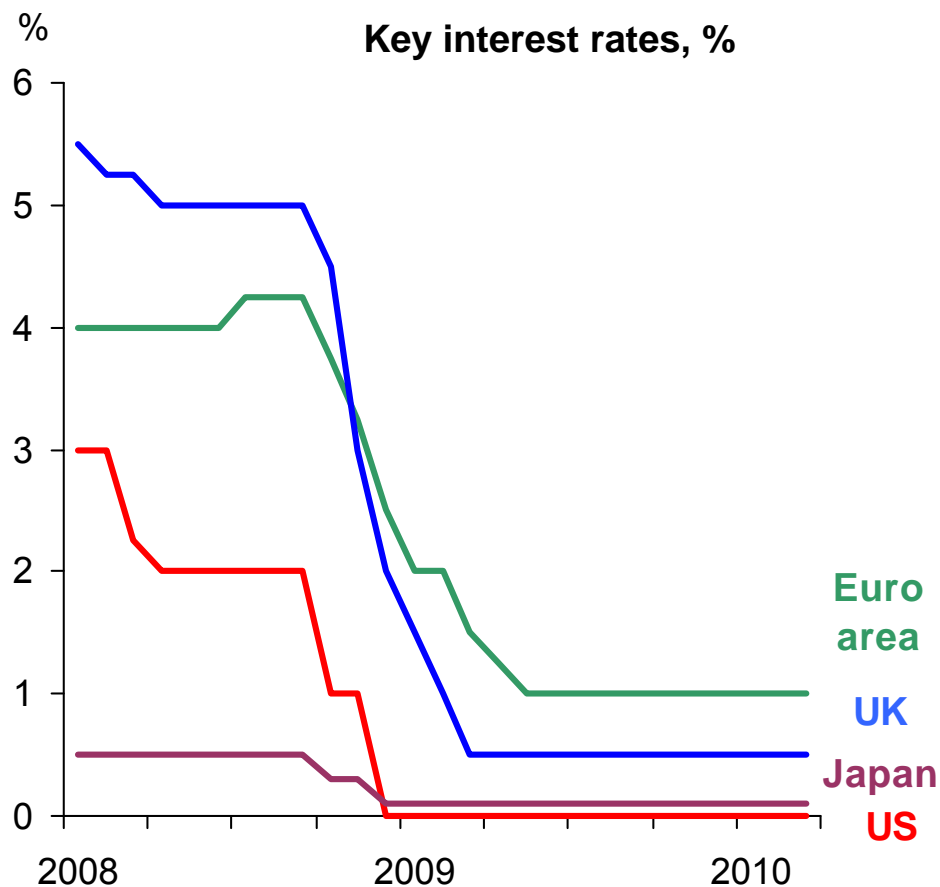


- Global inflation is expected to rise, albeit moderately in 2010 :
 - Improving demand conditions
 - Upward trend in commodity prices
- But, underlying inflation is expected to remain contained

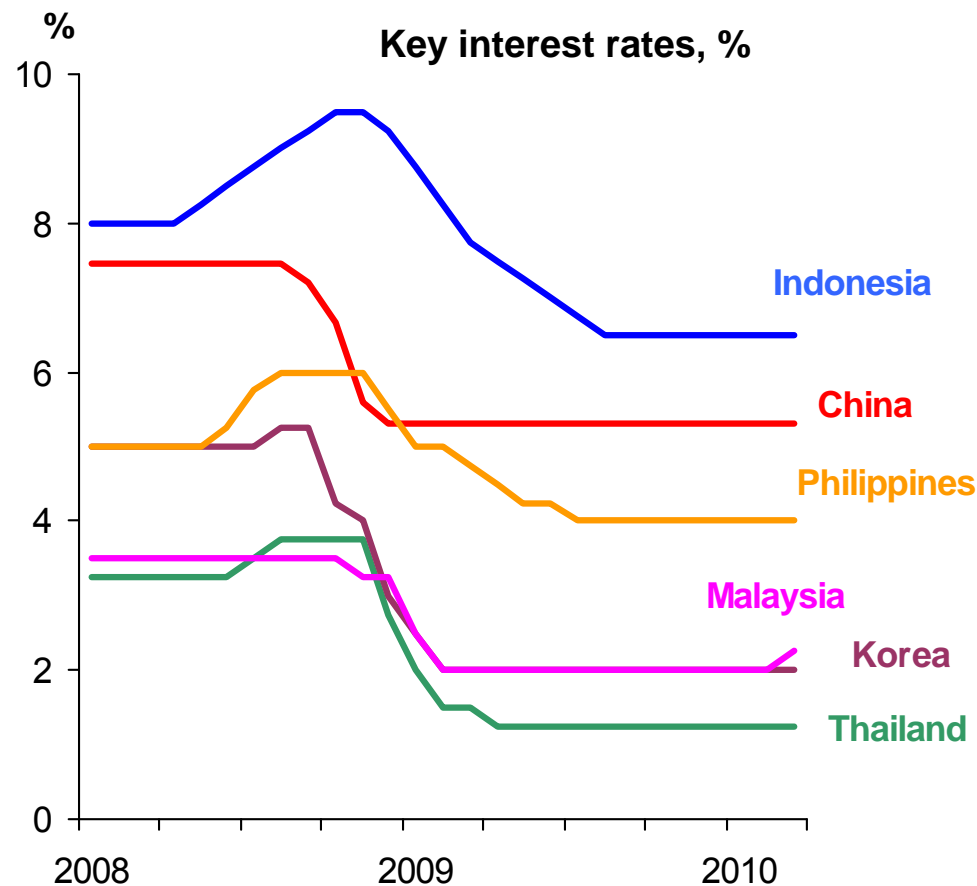


Uneven recovery to lead to differences in thrust of policy

Advanced economies: Recovery and improving financial conditions

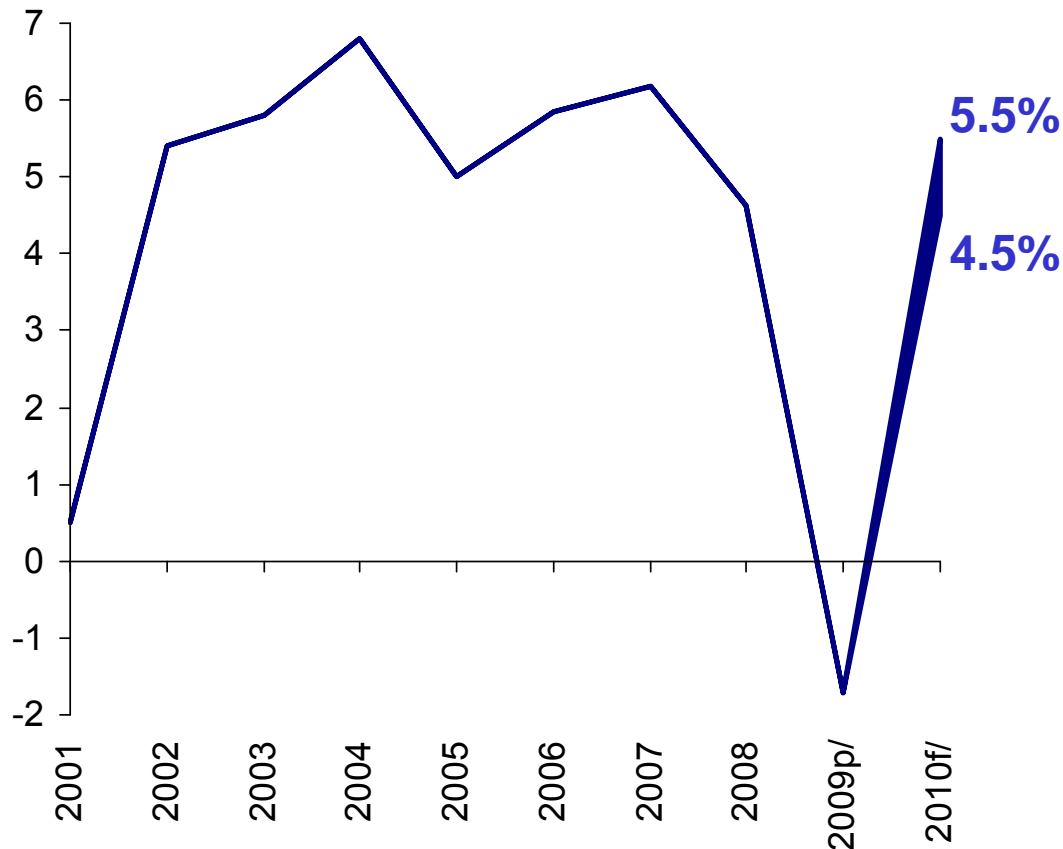


Regional economies: Stronger growth expected



The Malaysian economy is projected to grow by 4.5% to 5.5% in 2010

Annual
change (%)



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

- Growth will be underpinned by strengthening domestic demand and an improving external environment
- The underlying strong fundamentals will provide support to a private sector-led recovery
- Continued access to financing key in supporting private sector-led growth



Strengthening domestic demand to drive growth, reinforced by external demand

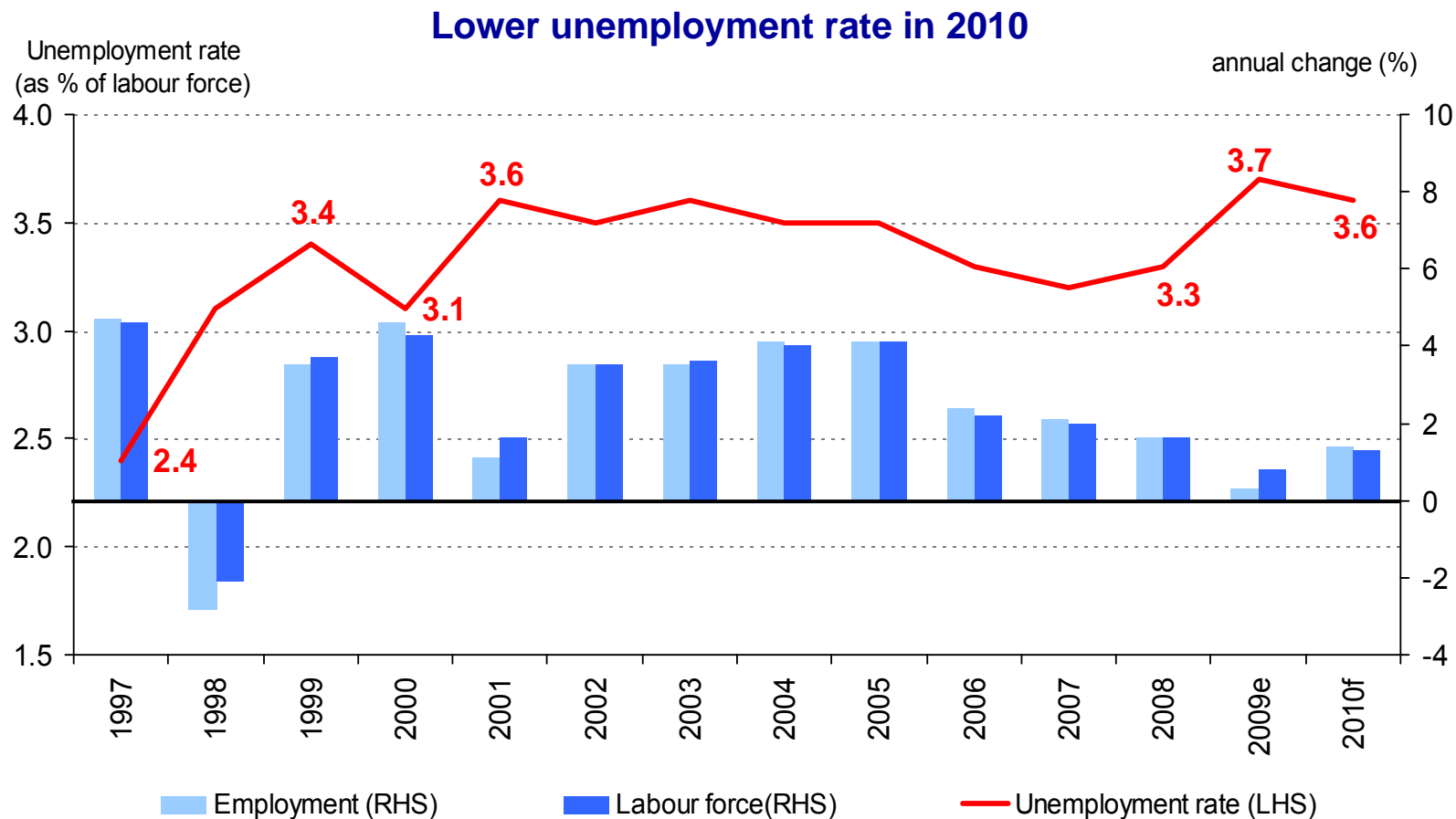
	2009 ^p	2010 ^f	2009 ^p	2010 ^f
	Annual change (%)		Contribution to growth (p.p)	
Domestic demand	-0.4	3.2	-0.3	2.8
Private sector	-3.4	3.3	-2.2	2.1
<i>Consumption</i>	0.8	3.8	0.4	2.0
<i>Investment</i>	-21.8	0.7	-2.6	0.1
Public sector	7.7	2.7	1.9	0.7
<i>Consumption</i>	3.7	-2.7	0.5	-0.4
<i>Investment</i>	12.9	9.3	1.3	1.1
Net exports	8.4	-18.6	1.1	-2.7
<i>Exports of G&S</i>	-10.1	7.7	-12.0	8.3
<i>Imports of G&S</i>	-12.5	11.7	-13.1	11.0
Real GDP	-1.7	4.5 ~ 5.5	-1.7	4.5 ~ 5.5

Private consumption to strengthen during the year

% yoy	2008	2009 ^p	2010 ^f
Private consumption	8.5	0.8	3.8

- Stronger expansion in consumer spending will be supported by :
 - Improvements in labour market conditions
 - Steady increase in disposable income
 - Sustained consumer confidence
 - Continued access to financing

Improving labour market conditions in 2010



e Estimate
f Forecast

Source: Economic Planning Unit

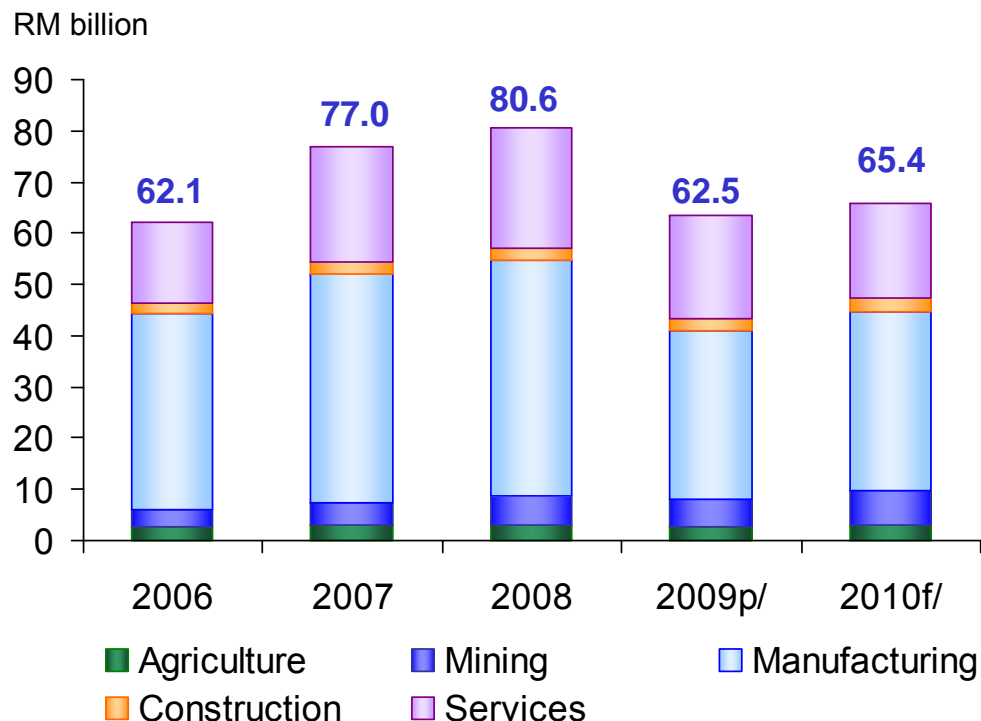


Private investment to recover gradually

% yoy	2008	2009 ^p	2010 ^f
Real private investment	0.8	-21.8	0.7

- Capital spending is forecast to recover with the strengthening of domestic and external demand

Nominal Private Investment



- Improved business optimism and resumption of projects that have been deferred

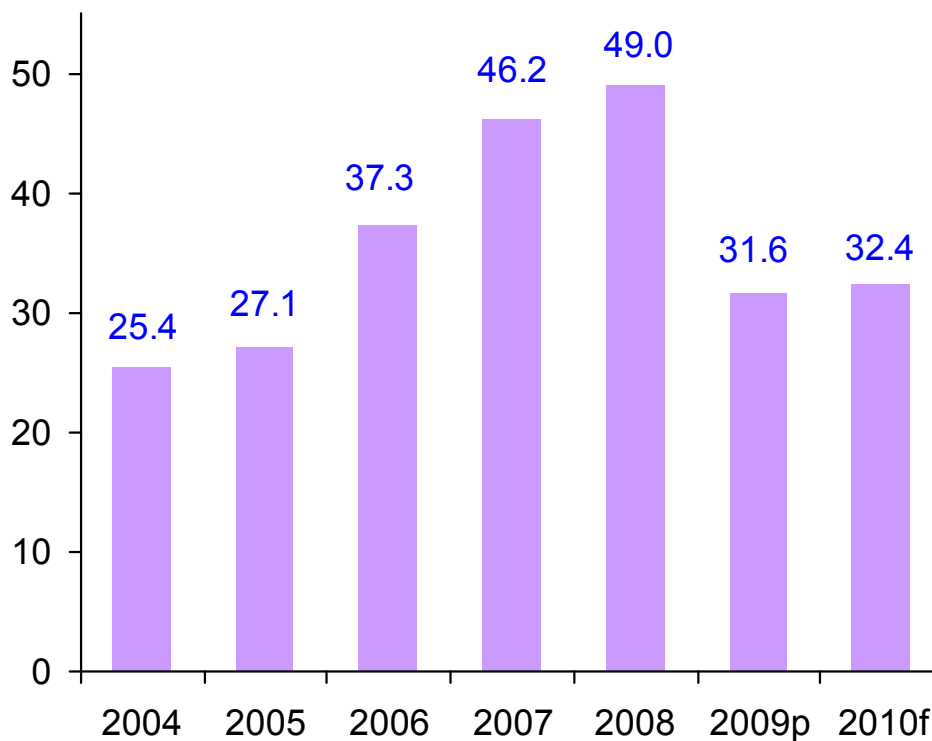
Source: Department of Statistics, Malaysia and BNM



Gross FDI inflows sustained in 2010

Gross FDI inflows into Malaysia

RM billion



p/ preliminary; f/ forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

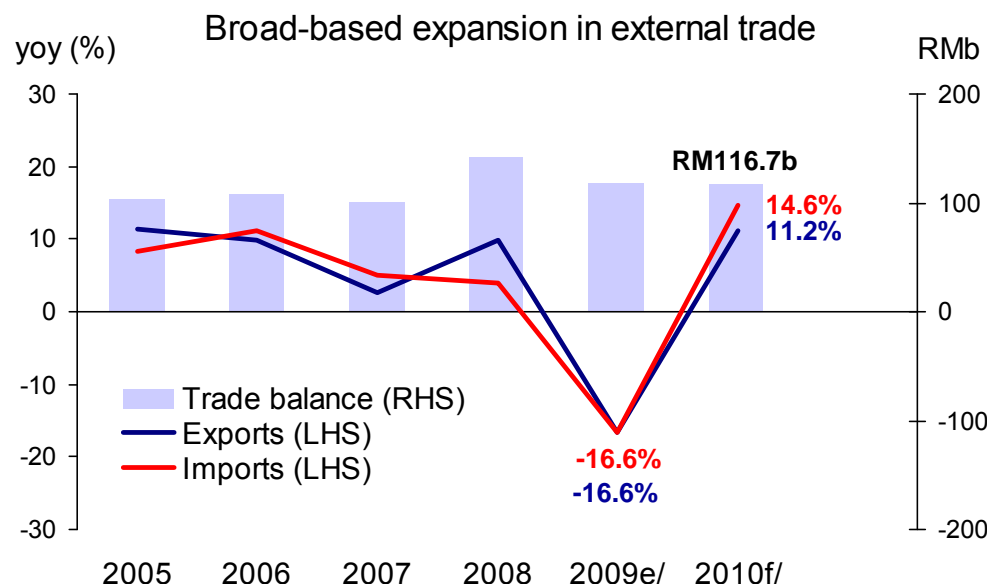
- Gross inflows of FDI at RM32.4 billion in 2010
- Inflows into the manufacturing, services, and oil and gas sectors



Public sector to continue to support domestic demand in 2010

	2009 ^p	2010 ^f
	Annual change (%)	
Public sector	7.7	2.7
Consumption	3.7	-2.7
Investment	12.9	9.3
Contribution to growth (p.p)		
Public sector	1.9	0.7

External trade to expand in 2010



	2009 ^e	2010 ^f
	Annual change (%)	
Gross exports	-16.6	11.2
Manufactured	-12.5	10.1
<i>E&E</i>	-11.0	10.0
<i>Non E&E</i>	-14.5	10.3
Commodities	-27.6	16.3
Agriculture	-21.6	12.8
Minerals	-32.2	19.4

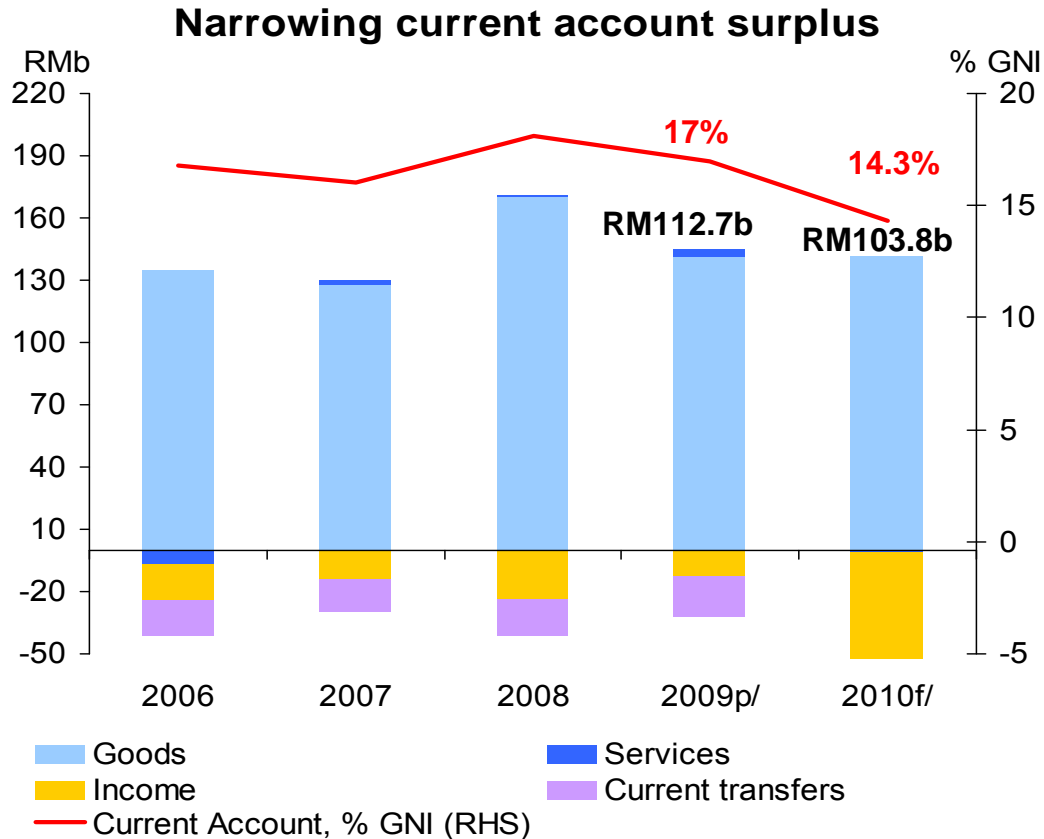
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

e/ estimate f/forecast

- Export expansion to be more broad-based:
 - Stronger external demand, particularly from the region
 - Higher commodity prices
- Imports to expand faster than exports:
 - expansion in manufactured exports
 - higher imports of consumption & capital goods



Current account surplus to narrow but remains significant



Source: Department Statistics, Malaysia and Bank Negara Malaysia
p/ preliminary f/ forecast

- Trade surplus to narrow as imports expand faster than exports
- Recovery in external trade and outbound tourism will result in a marginal services deficit
- Income deficit to widen due mainly to repatriation of profits and dividends by MNCs operating in Malaysia



Broad-based growth across all sectors

Annual change (%)	2009 ^p	2010 ^f
Agriculture	0.4	3.1
Mining	-3.8	2.5
Manufacturing	-9.3	6.5
Construction	5.7	3.7
Services	2.6	4.9
Real GDP	-1.7	4.5 ~ 5.5



Services sector to be a key contributor to growth

Sub-sector	2009 ^p	2010 ^f
	Annual change (%)	
Total Services	2.6	4.9
Finance & insurance	4.4	5.2
Real estate & business services	2.1	7.0
Wholesale & retail trade	1.2	4.4
Accommodation & restaurant	2.7	4.8
Transport & storage	-2.8	4.8
Communication	6.0	6.5
Utilities	0.4	5.0
Other services	4.4	5.1
Government services	3.0	3.0

- Higher demand for consumption-related services
- Continued lending and financial intermediation activities
- Recovery in trade and manufacturing-related services



Strong recovery in the manufacturing sector

Value-added growth (% yoy)	2009 ^p	2010 ^f
Total Manufacturing	-9.3	6.5
Export-oriented	-11.7	6.7
<i>E&E</i>	-18.7	9.6
<i>Primary-related (e.g. chemicals, petroleum, rubber, wood)</i>	-5.1	4.3
Domestic-oriented	-4.5	6.2
<i>Construction-related (e.g. iron & steel, cement)</i>	-2.6	6.5
<i>Consumer-related (e.g. food & beverages, transport equipment)</i>	-9.4	5.4

- **Broad-based expansion across all clusters, reflecting:**

- ✓ **Improved external demand**
- ✓ **Strengthening of domestic demand**

Better performance in the agriculture and mining sectors

% yoy	2009 ^p	2010 ^f
Agriculture	0.4	3.1
Palm oil	-1.0	1.1
Rubber	-20.2	20.3
Mining	-3.8	2.5
Crude Oil	-4.4	1.8
Natural gas	-4.0	2.5

Agriculture

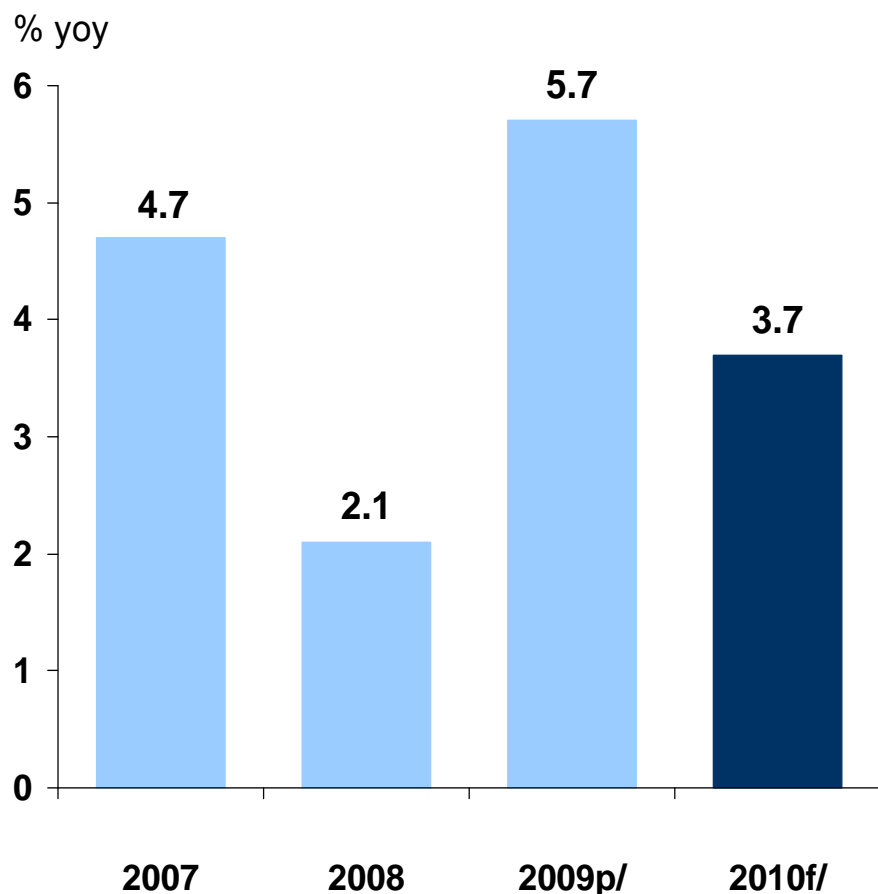
- Production of palm oil and rubber are expected to increase to meet higher demand

Mining

- Higher crude oil production with the recovery in demand
- Higher gas output partly reflecting LNG exports to China

Construction sector to maintain growth momentum

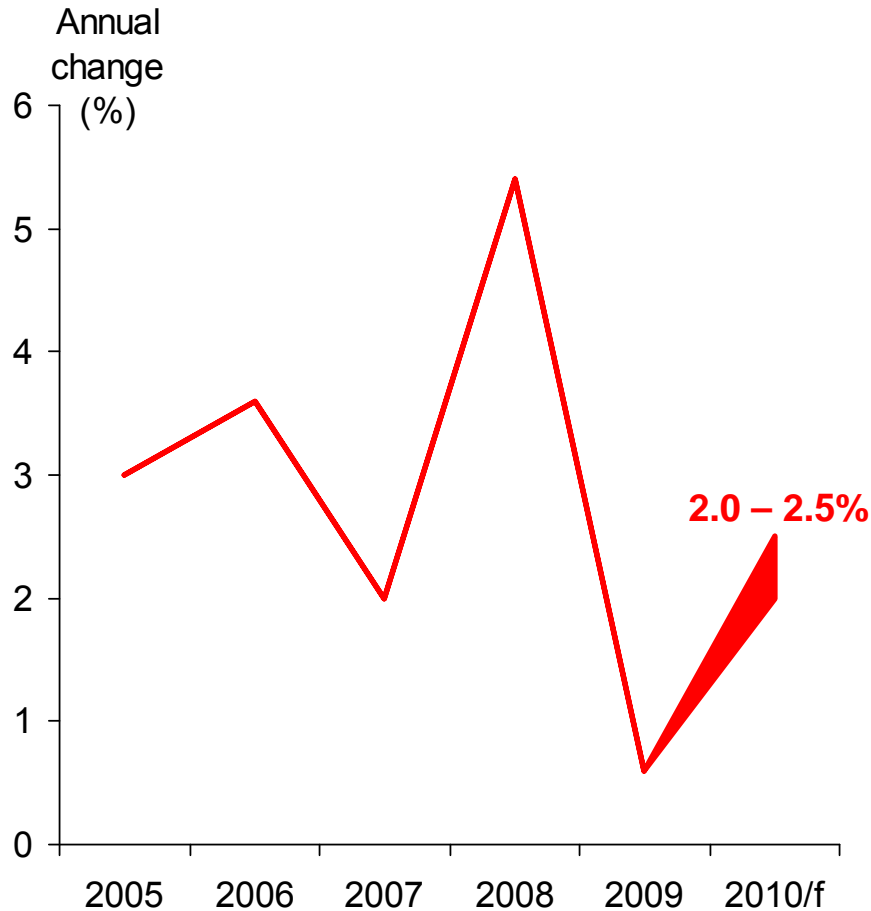
Growth in the Construction Sector



- Growth supported by the second stimulus package, benefiting the **civil engineering** and **non-residential** sub-sectors, and the remaining projects under the Ninth Malaysia Plan
- Continued growth in **residential** sub-sector due to stronger demand

Headline inflation to remain modest at 2.0 – 2.5% in 2010

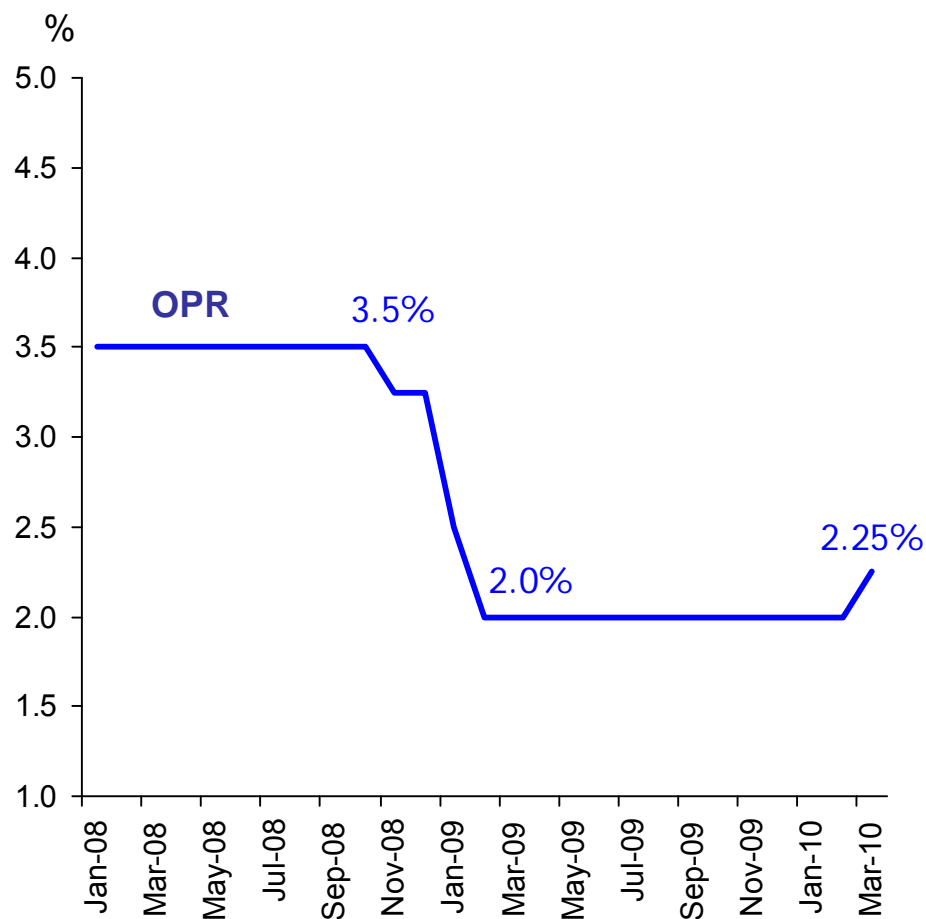
Inflation Forecast for 2010



- Price increase in 2010 modest reflecting :
 - Improving demand conditions
 - Potential adjustments to administered prices

Monetary policy remains supportive of economic growth

The OPR was raised by 25 bps in March

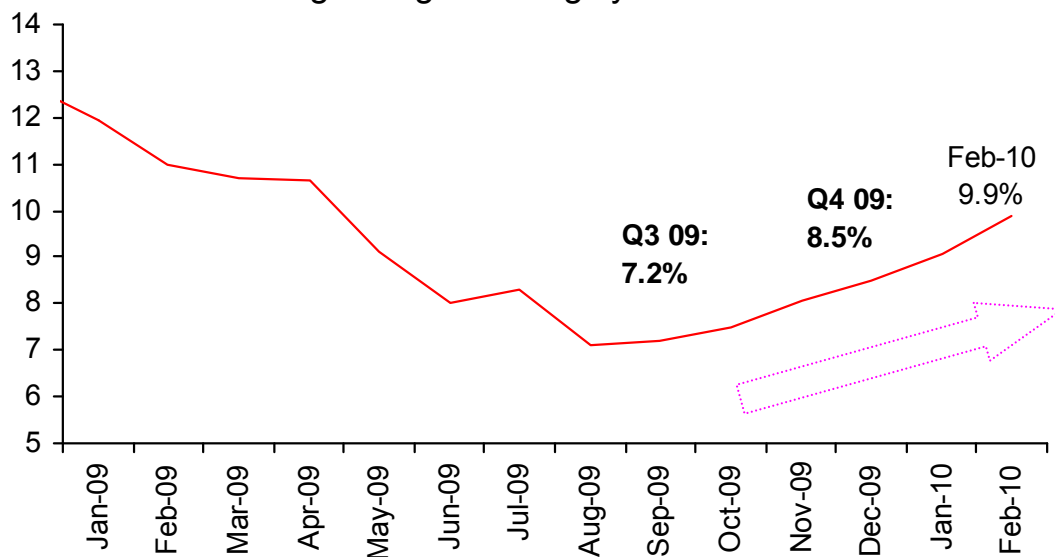


- OPR was reduced to a historic low in early 2009 under extraordinary conditions
- Given improved economic outlook, the OPR was adjusted in March 2010 to:
 - normalise monetary conditions
 - prevent the risk of financial imbalances that could undermine the economic recovery process
- Monetary policy continues to remain accommodative to provide support to domestic economic activity

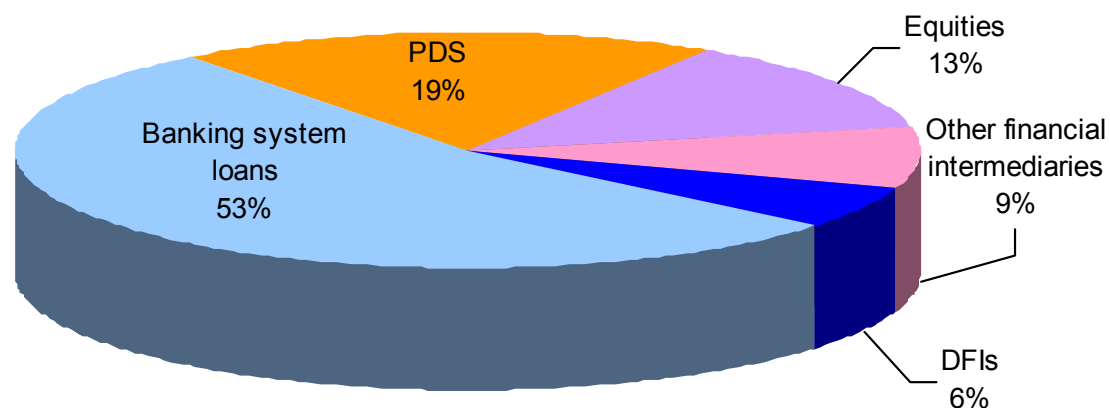


Continued access to financing is a key support to economic recovery

yoy, % Net financing through banking system loans and PDS



Domestic Sources of Financing for the Private Sector as at end 2009

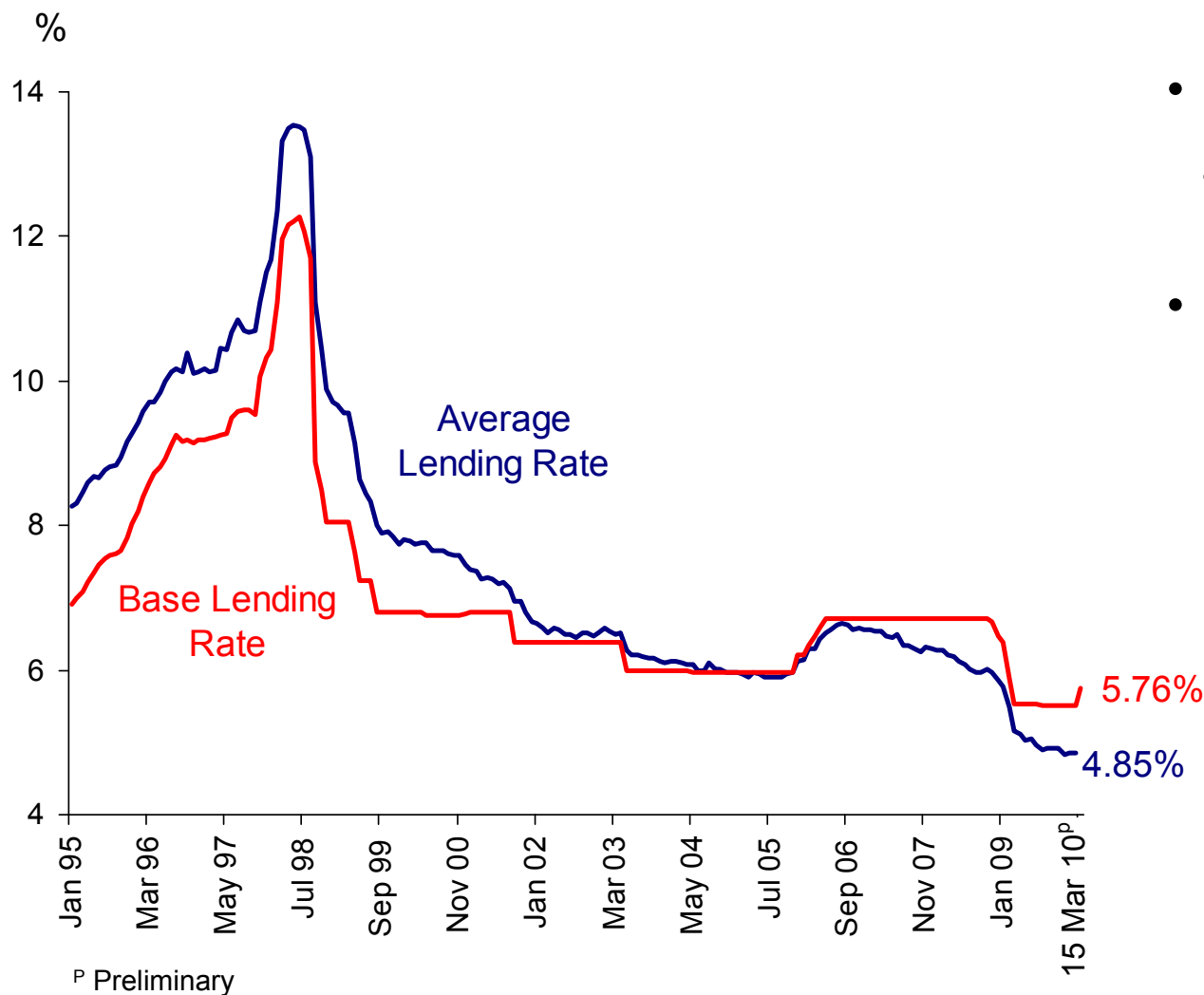


- Financing to businesses and households increasing, supported by :
 - continued access to financing
 - ample liquidity
 - low interest rate environment
- Expansion in other sources of financing



Cost of financing remains low

Commercial Banks' Lending Rates

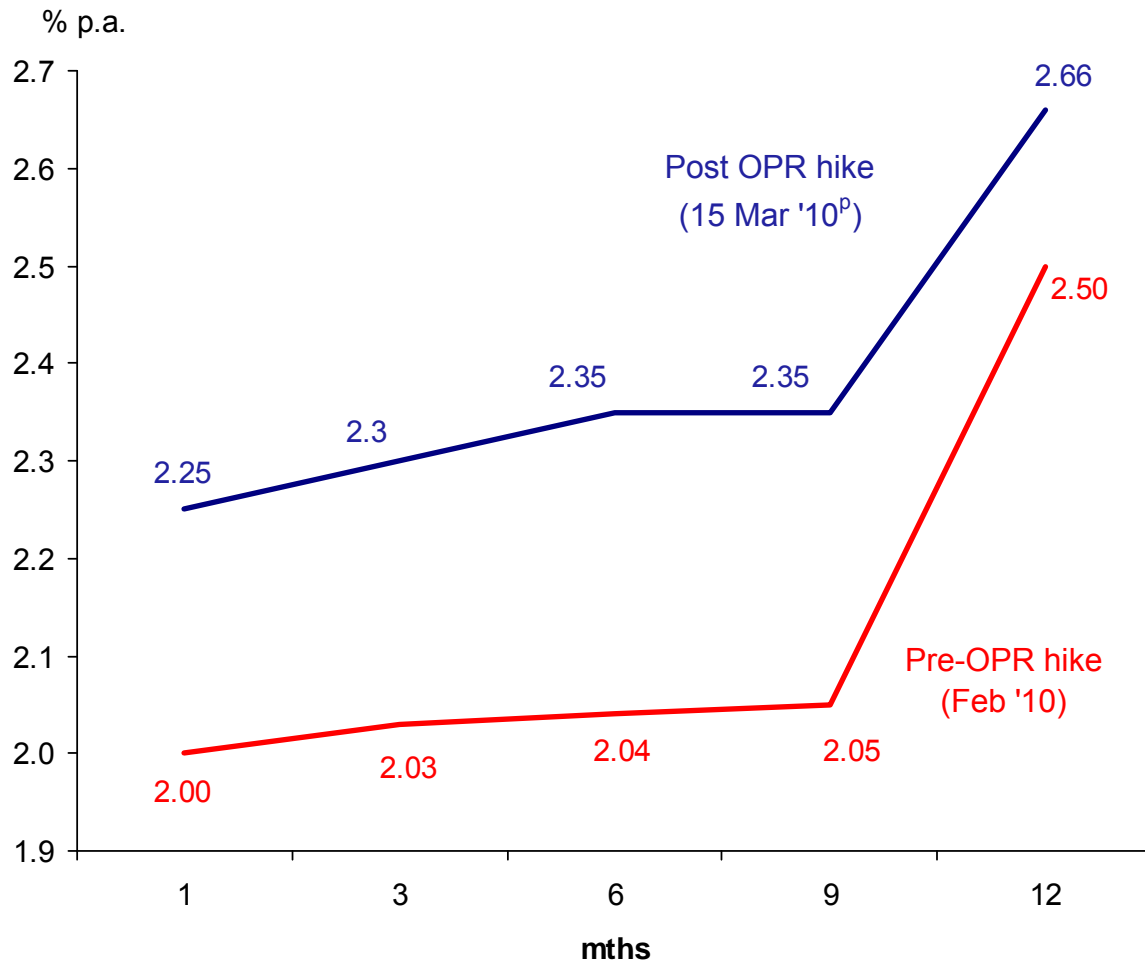


- BLR responded to OPR adjustments
- Lending rates remained near historical lows :
 - Base lending rate: 5.76% (15 March 2010)
 - Average lending rate: 4.85% (end-Feb 2010)



Deposit rates have increased

Term Structure of FD rates



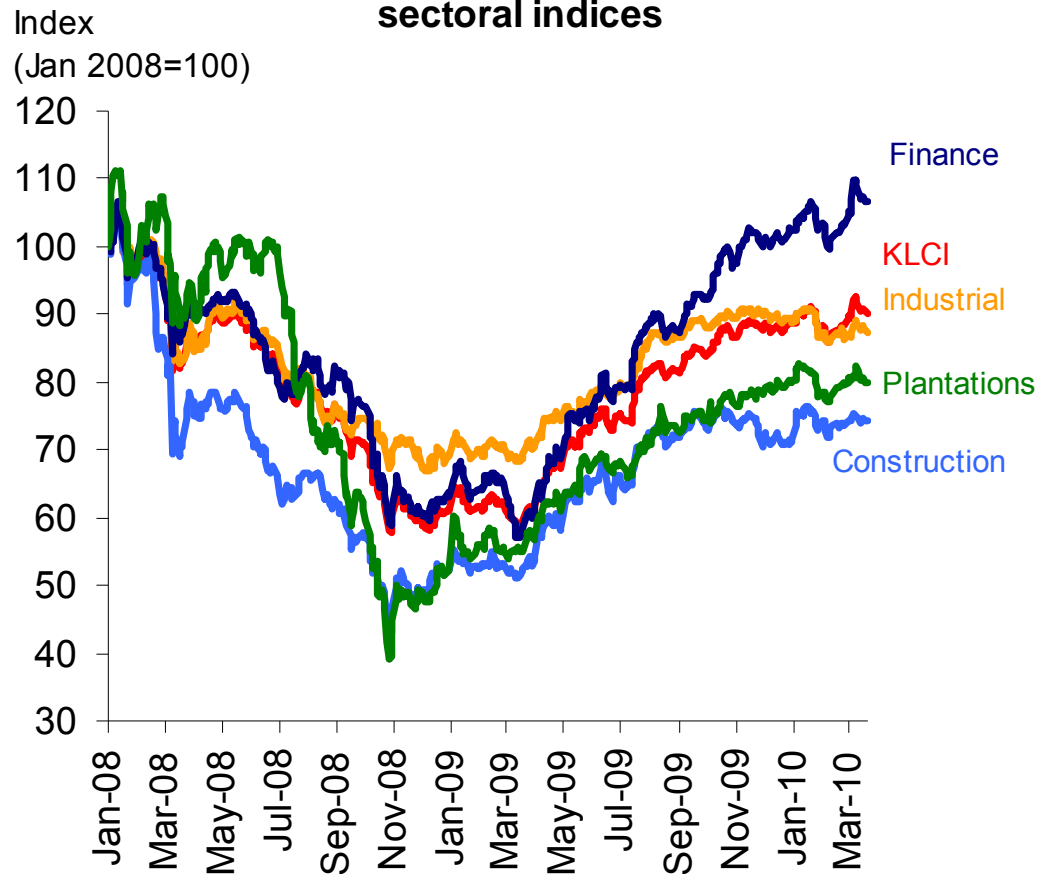
^P Preliminary

- FD rates raised by 16-30 bps following increase in OPR

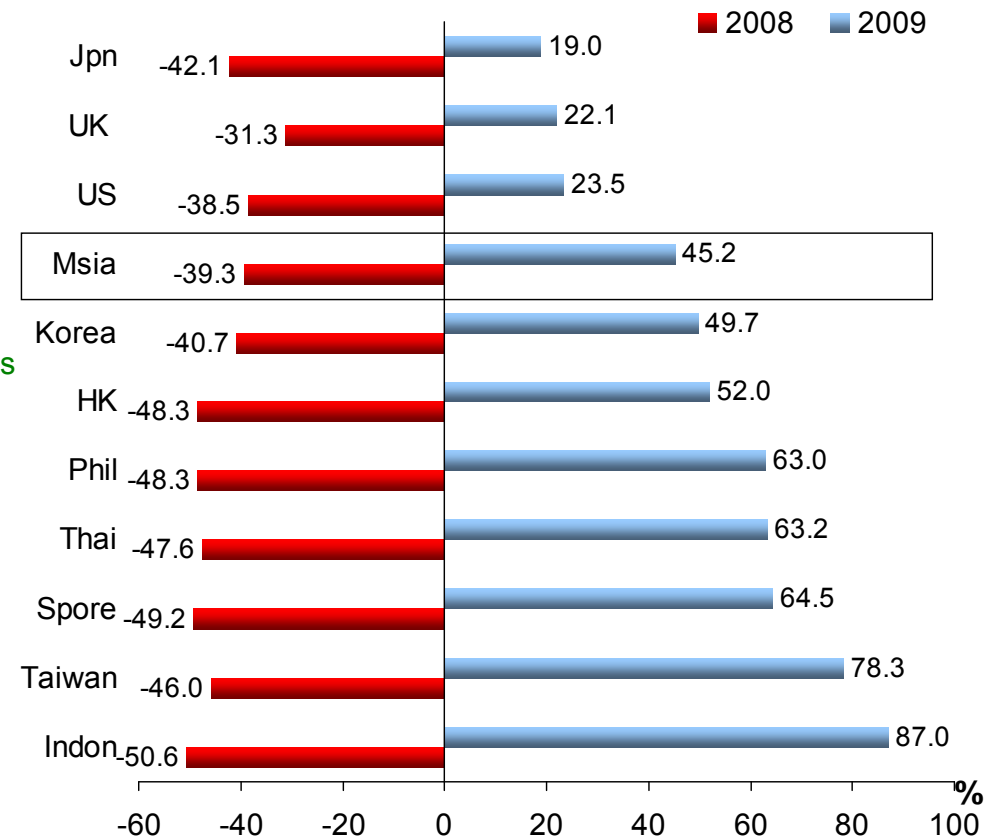


Domestic equity market recovered on improving economic conditions

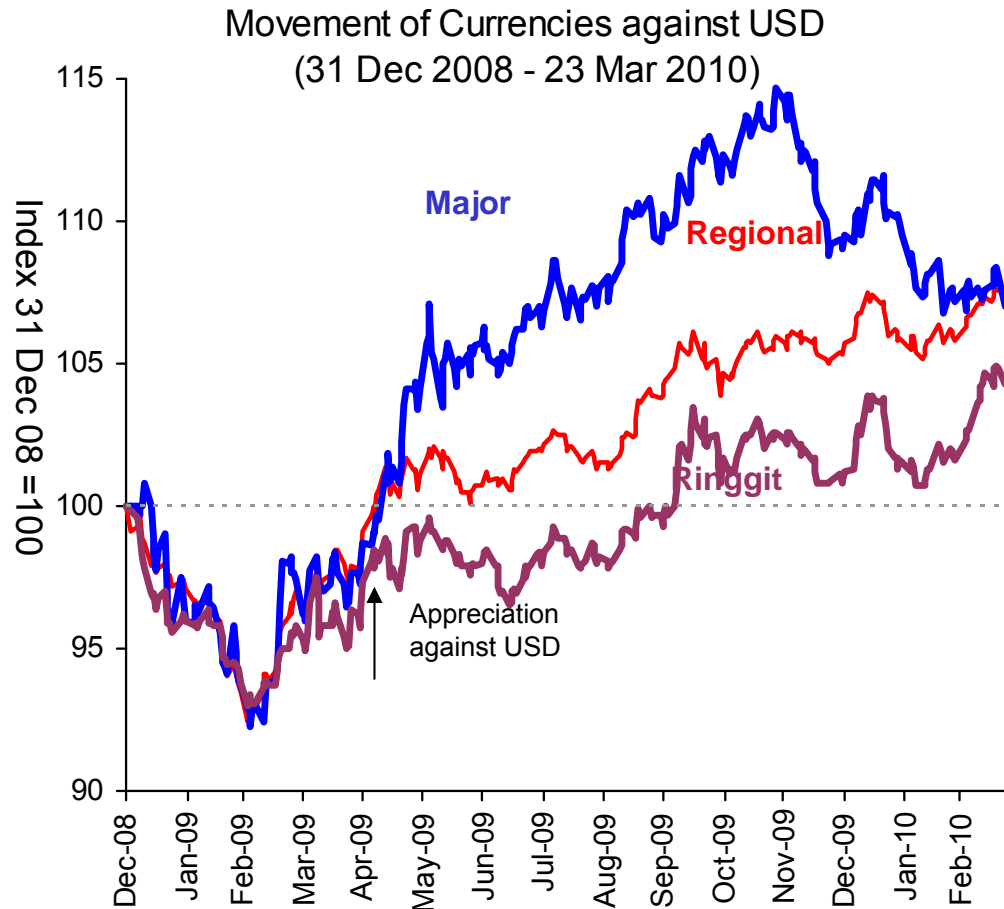
**KLCI and Bursa Malaysia
sectoral indices**



Performance of Major Indices (% growth)



Ringgit performance driven by external developments and improving domestic fundamentals



- Ringgit was on a broad appreciating trend, in tandem with regional currencies
- Generally, orderly ringgit adjustment

Regional: CNY, IDR, KRW, PHP, SGD, TWD, THB

Major: AUD, JPY, EUR, GBP



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For Malaysia, policies will focus on strengthening private sector led growth

- Strategies being put in place to transition Malaysia to a high value-added, high income economy
- Measures to promote private investment
 - incentives for high growth sectors
 - liberalisation of the economy
 - privatisation of Government-owned corporations
- Monetary policy to remain supportive of growth
- Ensure continued access to financing



Bank Negara Malaysia Annual Accounts 2009



Financial position of the Bank remained strong in 2009

- Total assets of BNM increased by RM18.5 billion to RM363 billion with international reserves of RM331.3 billion (USD96.7 billion)
- Net profit of RM7.7 billion
- Dividend paid amounted to RM2 billion



FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT 2009

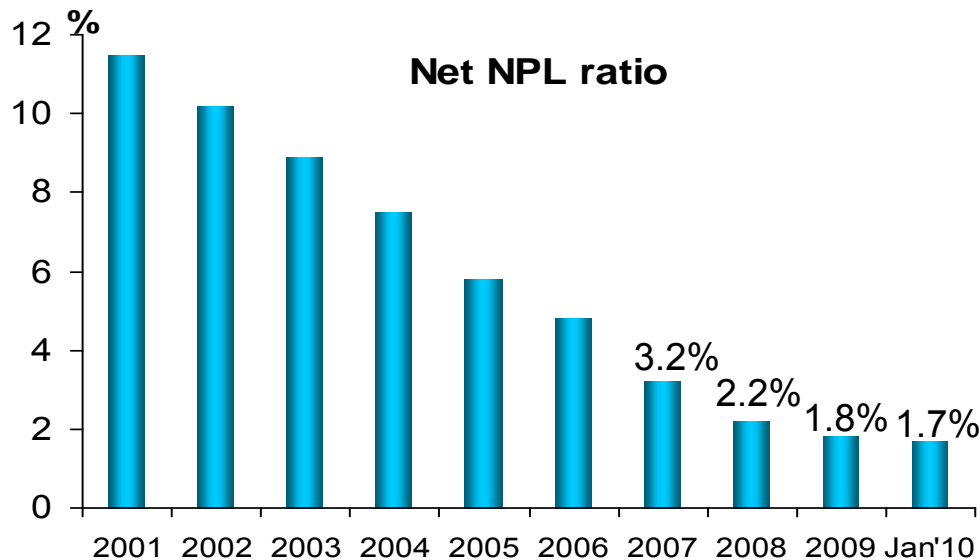


Financial system stability was preserved, supported by a well-functioning financial intermediation process and orderly financial markets



High degree of financial system resilience

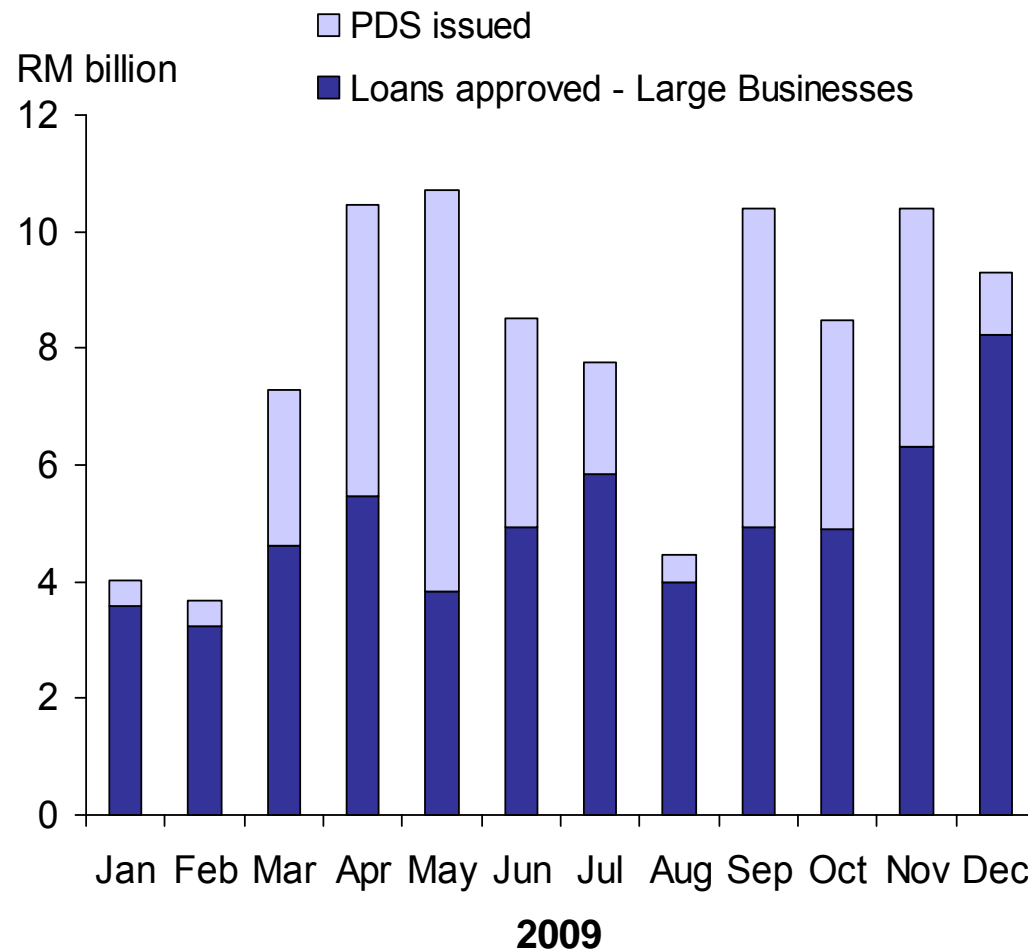
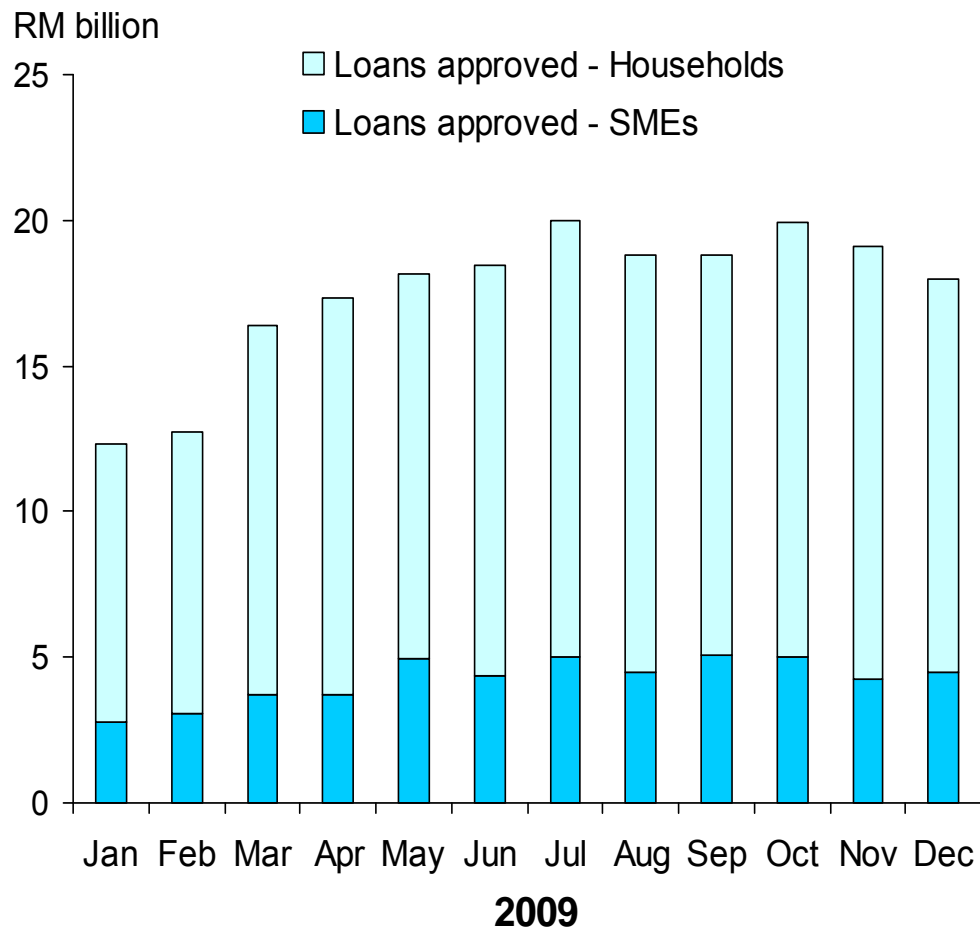
Banking sector (%)	Dec 08	Jan 10
Risk-weighted capital ratio	12.6	14.8
Core capital ratio	10.6	13.3
Capital buffer (RM billion)	38.7	60.3
Insurance sector (%)	Dec 08	Dec 09
Capital adequacy ratio	187.6	230.0
Capital buffer (RM billion)	12.3	18.6



- Strong solvency position
 - Forward looking capital management since 2008
 - High quality of capital
- Loan quality intact
 - Improved underwriting standards
 - Pro-active management of debts
 - Historical high provisions
- Profitability sustained
 - RoE of 13.9% and RoA of 1.2%

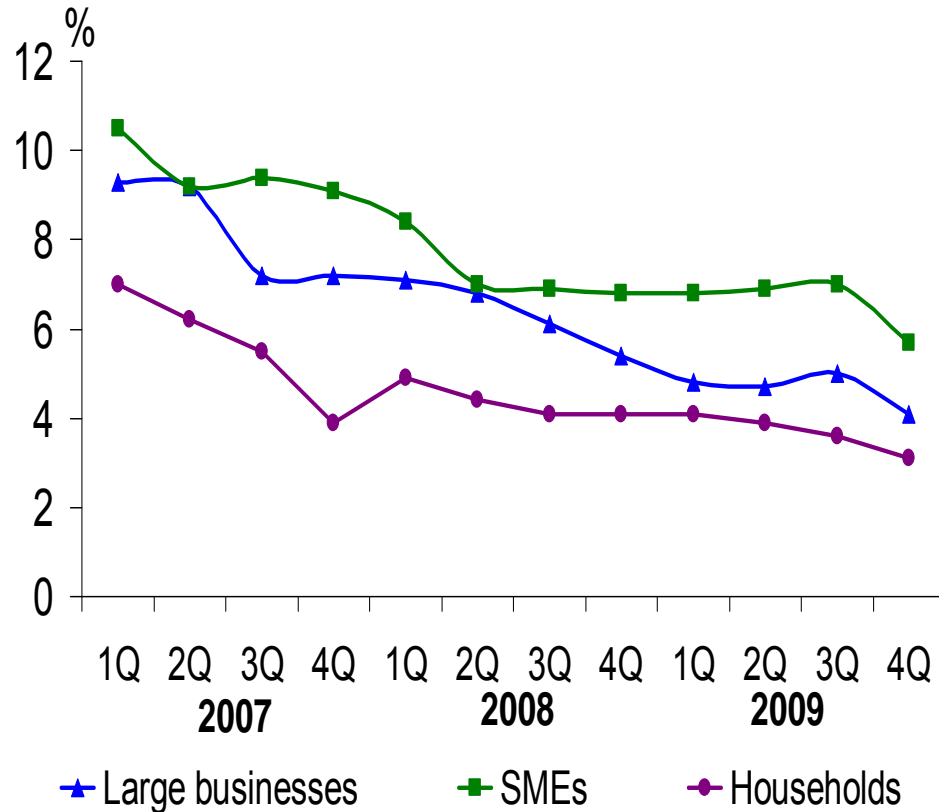


Access to financing supported early recovery

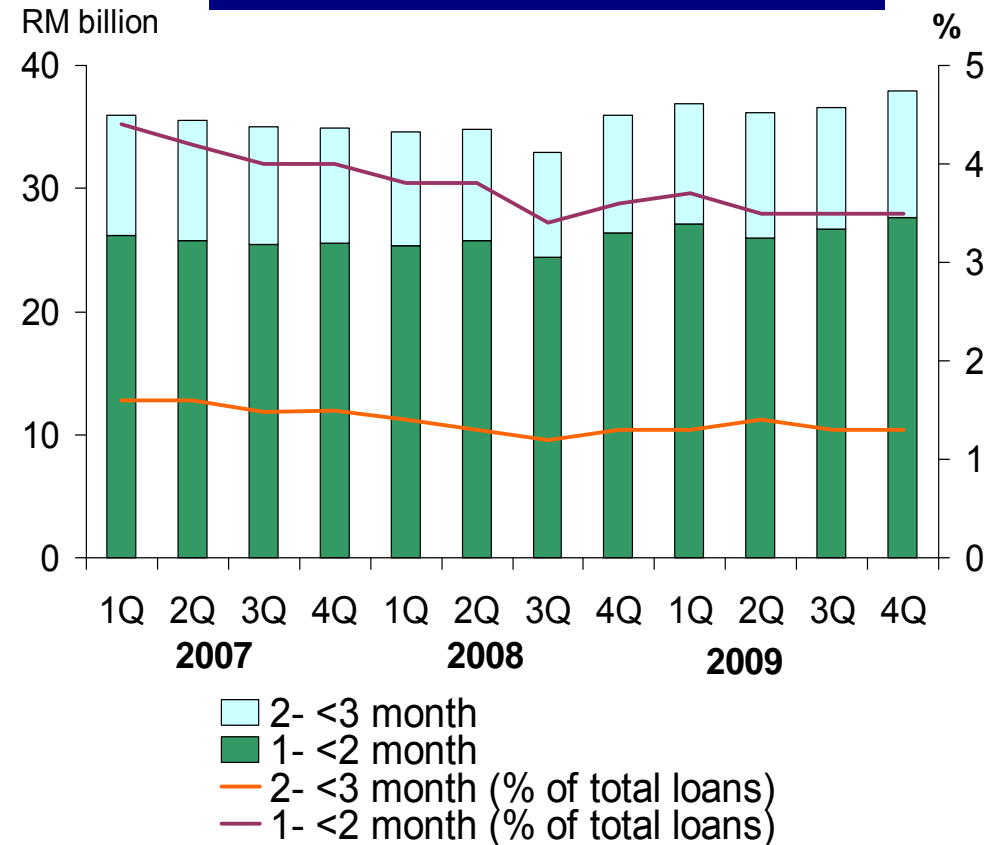


Improving quality of loan portfolio

NPL ratio on steady decreasing trend



Stable loans-in-arrears



Financial stability supported by supervisory vigilance and robust prudential framework

- Early and prompt detection and management of emerging risks
 - Enhanced surveillance and stress testing
 - Strengthening of home-host supervisory engagement to support consolidated supervision
- Improved risk management and governance practices
 - Implementation of more sophisticated approaches to assessments of capital adequacy under Basel II and Risk-Based Capital Framework
 - Continued strengthening of capital buffers to withstand potential shocks
 - Enhanced liquidity framework to address market disruptions and foreign currency exposures
 - Continued improvements in governance practices
 - Strengthened oversight capability of boards of financial institutions



Policy measures to enhance access to financing

- Special funds
 - SME Assistance Guarantee Scheme (RM 2 billion)
 - Working Capital Guarantee Scheme (RM 7 billion)
 - Industry Restructuring Guarantee Scheme (RM 3 billion)
- Avenues for debt restructuring
 - Large corporations: Corporate Debt Restructuring Committee (CDRC)
 - SMEs : Small Debt Resolution Scheme (SDRS)
 - Individuals : Agensi Kaunseling dan Pengurusan Kredit (AKPK)
- Avenues for complaints and financial advice
 - BNM Integrated Contact Centre
 - ABMConnect
- Introduction of credit enhancement agency in 2009
 - Danajamin Nasional Berhad



Developmental strategies continued to be pursued

- In addition to institutional arrangements, mechanisms and schemes for access to financing

- Enhance interlinkages with international economies
 - Liberalisation plan for financial sector
 - MoUs to strengthen bilateral and multilateral cooperation
 - Reinforce international dimension of Islamic finance
- Promote financial inclusion
 - Raise level of financial literacy
 - Operational flexibilities for new branches and bancassurance arrangements for insurance companies and takaful operators
- Continuous priority on human capital development
 - Asian Institute of Finance (AIF) fully operationalised to coordinate human capital development initiatives
 - Continuous enhancement to FSTEP programme design and delivery
 - Enhance FIDE programme for boards of financial institutions



Outlook for domestic financial stability

- Malaysian financial system has adequate buffers to withstand external risks and domestic challenges
 - Banking system capitalisation expected to remain >10% under most challenging stress test scenario
- Downside risks mainly stem from external environment
 - Sustainability of global economic recovery
 - Orderly exit from unconventional support measures
 - Reforms in global prudential regulations and regulatory structure
 - Destabilising capital flows



Supported by strengthened financial stability framework under Central Bank of Malaysia Act 2009

- Greater clarity in mandates, functions and power
- Captures core elements of macroprudential stability
 - **Ex-ante surveillance powers** for timely risks identification
 - **Pre-emptive powers** to avert or mitigate systemic risks
 - **Ex-post powers** for resolution to reduce impact of instability
- Complemented by strengthened framework for governance, transparency and accountability
- Positions the Bank to effectively address current and future challenges



Areas of focus for financial sector in 2010

- Blueprint for financial sector development
 - Develop a strong and stable financial sector that best serves Malaysia
 - Competitive, dynamic and inclusive financial system
- Comprehensive review of existing legislations to ensure an effective and efficient legislative framework to:
 - Align legislation with more principle-based and differentiated supervisory approaches
 - Enhance appropriate enforcement and resolution framework
 - Achieve more consistent legal framework across different financial sectors
 - Strengthen market conduct regulation and supervision
- Transition to enhanced deposit guarantee scheme
- Greater internationalisation of sukuk market



Thank you

