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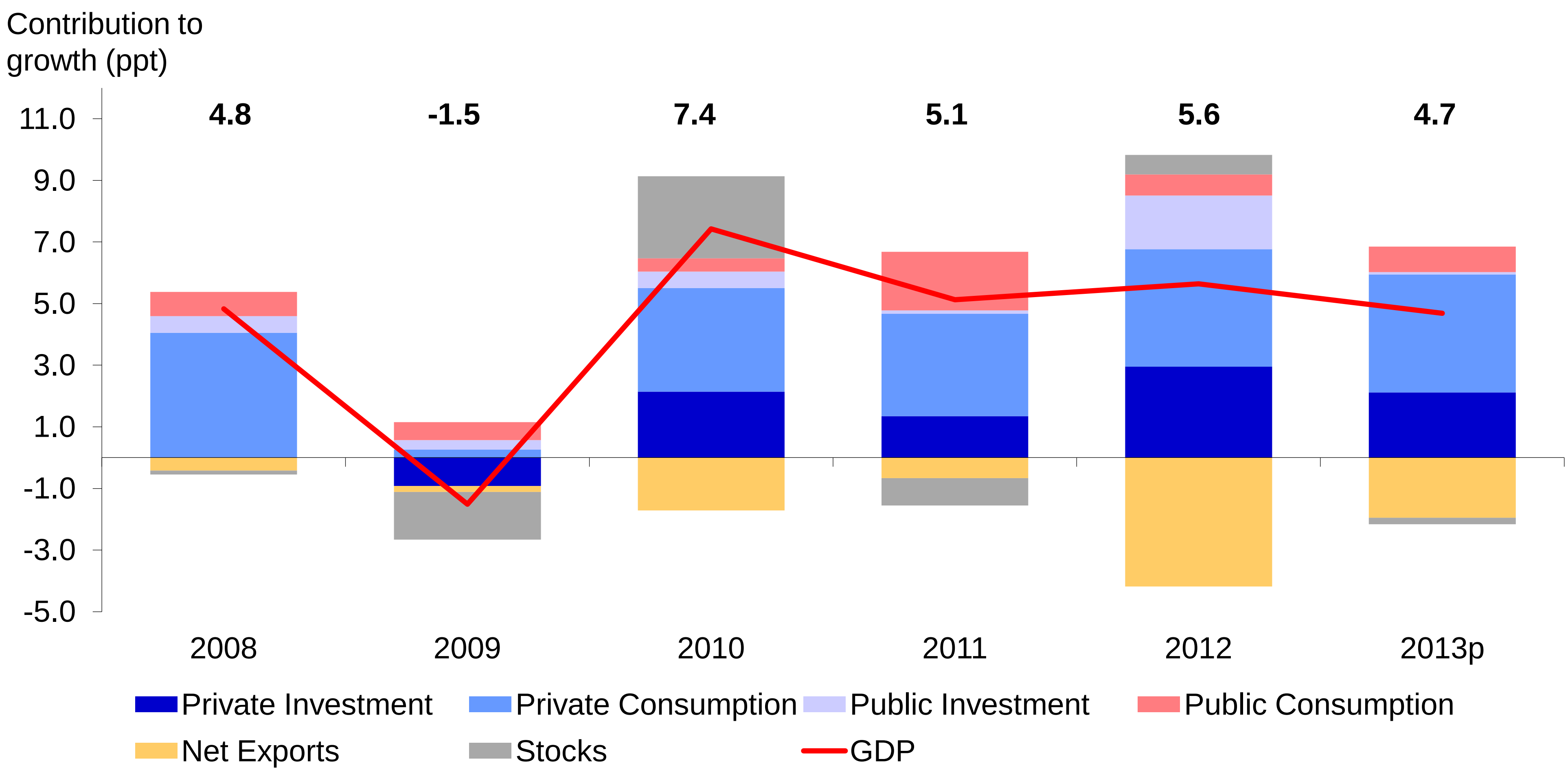
Taklimat Laporan Tahunan 2013 dan Laporan Kestabilan Kewangan dan Sistem Pembayaran 2013

Gabenor

Bank Negara Malaysia

19 Mac 2014

The Malaysian economy expanded by 4.7% in 2013



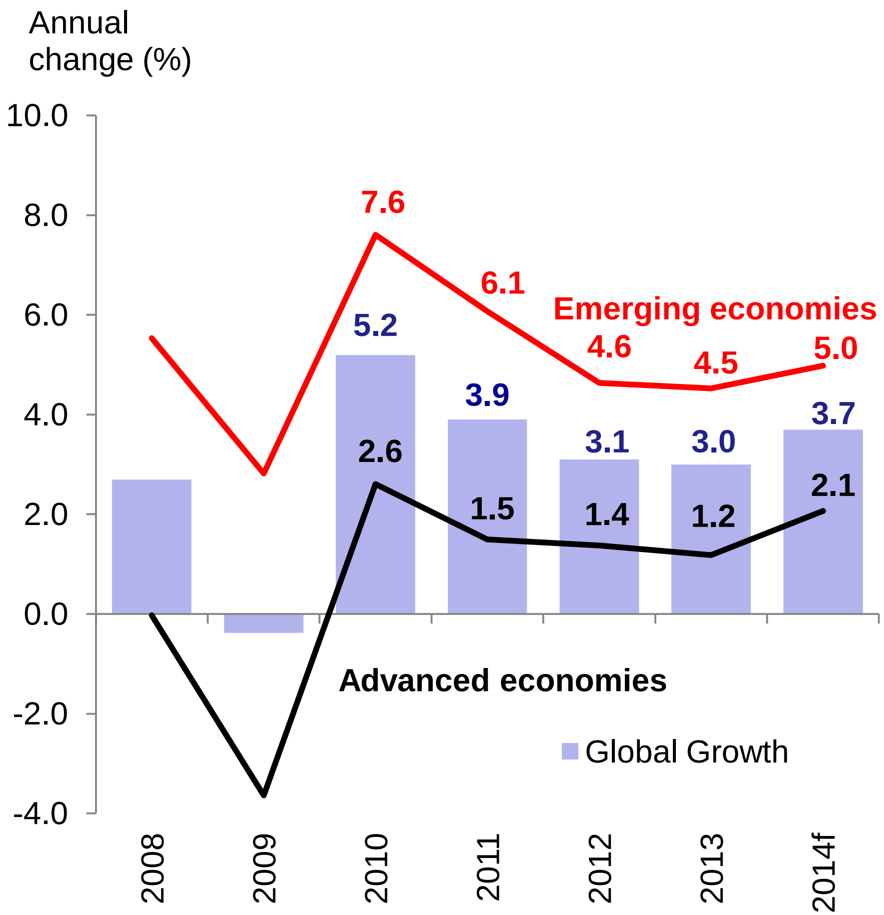
p preliminary

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Key highlights in 2013

- Weaker global economic environment weighed on domestic growth
- Robust domestic demand underpinned by strong investment and consumption activity
- Low inflation of 2.1%
- Resilient external position with current account surplus, low level of external debt and ample international reserves
- Capital flows remained well-intermediated

Global growth to improve in 2014



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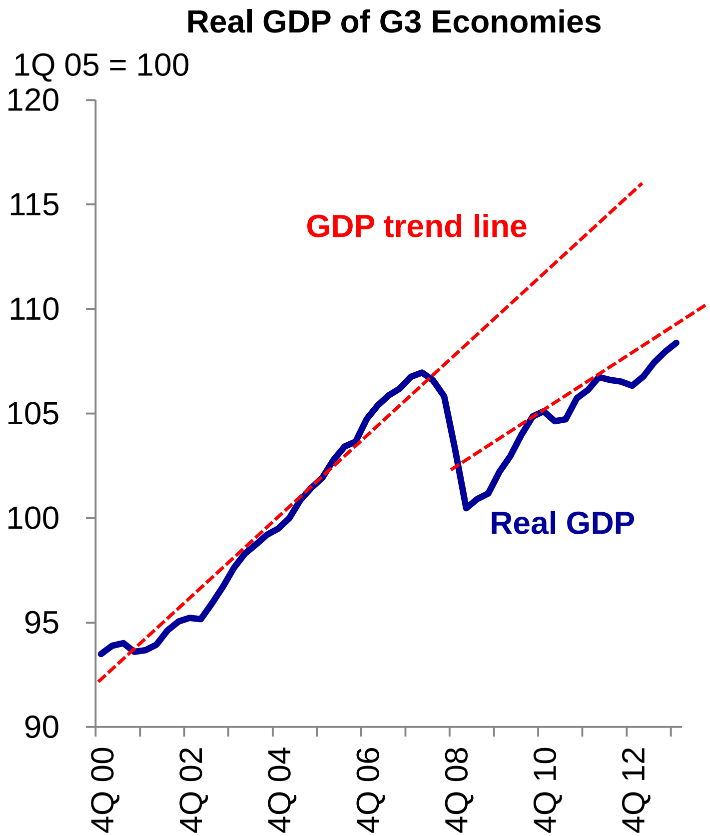
- **Improvement in global growth**
  - Broader recovery in the advanced economies
  - Sustained growth in the emerging economies
- **Downside risks to growth remain**
  - Considerable fiscal uncertainties in the advanced economies
  - Financial imbalances in both the advanced and the emerging economies
  - Risks from global monetary policy normalisation

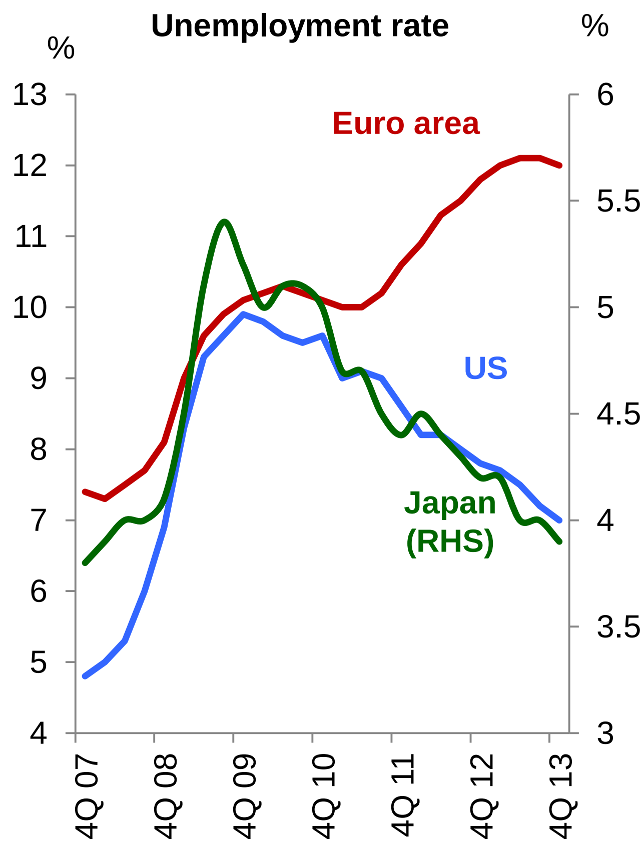
Note: Advanced economies include G7 economies, euro area, Australia, New Zealand and Israel
Emerging economies include PR China, South Asia, Southeast Asia, other advanced Asian economies and other emerging economies
Source: National authorities and IMF World Economic Outlook (January 2014 Update and October 2013)

Pace of recovery in the advanced economies to remain moderate due to structural constraints

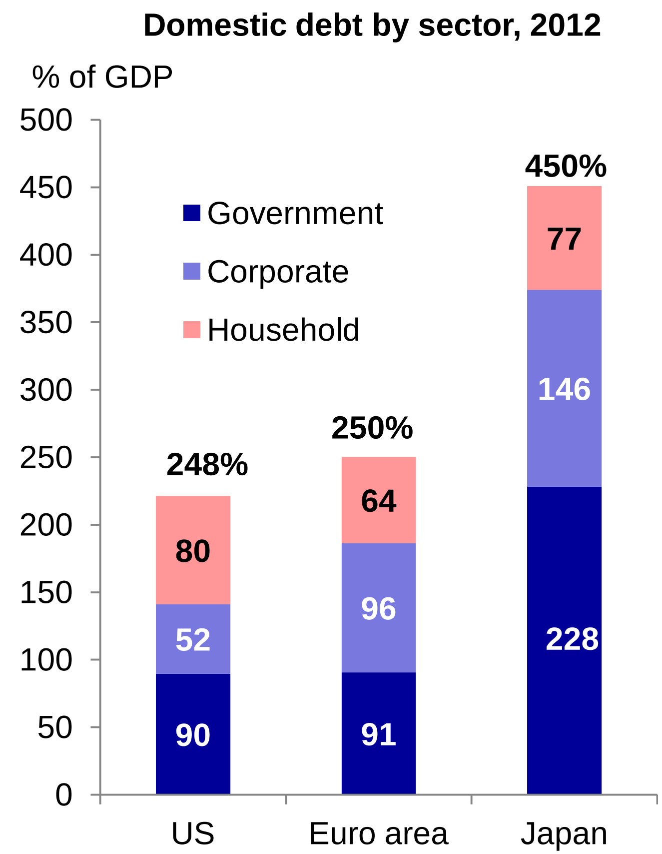
Growth remains below trend due to:



1 Weak labour market conditions

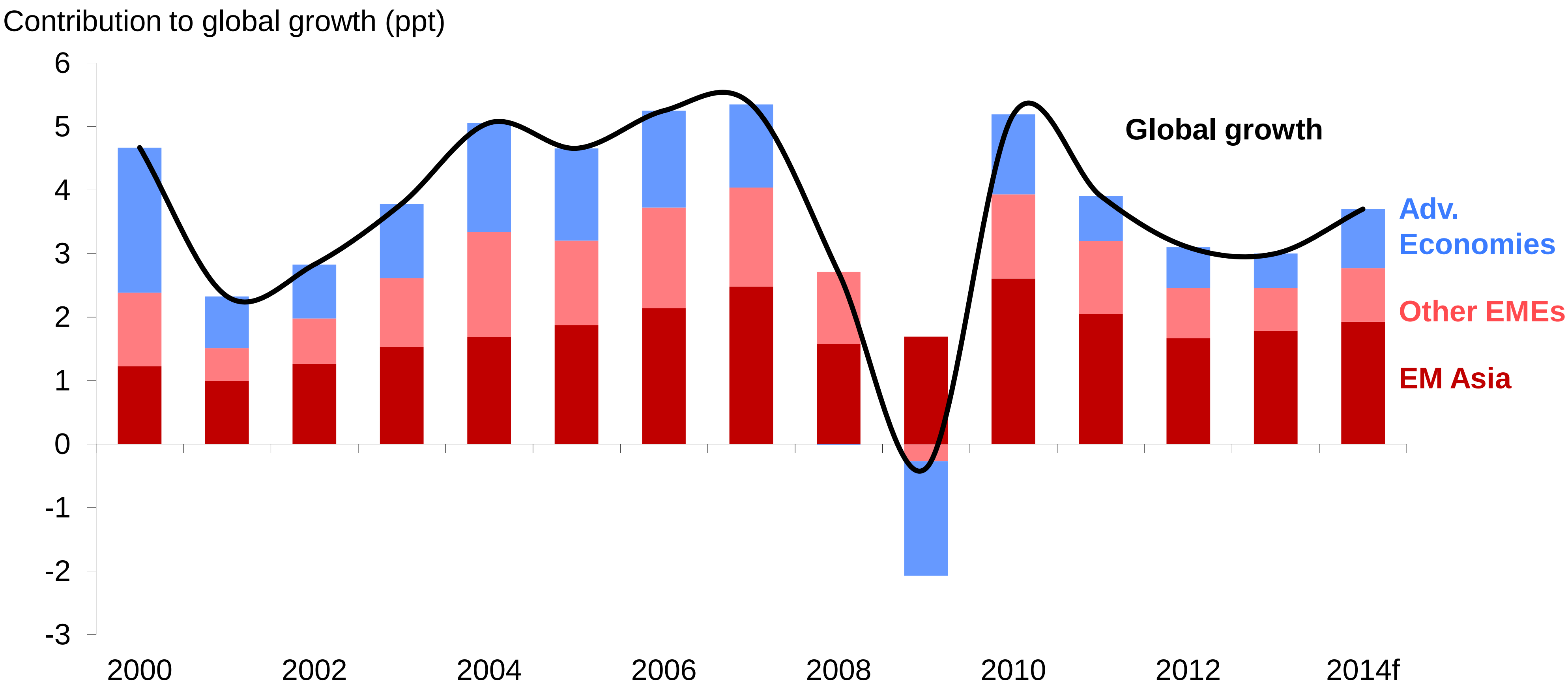


2 High indebtedness



Source: National authorities, Haver and IMF

Emerging economies: Contribution to global growth remains significant



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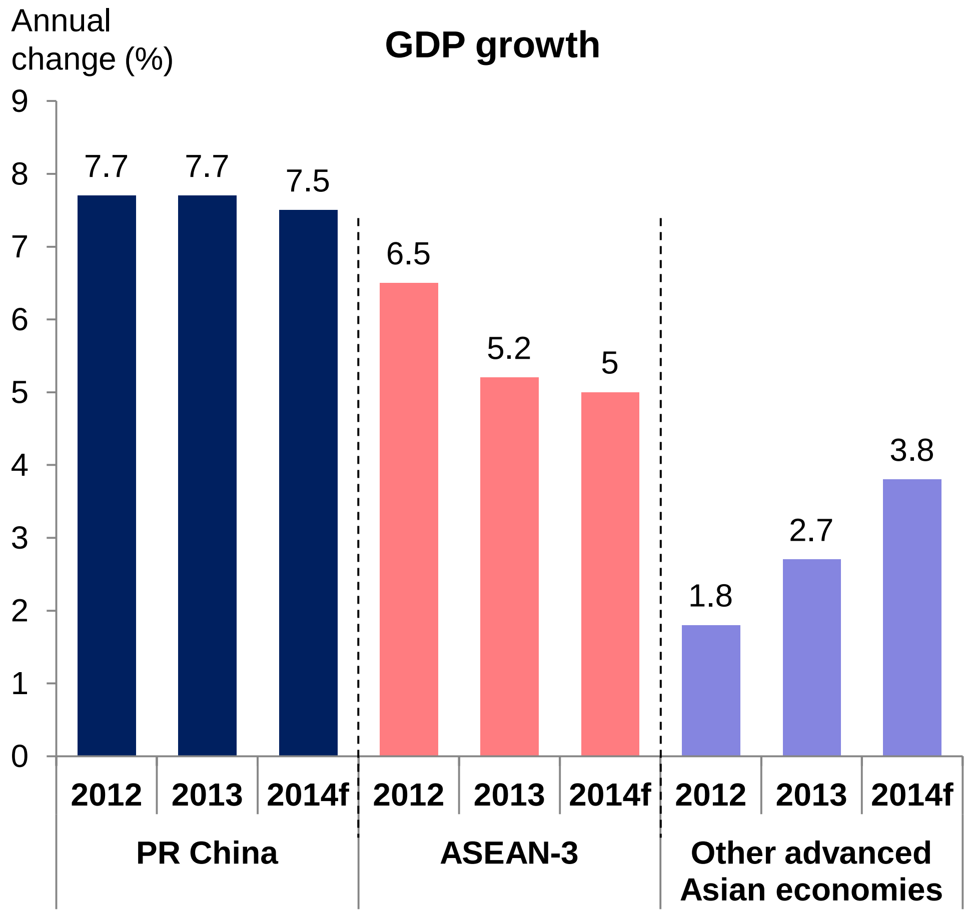
Note: Advanced economies include G7 economies, euro area, Australia, New Zealand and Israel
EM Asia includes PR China, South Asia, Southeast Asia and other advanced Asian economies

Source: IMF World Economic Outlook (January 2014 Update and October 2013), BNM calculations

Asia: Sustained growth momentum



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Growth performance in the region to be supported by country-specific factors

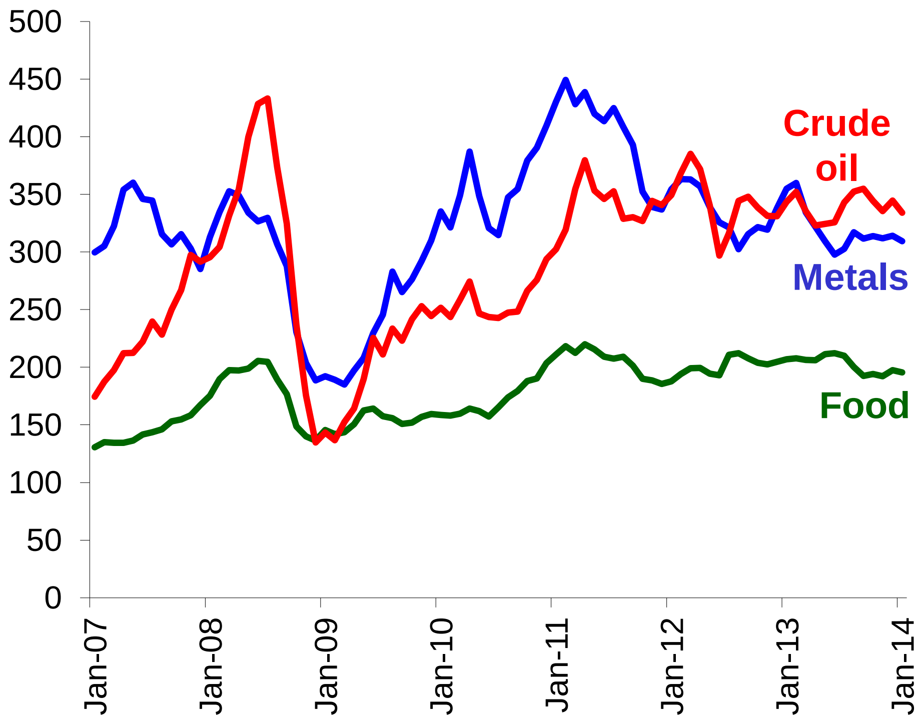
- **PR China:** Continued rebalancing efforts towards more sustainable growth
- **Asia ex-China:** Growth to benefit from improvement in the exports sector

Note: ASEAN-3 refers to Indonesia, Philippines and Thailand
Other advanced Asian economies refers to Korea, C. Taipei, Hong Kong SAR, Singapore
Source: National authorities, IMF WEO October 2013, BNM estimates

Global inflation expected to remain moderate

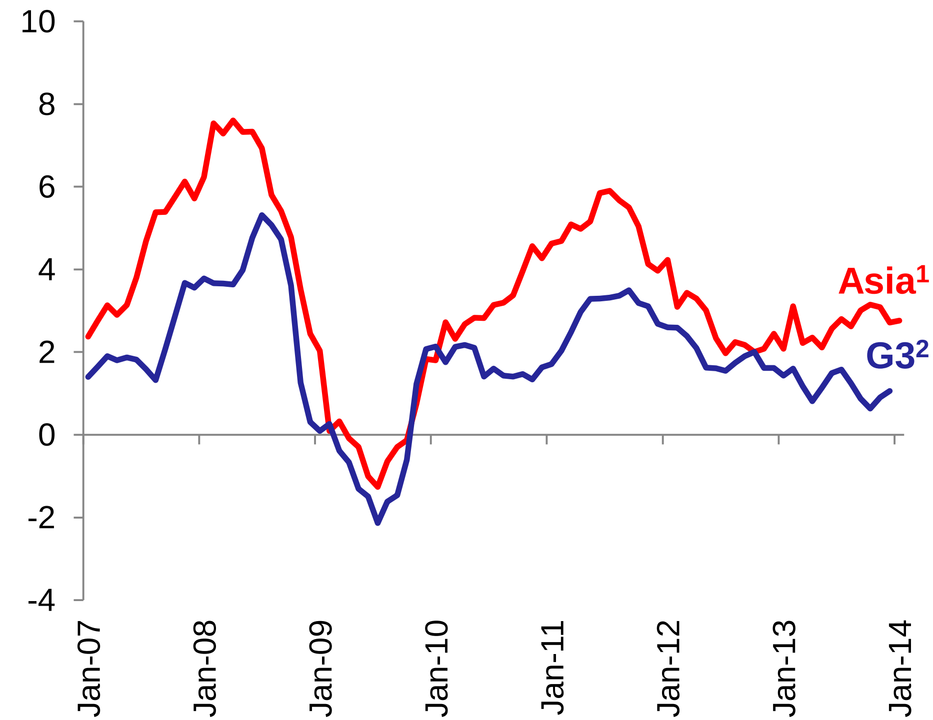
Commodity prices to remain broadly unchanged

Monthly index (Jan '03 = 100)



Low inflation in the advanced economies with contained price pressures in Asia

Annual change (%)

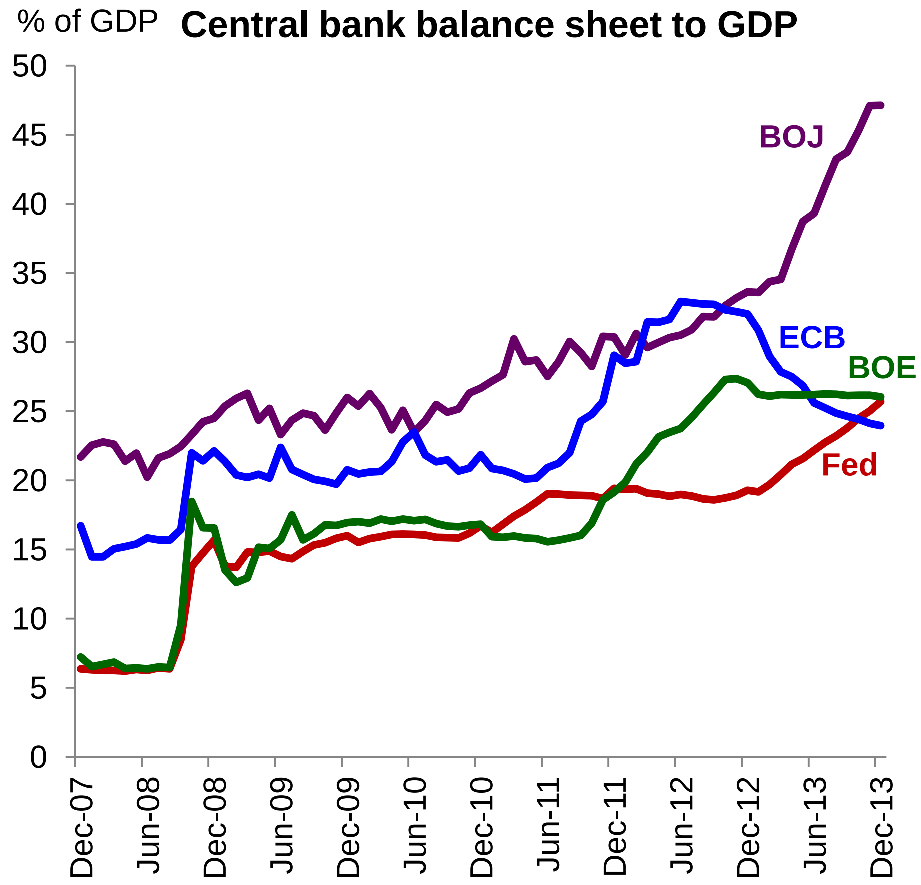


Note: [1] Asia refers to PR China, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Chinese Taipei and Thailand
[2] G3 refers to US, euro area and Japan

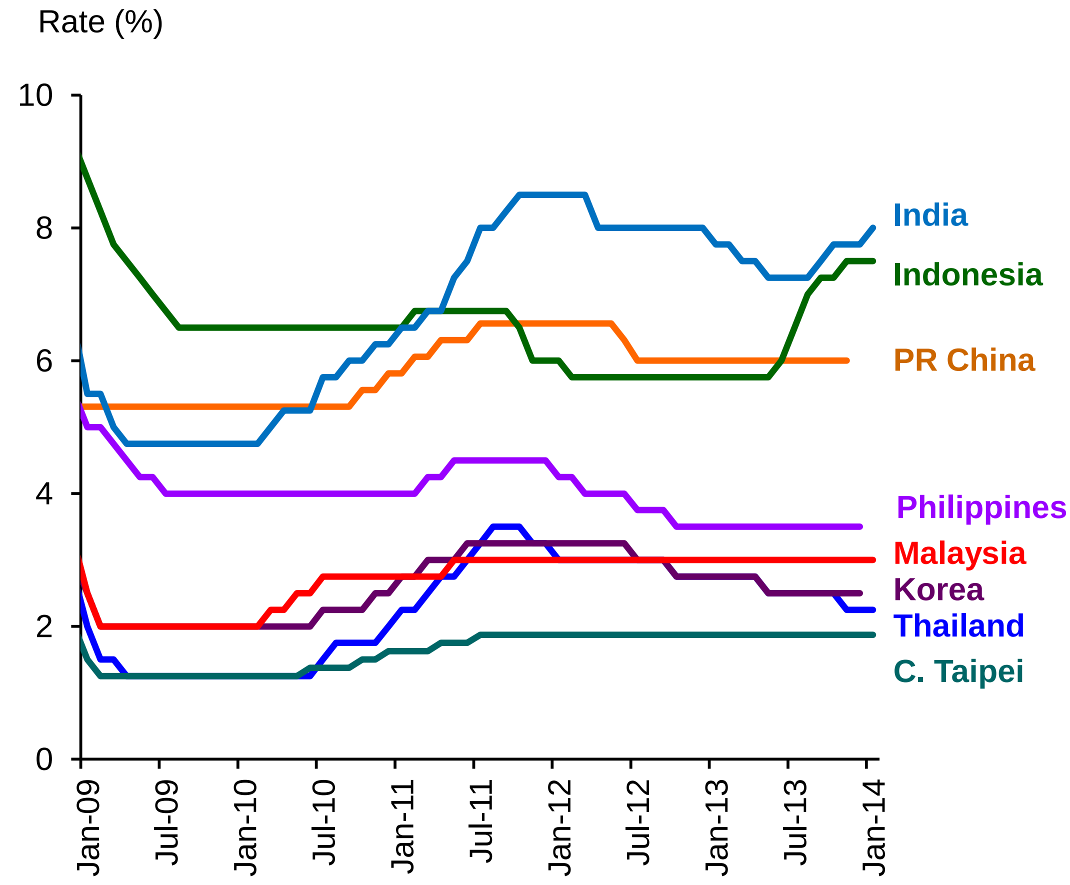
Sources: IMF, Haver and BNM estimates

Monetary policy remains accommodative

The Fed reduced asset purchases in January and February 2014

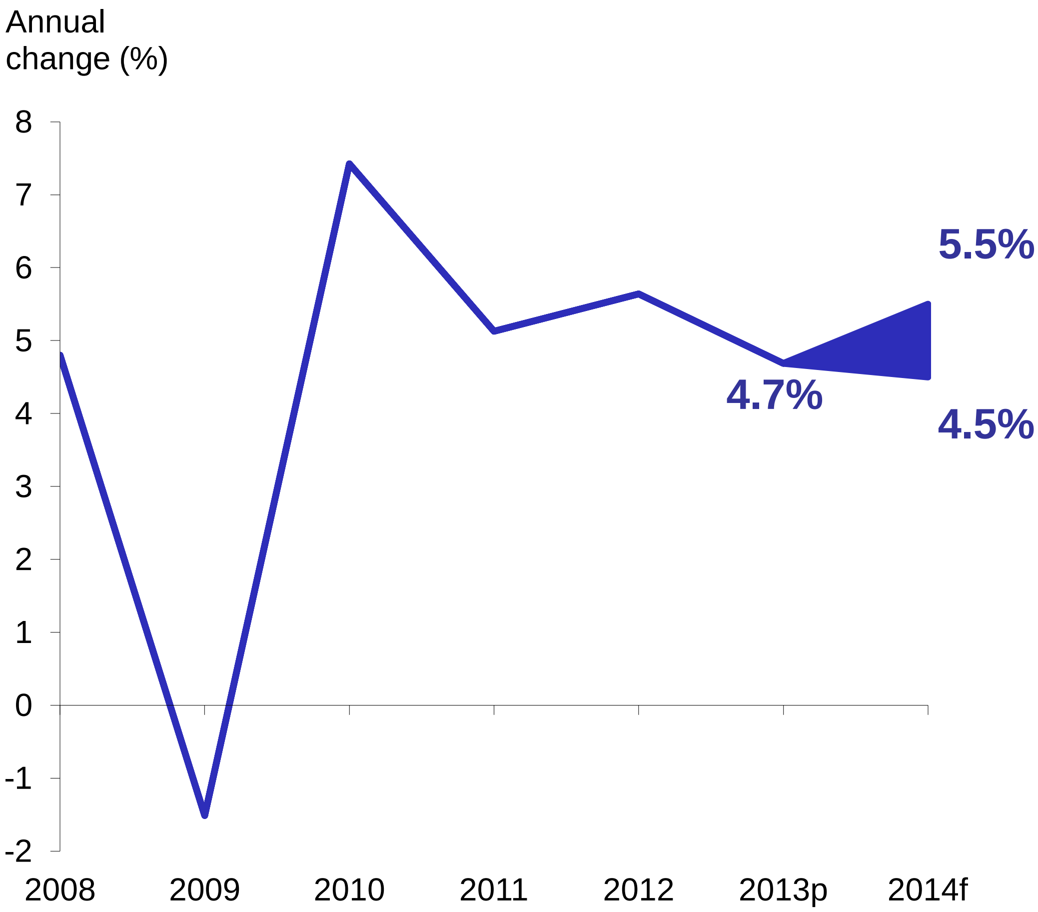


Divergent course of monetary policy across Asia



Source: National authorities and BNM calculations

The Malaysian economy is on a steady growth trajectory of 4.5 – 5.5% in 2014



- Better performance of the external sector
- Domestic demand will continue to anchor growth, led by the private sector
- Broad-based expansion across all economic sectors

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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Improvement in external demand amidst a moderation in domestic demand

	2013p	2014f
	Annual change (%)	
Domestic demand[1]	**7.6**	**6.9**
Private sector	**9.0**	**8.3**
Consumption	*7.6*	*6.9*
Investment	*13.6*	*12.6*
Public Sector	**3.7**	**2.9**
Consumption	*6.3*	*3.0*
Investment	*0.7*	*2.9*
Net exports of goods & services	**-22.9**	**-10.3**
Exports of goods & services	-0.3	2.1
Imports of goods & services	1.9	3.1
Real GDP	**4.7**	**4.5 - 5.5**

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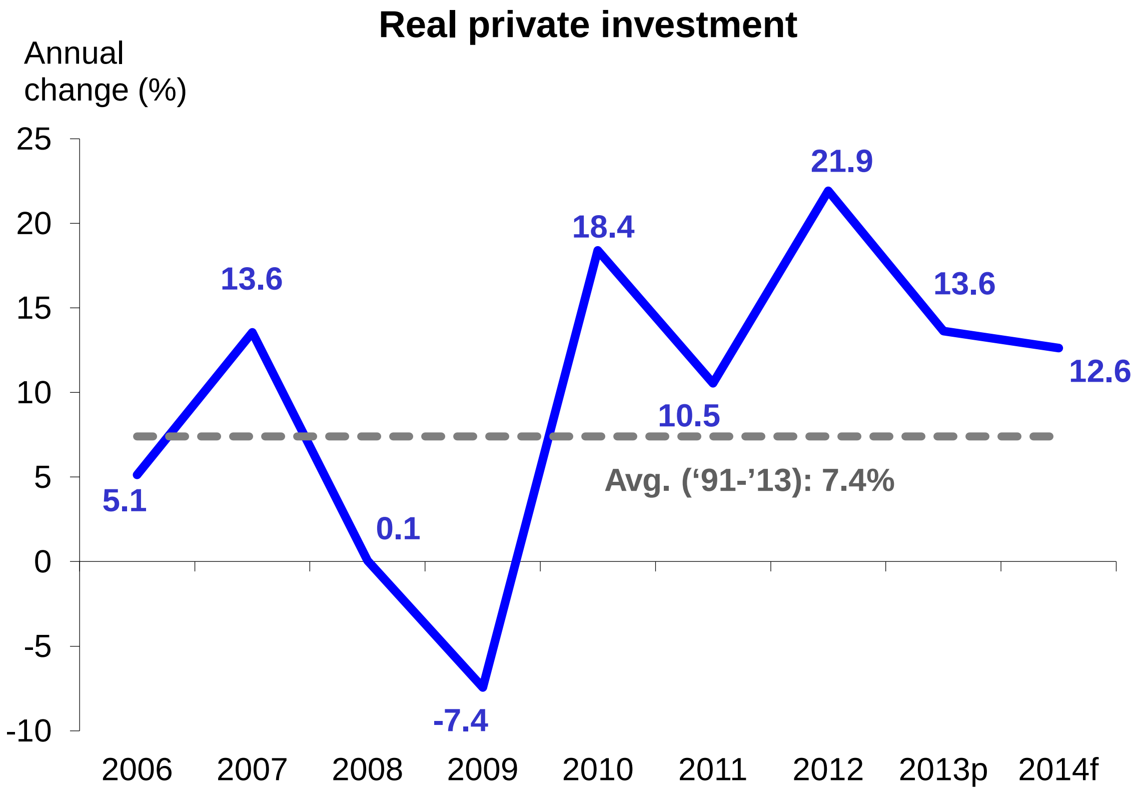
Note: [1] excluding stocks
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Private investment to remain robust…



Private investment to be supported by:

- Improvement in external demand
- Commencement of new projects, particularly in the services and manufacturing sectors
- Continued progress in existing projects, including those in the mining sector

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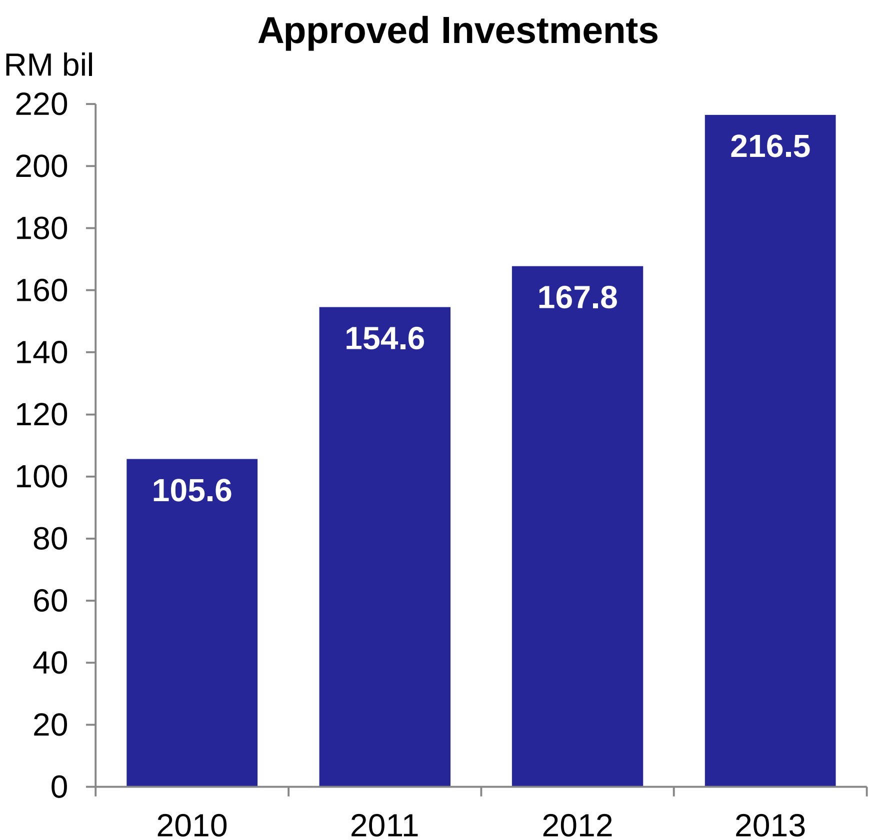
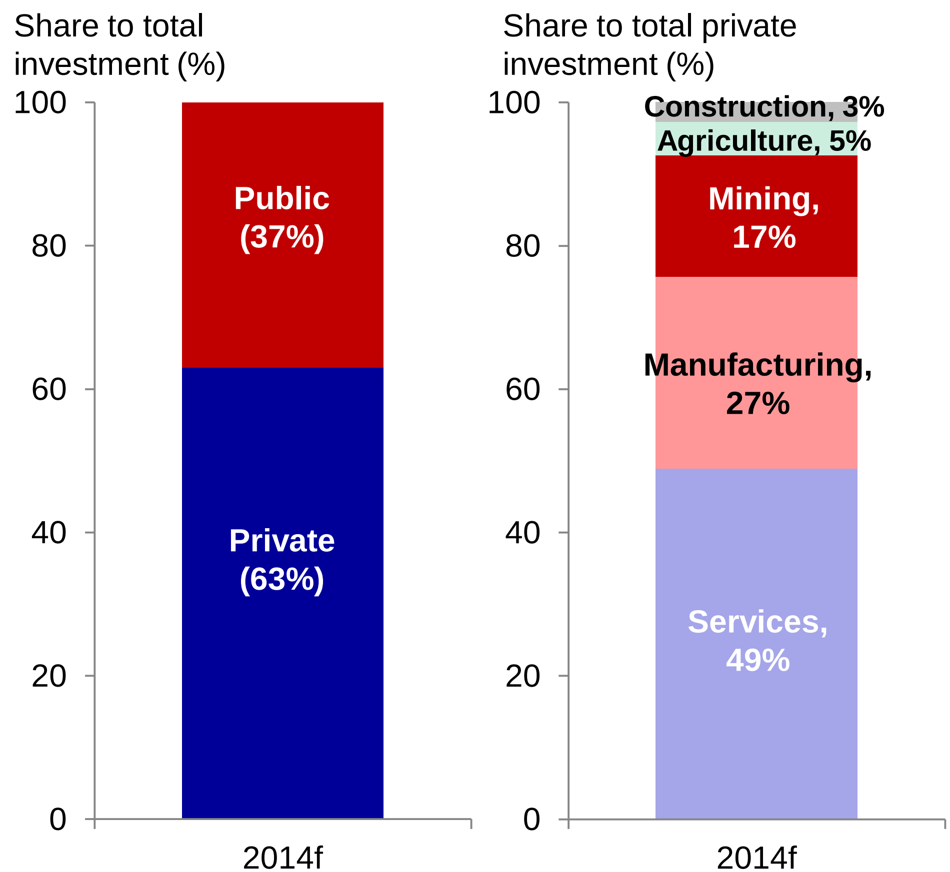
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

… and broad-based

Investment approvals on an upward trend



Capital spending to remain diverse across sectors



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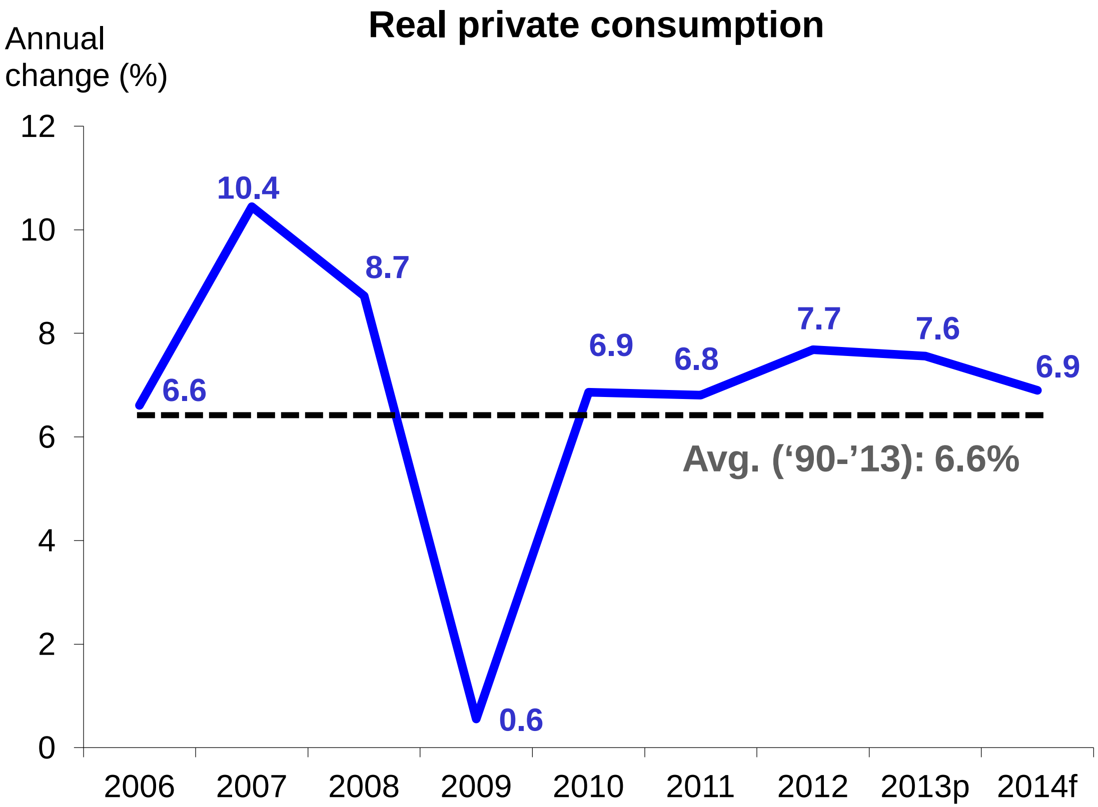
Source: MIDA and BNM estimates

Private consumption to moderate to its long-term average



Private consumption growth will be supported by:

- Sustained income growth
- Steady employment conditions

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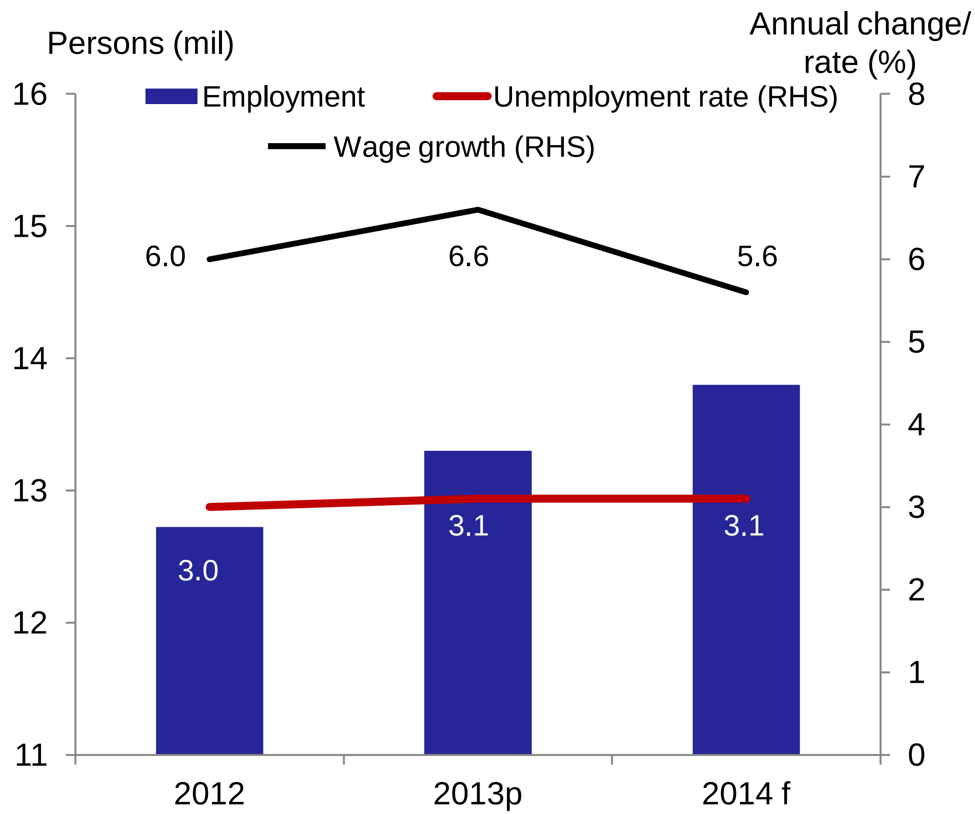
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Favourable labour market conditions to support consumption

Stable employment conditions and sustained wage growth



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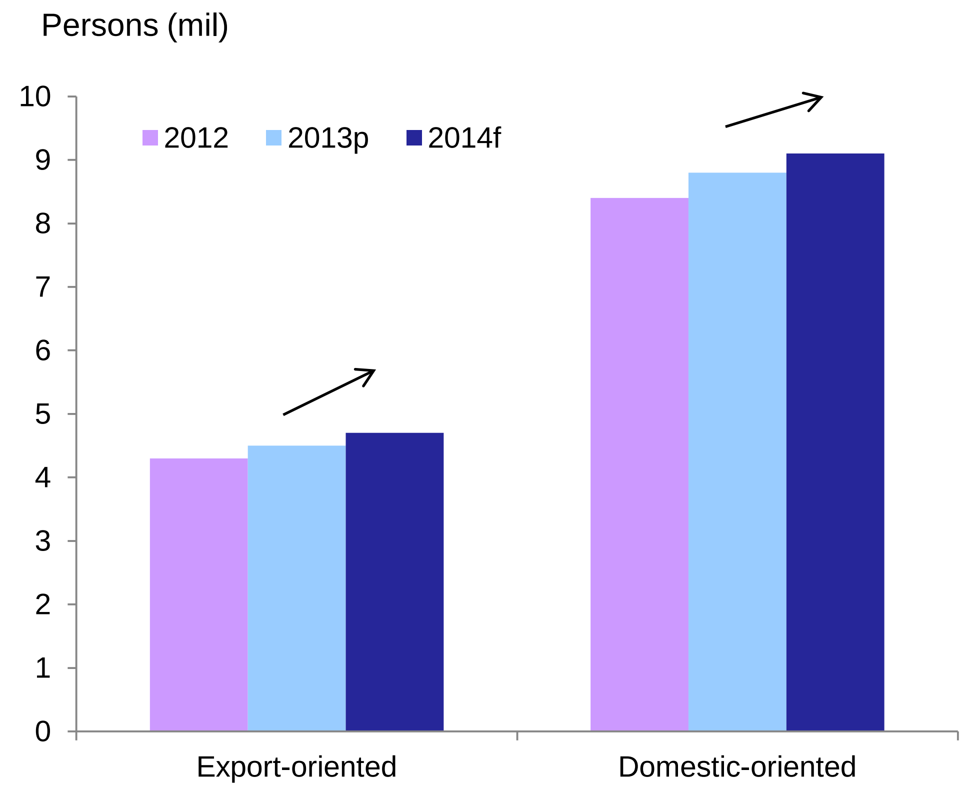
Employment to be supported by both export and domestic-oriented sectors



Source: Department of Statistics Malaysia, MEF Salary Survey, Bank Negara Malaysia

Higher growth amid continued expansion in all economic sectors

	% share of GDP (2013)	2013p	2014f
		Annual change (%)	
Services	55.2	5.9	6.2
Manufacturing	24.5	3.4	3.5
Mining	8.1	0.5	1.6
Agriculture	7.1	2.1	3.8
Construction	3.7	10.9	10.0
Real GDP	**100.0**	**4.7**	**4.5 - 5.5**

- **Services and manufacturing sectors**
  - Benefit from improvement in the global economy amidst growth in domestic demand
- **Commodity sector**
  - Driven by higher production of natural gas, crude oil and palm oil
- **Construction sector**
  - Growth across residential and commercial property and civil engineering projects

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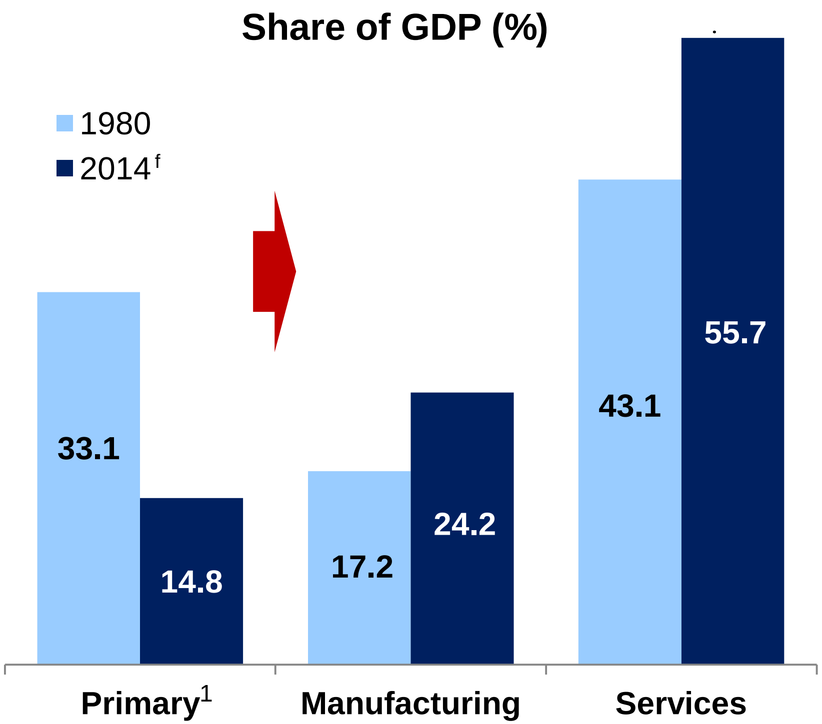
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Domestic economy continues to diversify

Ongoing diversification from primary to manufacturing and services sectors



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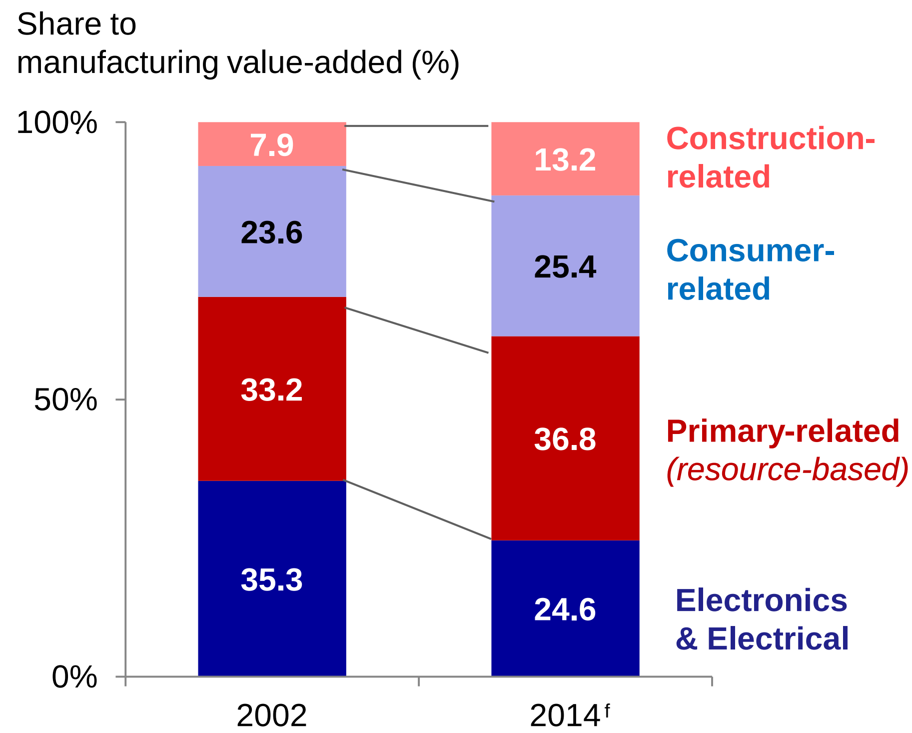
Higher downstream resource-based activity in the manufacturing sector



Note: [1] Refers to the agriculture and mining sectors

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

BNM Annual Report 2013, Box Article: Further Diversification of Malaysia's Resource-based Industries

External trade: Higher export growth amid continued expansion in imports

Annual change (%)	2013p	2014f
Gross exports	**2.4**	**5.8**
Manufactured	**5.7**	**7.2**
E&E[1]	*2.9*	*5.0*
Non-E&E	*8.4*	*9.3*
Commodities	**-5.6**	**0.9**
Agriculture	*-17.0*	*8.5*
Minerals	*3.8*	*-4.1*
Gross Imports	**7.0**	**8.9**
Capital	*2.8*	*7.2*
Intermediate	*4.3*	*6.0*
Consumption	*8.7*	*8.5*
Trade balance (RM bn)	**70.6**	**54.6**

- Export performance to improve:
  - Manufactured export growth supported by the improvement in the global economy; and
  - Commodity exports to improve with better demand and lower decline in prices
- Gross imports driven by growth of intermediate imports, amid the continued expansion in domestic demand

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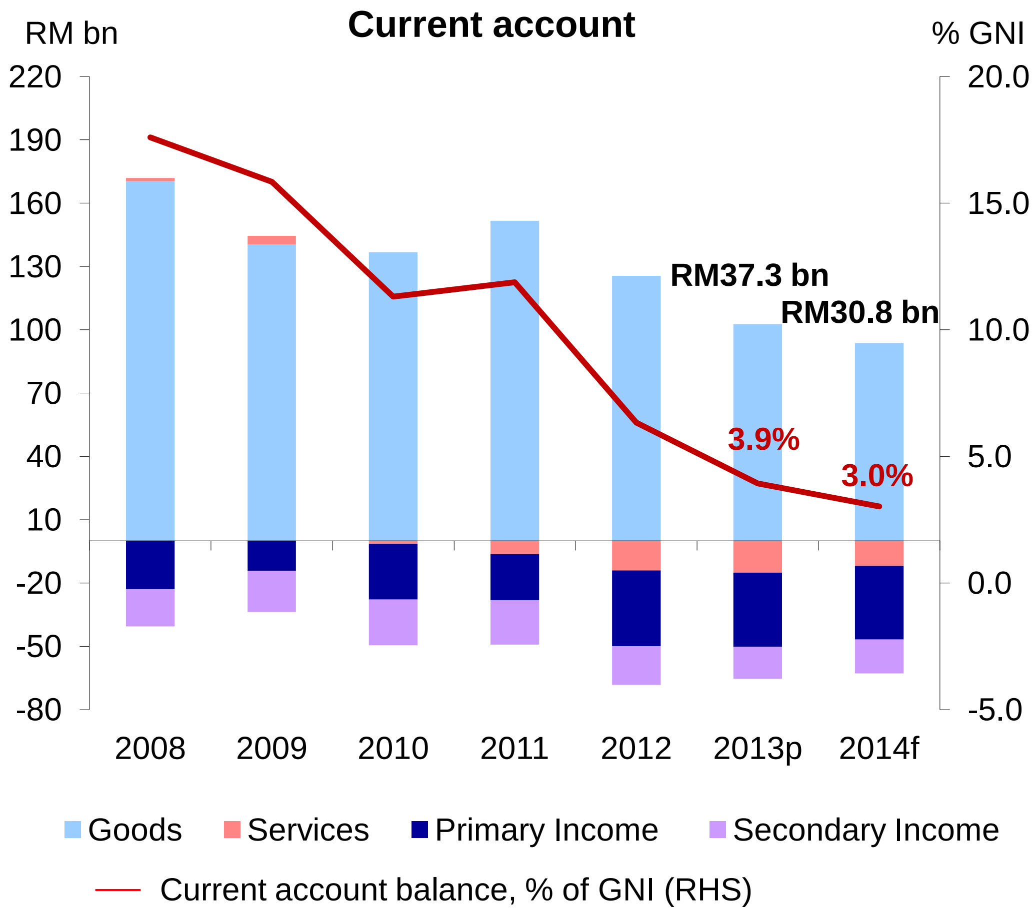
Note: [1] Includes machinery and equipment
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Current account to remain in surplus



- A smaller current account surplus reflects ongoing structural shifts in the domestic economy
- Lower trade surplus as imports continue to outpace exports
- Continued strong investment will improve Malaysia's productive capacity and boost exports in the medium and longer term

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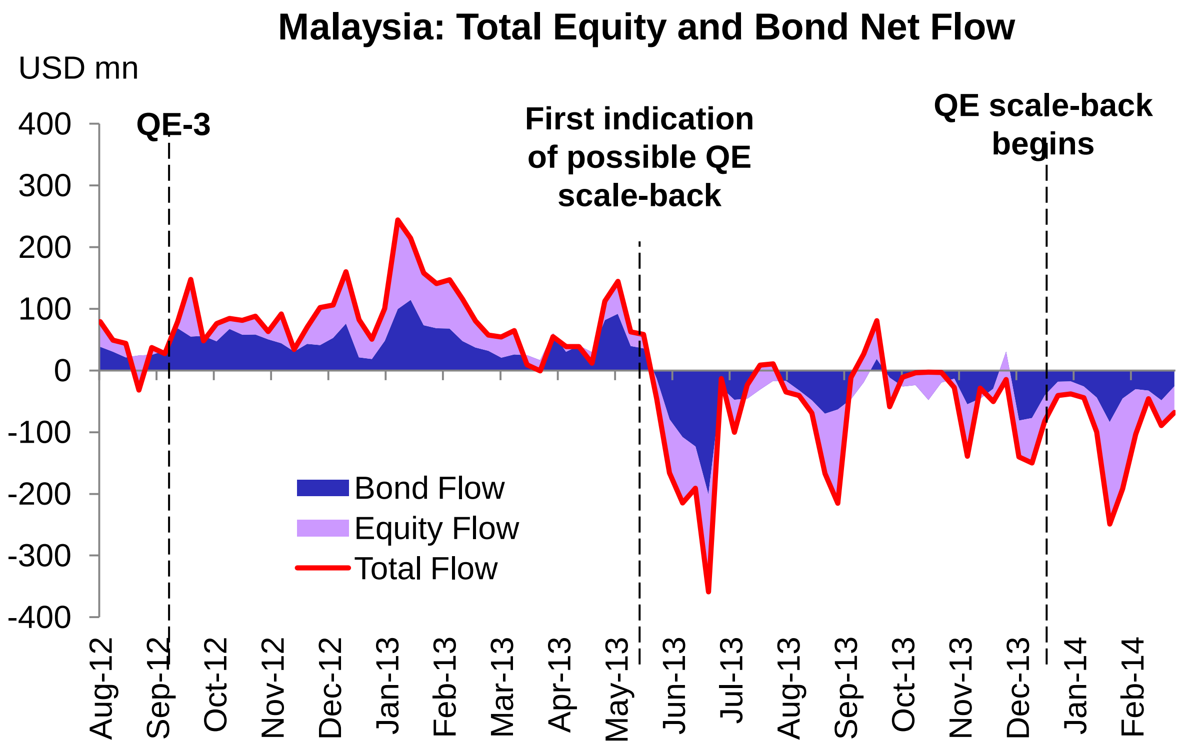
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Global financial conditions to remain volatile

2013: Heightened volatility of capital flows following QE scale-back by the Fed



2014: Financial markets remain vulnerable to changes in sentiments

- Policy shifts in the advanced economies
- Potential for contagion
- Large and volatile capital flows

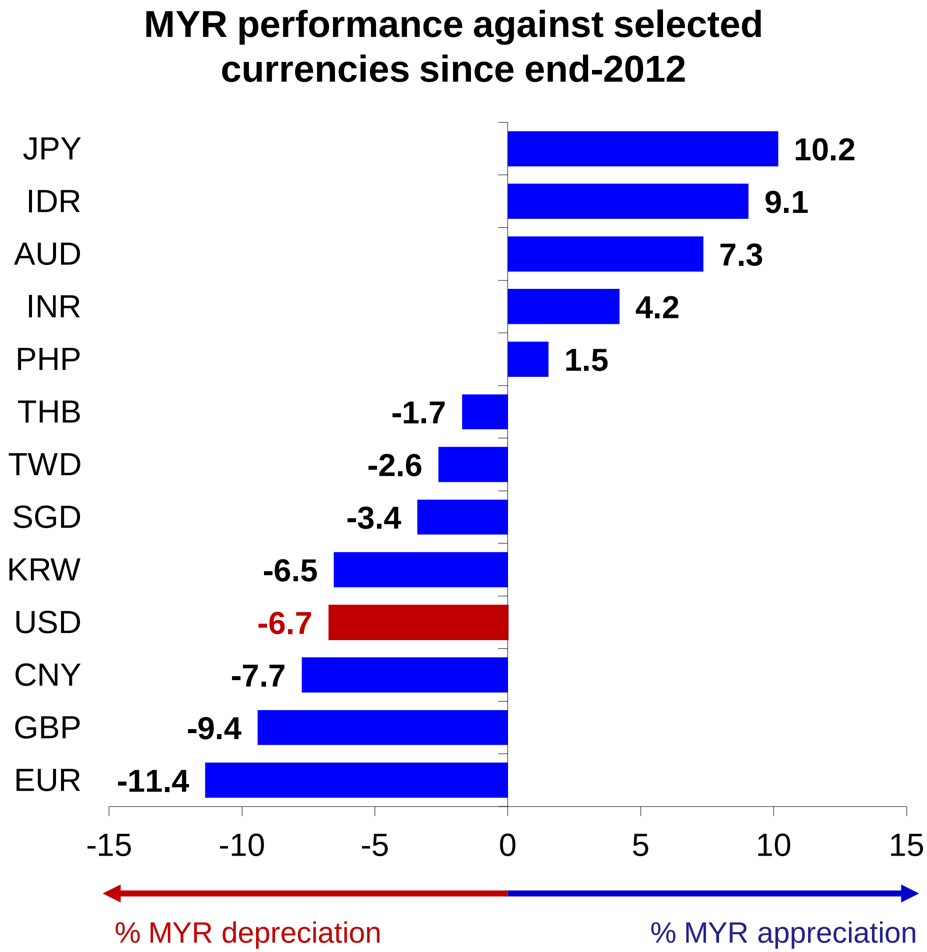
Source: EPFR

Note: EPFR refers to net portfolio flows (both equity and bonds) by non-resident investors. These data are compiled based on surveys of fund managers and do not capture investments by institutional investors.

Deeper financial system and wider policy toolkit to manage global financial market volatility

- Stronger financial institutions
- Deeper and well-diversified capital market
- Greater exchange rate flexibility and ample international reserves
- Wider range of monetary instruments to sterilise excess liquidity
- Robust surveillance system on capital flows
- Stronger regional surveillance and collaboration

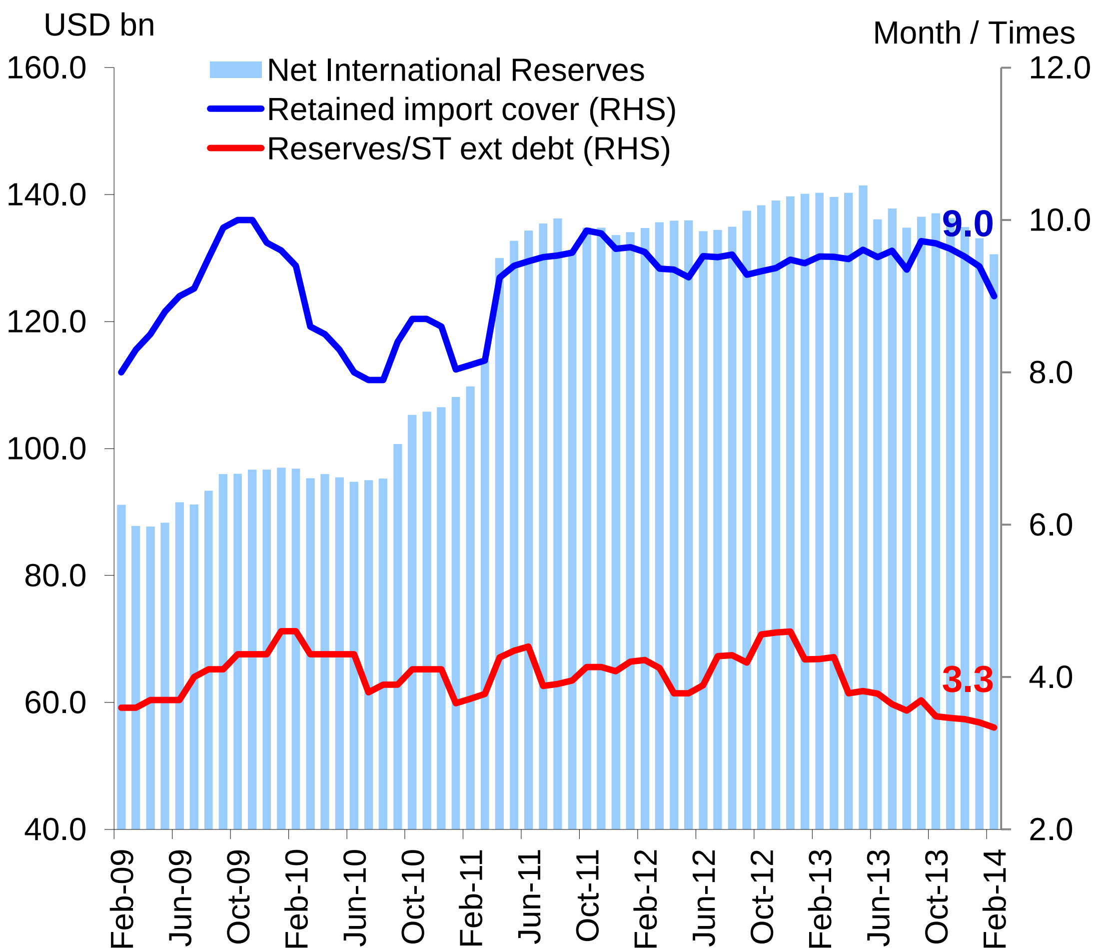
Orderly ringgit exchange rate adjustments amid significant global financial market volatility



- EM currencies were affected by significant shifts in global liquidity and capital flows
- Ringgit adjustments remained orderly and in line with other regional currencies
- Smooth functioning of the domestic foreign exchange market amid two-way flows of trade and financial flows

Source: Bank Negara Malaysia

International reserves remain ample

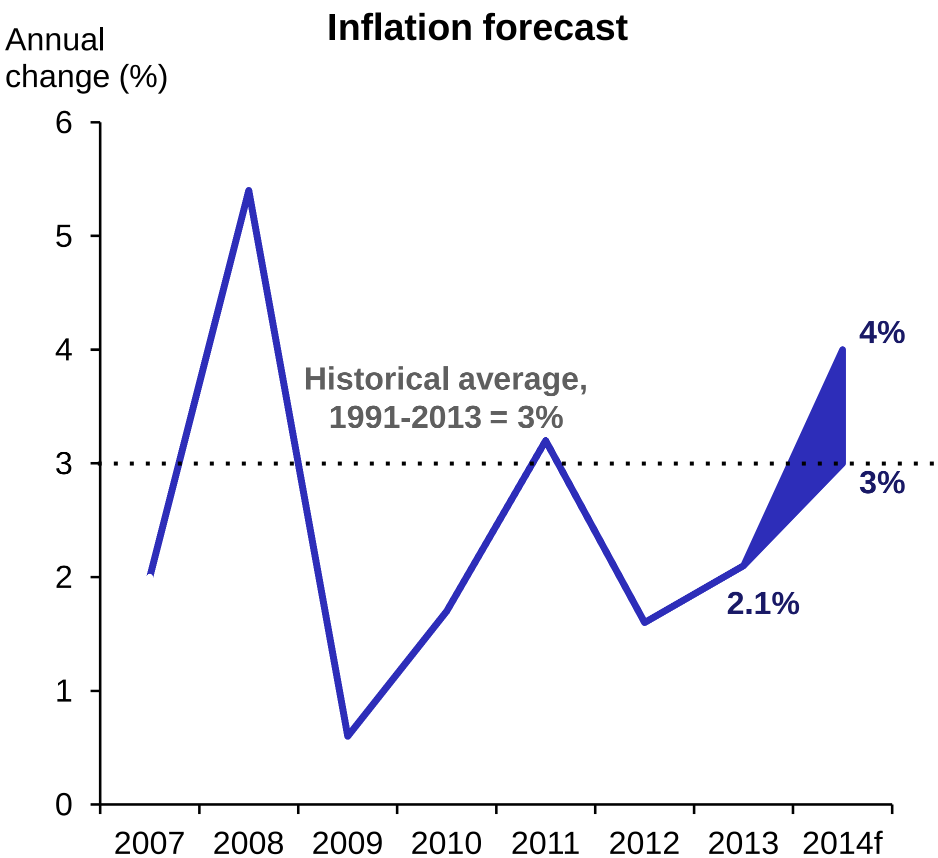


International reserves remain ample, supported by the current account surplus

- Also reflected inflows of foreign direct investment
- Partially offset by outflows of direct investment abroad as well as outflows of portfolio and other investments

Source: Bank Negara Malaysia

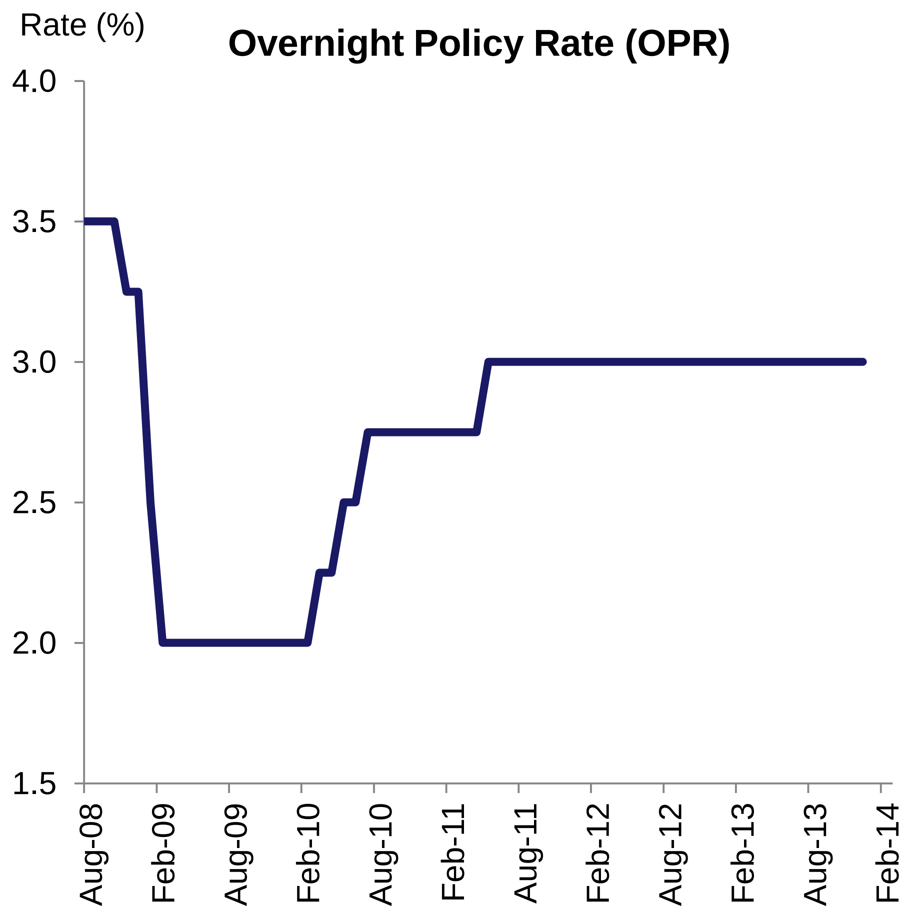
Headline inflation to range between 3 – 4% in 2014



- **Higher inflation largely due to rising domestic costs**
- **The impact of cost-push factors will be contained by:**
  - Subdued external price pressures
  - Moderate demand conditions

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Monetary policy to support growth while mitigating risks from inflation and financial imbalances



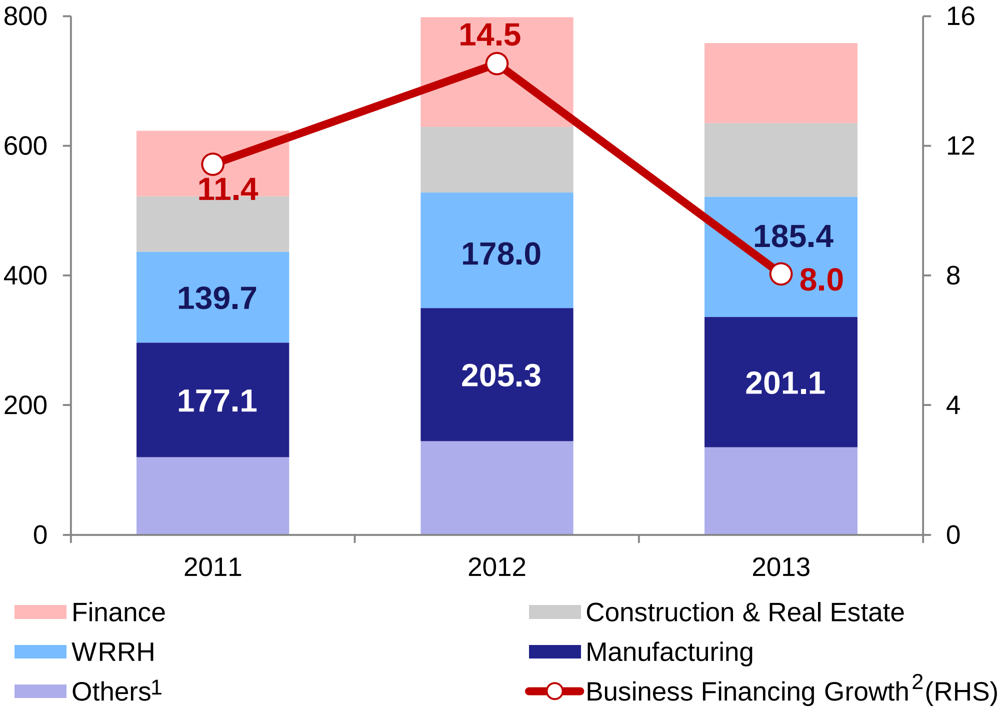
Monetary policy in 2014 will focus on:

- Macroeconomic environment to support sustainable economic growth amid continued uncertainties in the global environment
- Avoid cost-push inflation from becoming pervasive and persistent
- Vigilant to risks related to financial imbalances

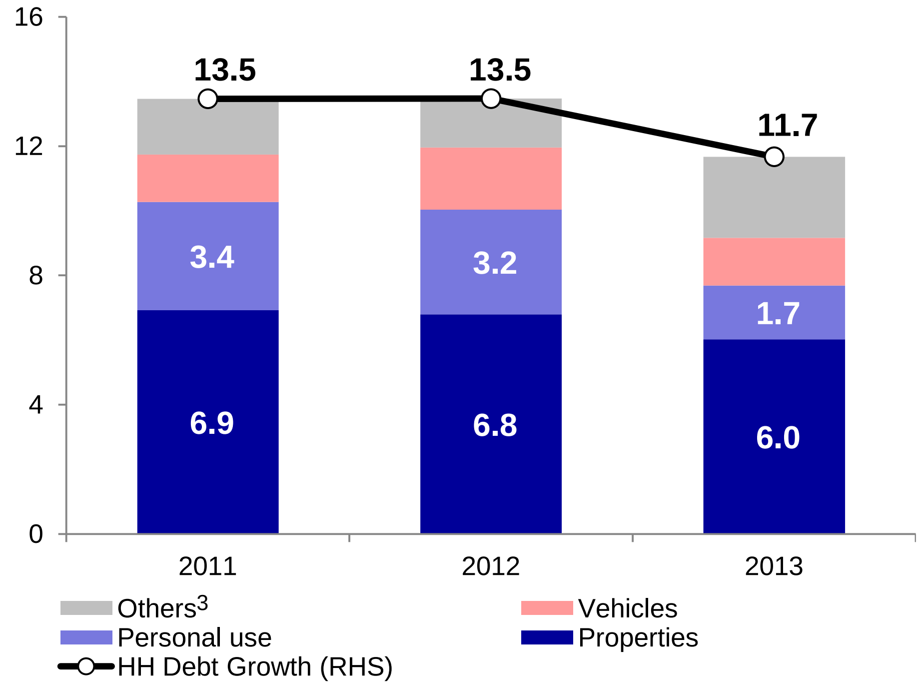
Source: Bank Negara Malaysia

Continued access to financing for the private sector

Continued loans disbursement and funds raised in the capital market



Growth in credit to households* moderated



[1] Others comprises agriculture, transport, utilities, Govt-related and other sectors
[2] Banking System and Capital Market
Source: Bank Negara Malaysia

[3] Others comprises loans for the purchase of securities, credit card facilities and loans for other purposes
* Banks and Non-banks

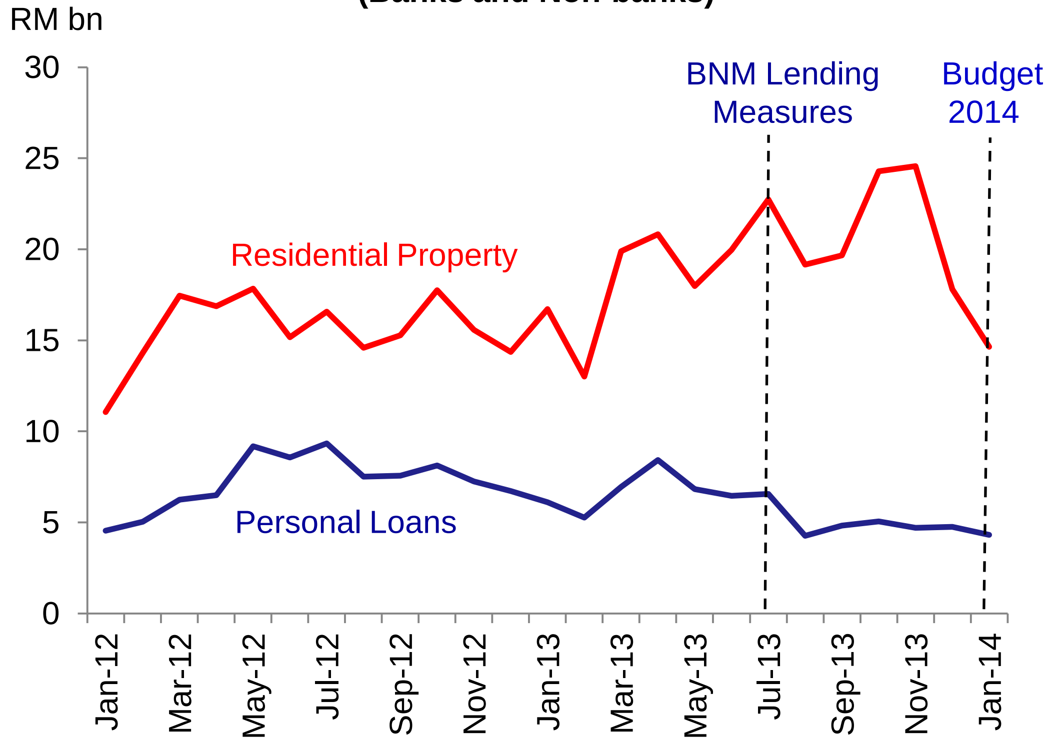
Measures implemented to address pockets of risks of financial imbalances

Measures to curtail financing products that give the appearance of affordable financing

Measures Implemented	
July 2013	Reduce the maximum loan tenure for personal and housing loans
	Prohibit the offering of pre-approved personal financing products
Jan 2014	Real property gains tax (RPGT)
	Prohibition of Developer Interest Bearing Schemes (DIBS)
	Transparency in property sales price

Moderation in growth of personal financing and property loans

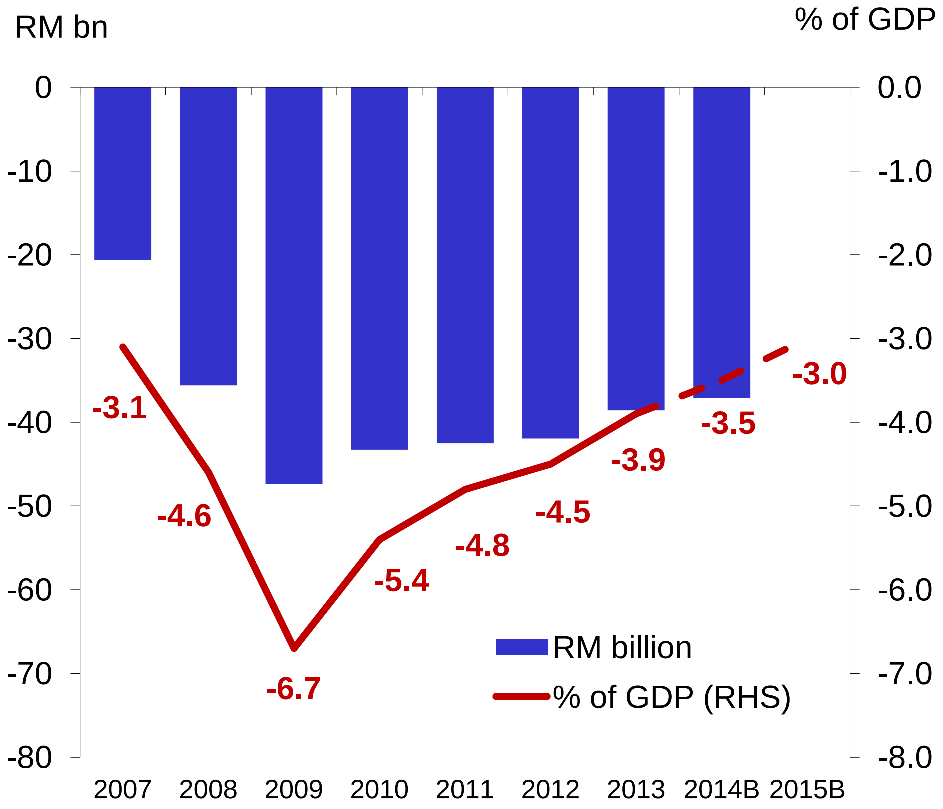
Household Loan Applications (Banks and Non-banks)



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Government commitment to fiscal reforms will ensure sustainable and sound public finances

Federal Government Fiscal Balance



- **Government expected to remain on track to meet fiscal target**
  - Fiscal deficit of 3.5% of GDP in 2014
  - Fiscal deficit of 3% of GDP by 2015; and
  - Balanced budget by 2020
- **Fiscal reforms will be underpinned by expenditure reforms & revenue expansion**
- **FPC to formulate and implement fiscal strategies**

B Budget

Source: Ministry of Finance

Fiscal consolidation will further strengthen economic resilience

- **Continuous improvement in fiscal balance would lower the Government debt over the medium-term**
  - A stronger position of public finance will strengthen the economy's resilience and fiscal buffer

- **Subsidy rationalisation would allow efficient allocation of resources in the economy but would also require:**
  - Development of a comprehensive social protection system
  - Further investments in infrastructure development

A gradual fiscal consolidation will allow businesses and households to make appropriate adjustments

Summary of outlook for 2014

- The Malaysian economy on a steady growth path of 4.5 – 5.5%, supported by an improved external sector

- Domestic demand will continue to be the main anchor of growth, led by the private sector in particular by robust investment activity

- Headline inflation to range between 3 - 4%

- Current account to remain in surplus

- Malaysia has the capacity to intermediate the continued volatility in capital flows

Strong fundamentals to support Malaysia's resilience

- More diversified economic structure
- Increasing share of domestic demand in the economy, led by the private sector
- Low unemployment rate and stable employment conditions
- Diversified export market and trading partners
- Well-developed and resilient financial system

Bank Negara Malaysia: Annual Financial Statements 2013

Financial position remained strong in 2013:

- Total assets of BNM amounted to RM474.2 billion with International Reserves of RM441.9 billion (USD134.9 billion)
- Net profit of RM5.46 billion
- Dividend of RM1.5 billion to the Government

FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT 2013

Press conference

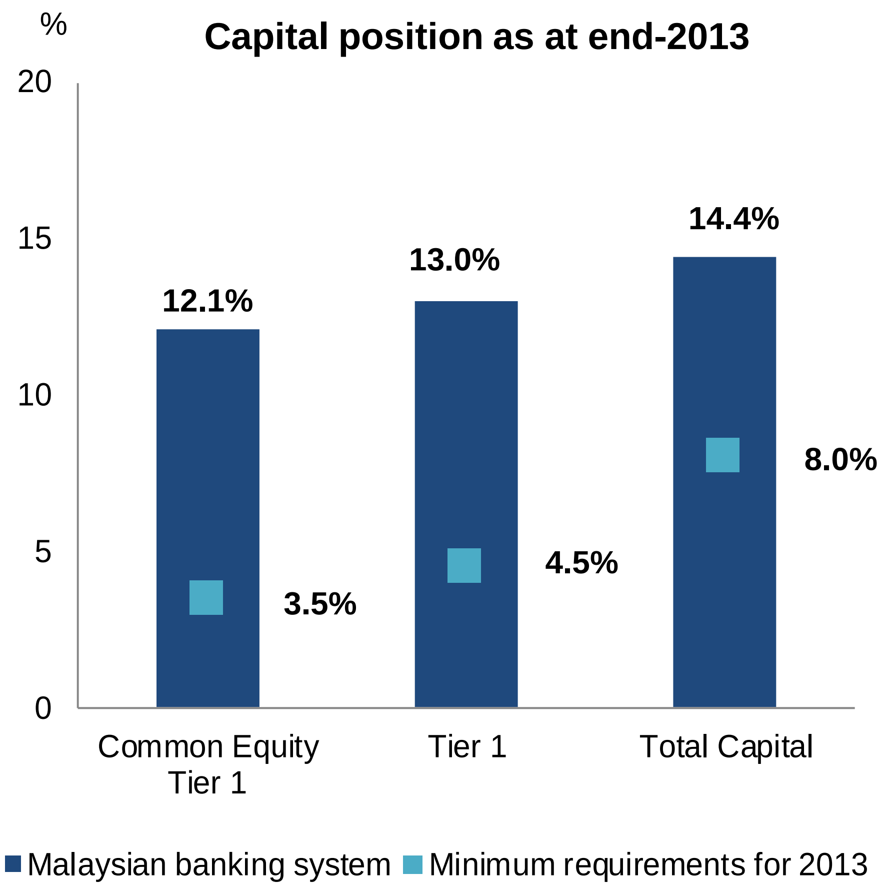
Financial stability well preserved throughout 2013

Banking Sector (%)	2012	Jan-2014
Capitalisation		
Common equity tier 1 ratio	13.9*	11.7
Total capital ratio	15.7*	14.0
Excess capital buffer (RM bil)	87.1*	75.0
Profitability		
Return on assets	1.6	1.5^
Return on equity	17.4	15.9^
Asset Quality		
Net impaired loans ratio	1.4	1.3
Loans in arrears (1-<3 mths)	3.4	2.4
Liquidity Position		
Liquidity buffer (<1 mth, % of deposits)	16.2	13.7
Insurance/Takaful Sector (%)	**2012**	**2013**
Capitalisation		
Capital adequacy ratio	219.1	245.9
Capital buffer (RM bil)	22.6	23.5
Profitability		
Profits (RM bil)	20.8	16.3

- **Financial intermediation remained supportive of the economy**
  - outstanding financing expanded by 10.6%
- **Orderly intermediation of volatile short-term capital flows**
- **Financial institutions have strong capital and liquidity buffers**
- **Confidence in financial system firmly intact**

Source: Bank Negara Malaysia *Based on Basel II capital requirements ^Reflects 2013 position

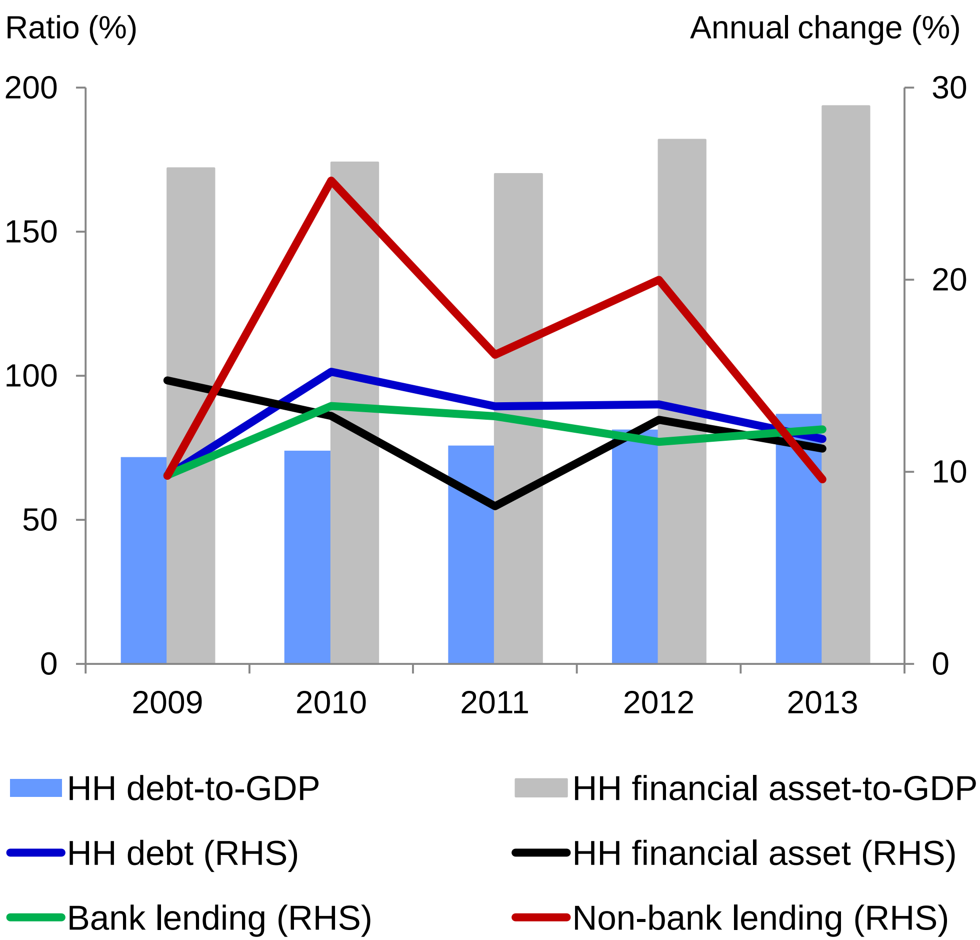
Transition of banks and takaful operators to strengthened capital requirements



- **Banks continue to maintain strong capital positions under Basel III, supported by:**
  - Prudent earnings retention
  - Issuance of new Basel III compliant capital instruments
  - Dividend reinvestment programmes
- **Banking system capital buffers in excess of regulatory minimum at RM79 billion as at end-2013**
- **Adoption of the Risk-Based Capital Framework for Takaful Operators in January 2014**

Household debt moderated to slowest pace since 2010

Households (HH) Debts and Financial Assets

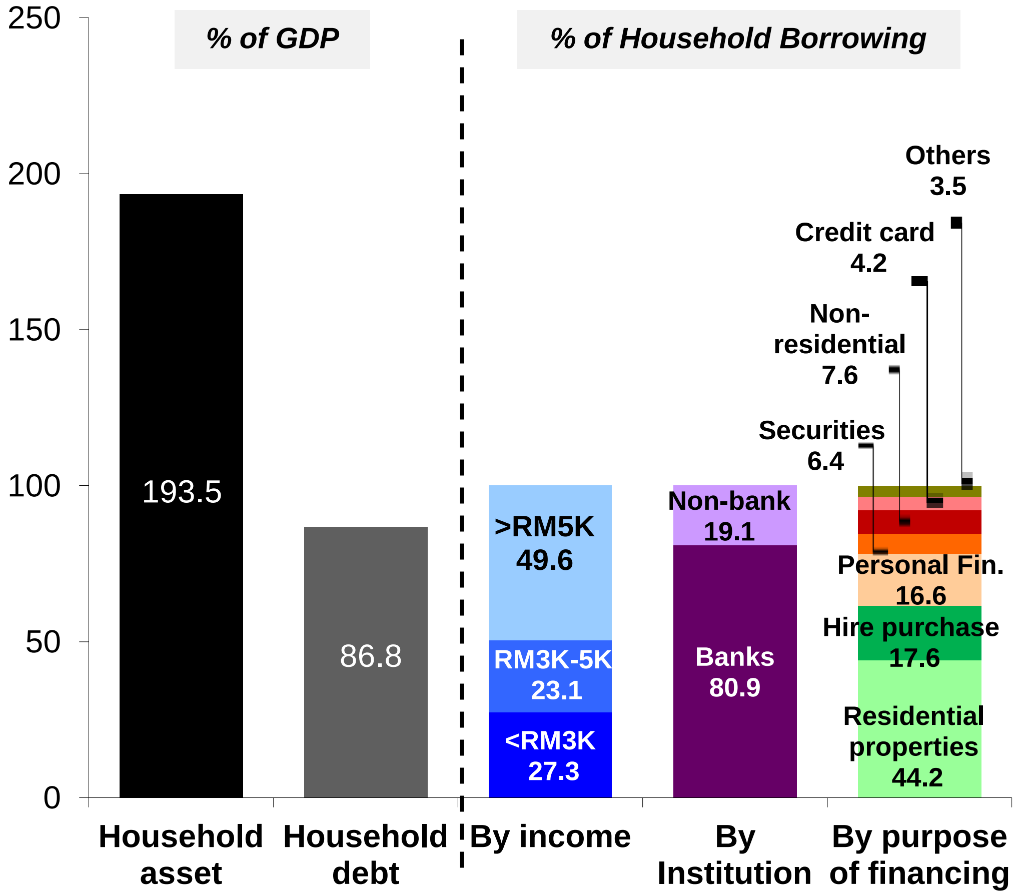


- **Responsible financing measures continue to show positive effects on strengthening household resilience**
  - Stable leverage of vulnerable borrowers
  - Prudent debt-service ratio observed for new financing

- **Quality of household loans from the banking system remain sound**
  - Both impaired loan ratio and loans-in-arrears continued to trend lower, at 1.3% and 2.1% respectively

While household indebtedness is expected to remain high in the near term, risks to financial stability remains contained

Profile of Households Borrowings and Financial Assets

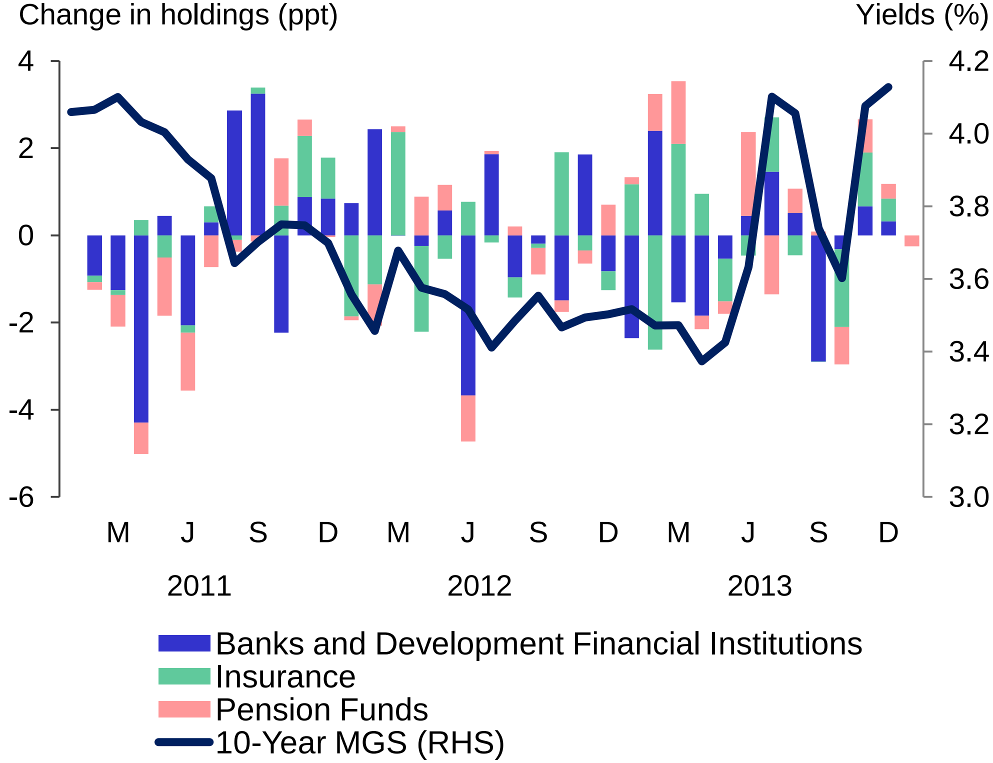


- **High indebtedness likely to persist given concentration in housing and car loans:**
  - Young working population with high propensity to borrow
  - Rising urbanisation
  - Large supply-demand mismatch for affordable houses takes time to narrow
  - Public transportation system initiatives yet to be completed
- **Risks to financial stability are expected to remain well contained**
  - Strong capital buffers of banks to absorb potential losses from adverse shocks
  - Strong debt servicing capacity of households

Deeper and more diversified domestic financial markets support the orderly market conditions

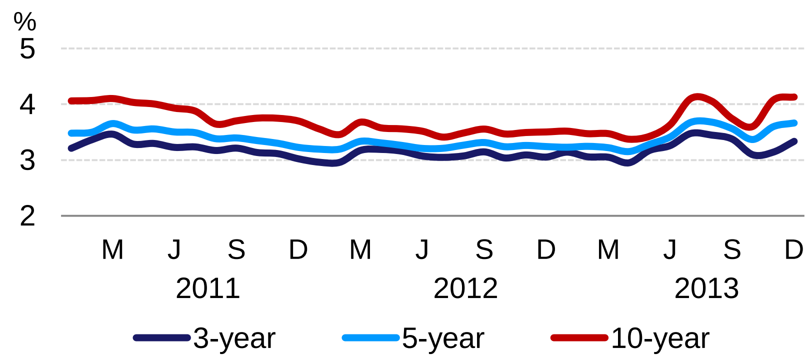
Domestic institutional investors provided strong support to the bond market amid sell-off by non-residents between May-Sep 2013

MGS Yields and Change in MGS Holdings by Domestic Institutional Investors

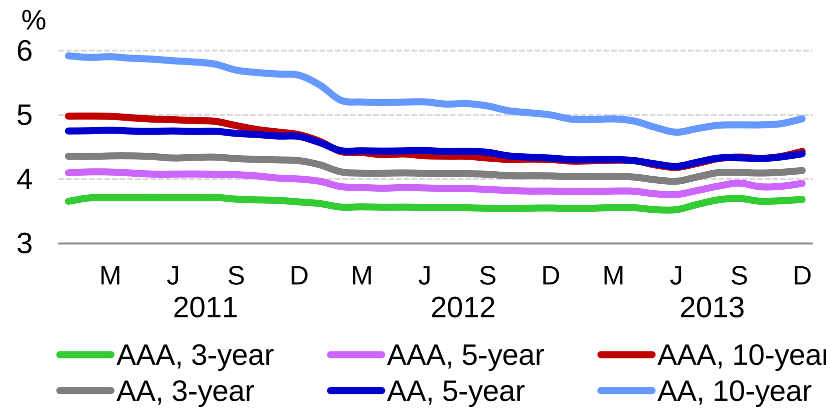


Cost of funding in the PDS market remained conducive to funding needs of businesses

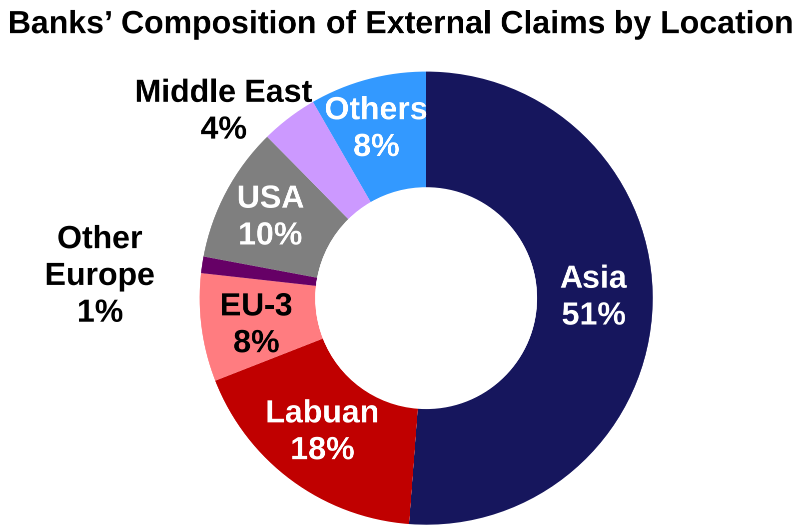
MGS Yields



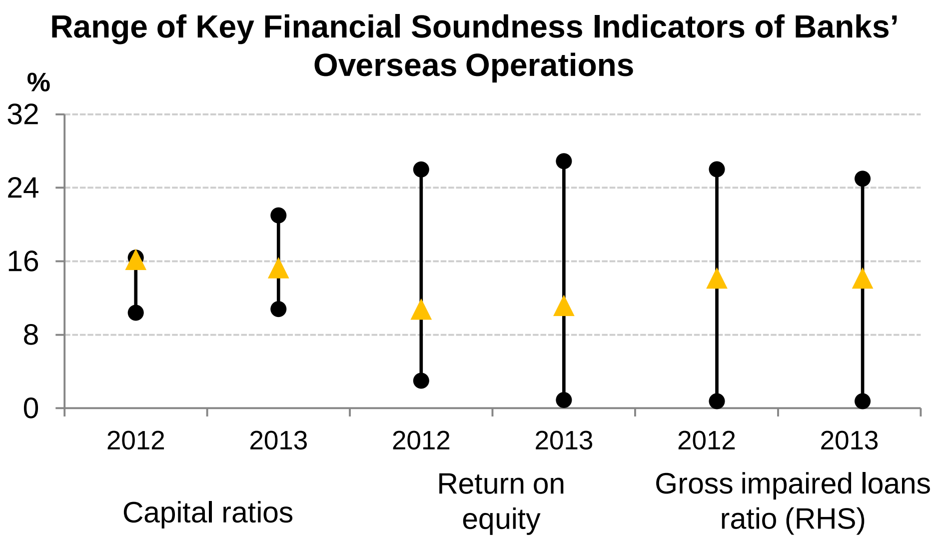
PDS Yields

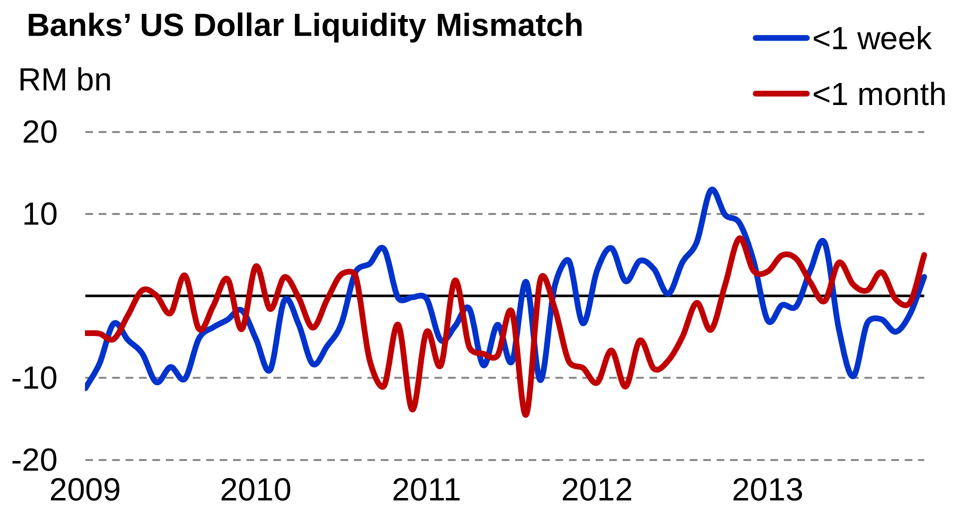


Limited contagion risk from external exposures



- **Higher external claims, mainly on Asia, in line with expansion in regional trade and overseas operations of Malaysian banks**
- **Potential impact from deleveraging activities by European financial institutions remain low**
- **Banks continue to proactively manage foreign currency mismatch positions**





Strengthened policy frameworks under FSA/IFSA further reinforce financial stability

Enhanced oversight of financial groups

- Approval of financial holding companies (FHCs)
- FHCs to observe group-wide prudential standards, to be gradually issued from 2014
- Close coordination with relevant domestic and foreign regulatory authorities in supervision of financial groups

Strengthened end-to-end Shariah compliance

- Development of contract-based Shariah and operational standards
- Oversight over implementation of Investment account framework

Strengthened framework for consumer protection

- Transformation of the Financial Mediation Bureau into a Financial Ombudsman Scheme

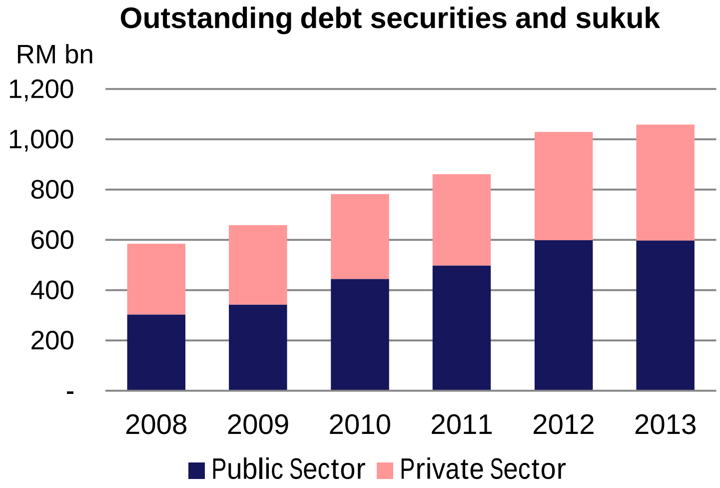
Supported by market-based reforms to improve efficiency and transparency of financial intermediation

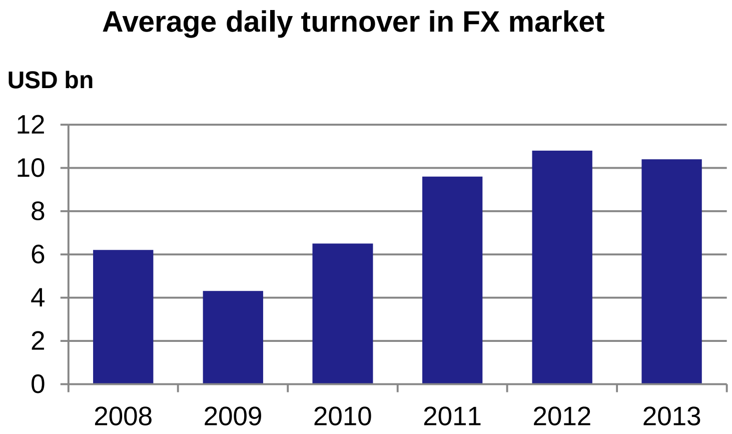
- **Pricing reforms in payment systems and motor insurance**
  - Tiered pricing structure for payment instruments to promote e-payment
  - The motor premium adjustments, are accompanied by improved efficiency in motor claims settlements

- **Enhance efficiency and delivery of life insurance and family takaful**
  - Progressive deregulation of commission and expense limits
  - Further development of alternative delivery channels
  - Empower consumers and strengthen competition

- **New reference rate framework to replace the base lending rate**
  - More relevant and reflective of funding market conditions

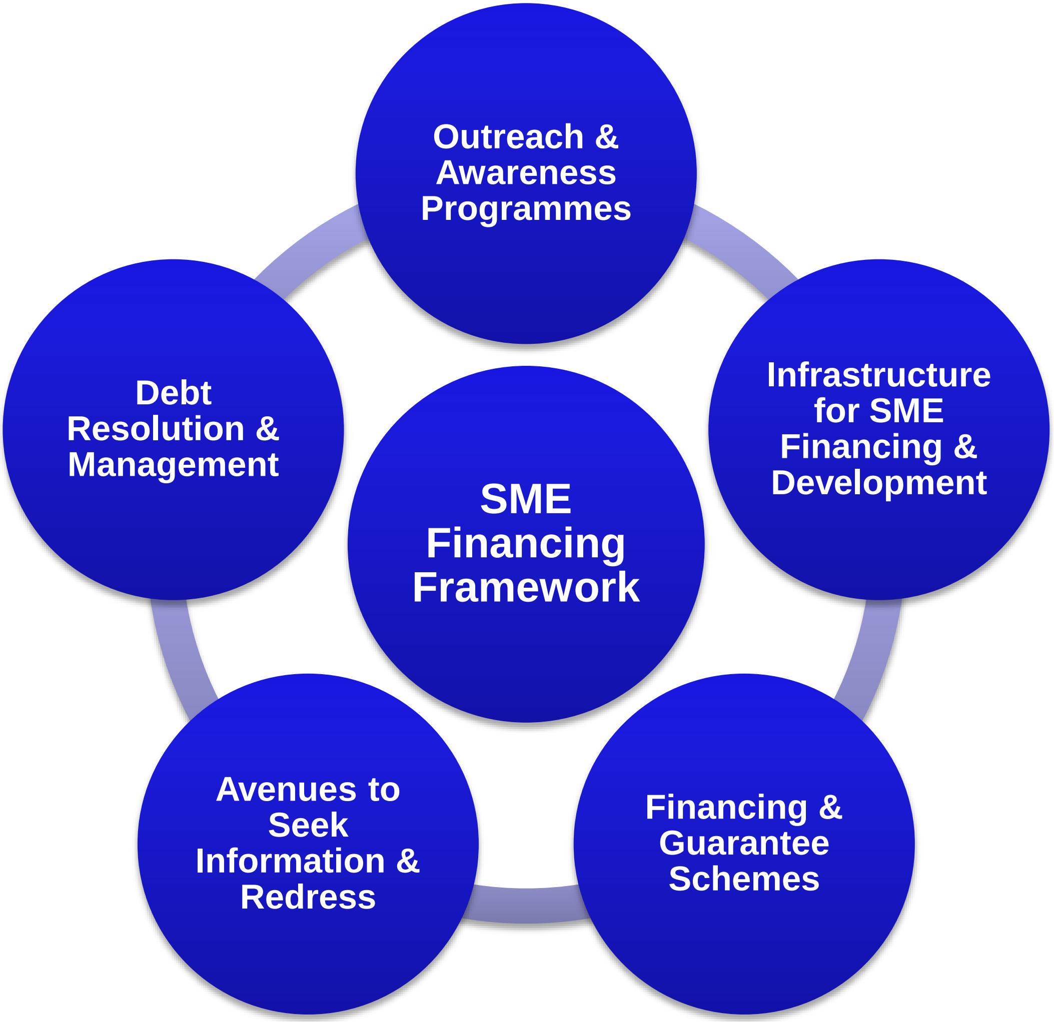
Further development of financial markets





- **Deep and vibrant debt securities, sukuk and foreign exchange (FX) market provided continued support for investment, trade and business activities**
  - Outstanding debt and sukuk grew by 3% amid slower corporate fund raising activities
  - Maturity profile extended further with issuance of 30-year MGS
  - Average daily turnover of the FX market remained stable at USD10.4 billion
- **Further liberalisation of the FX market**
  - Wider use of renminbi
  - Trade settlement in local currency
  - More efficient liquidity management and hedging
- **Development of netting legislation**
- **Further enhancements to payment and settlement infrastructure**

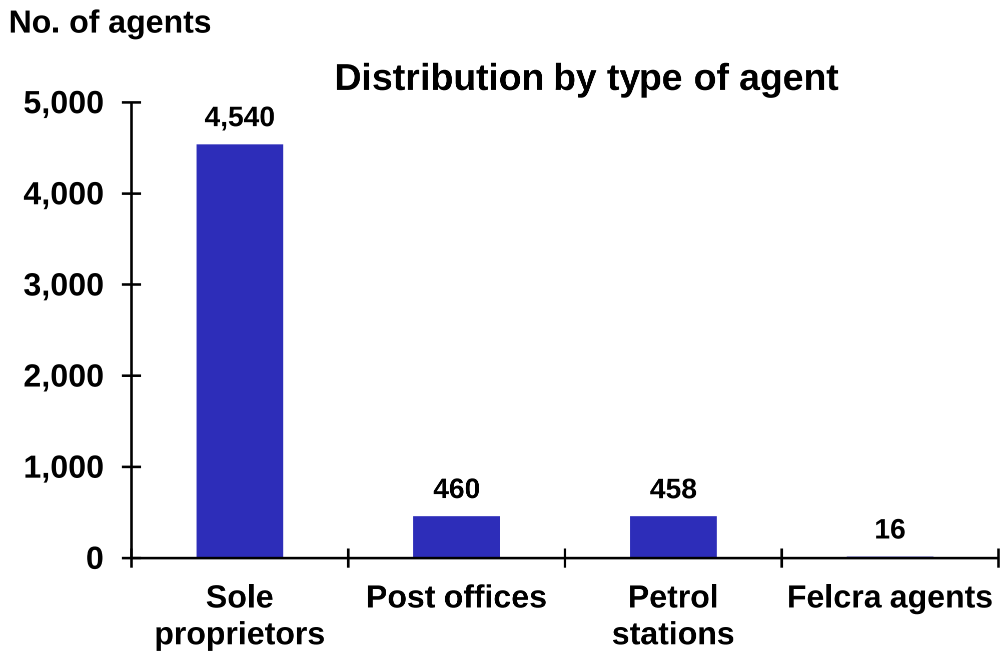
Share of SME financing from the financial system increased further



- **As at end 2013, SME financing represents 42.1% (2012: 40.5%) of total business financing by financial institutions**
  - Total SME financing outstanding increased by 12.7% to RM213 billion
- **SMEs from all economic sectors continue to have access to financing**
  - Services sector accounts for 60% of SME financing
  - Steady stream of SMEs with financing that grow and develop into large enterprises
- **Supported by a holistic ecosystem that also focuses on the development, sustainability and assistance for SMEs**

Significant impact of agent banking framework on the financial inclusion agenda

- **Building on its strong value proposition**
  - Cost savings for financial institutions
  - Higher customer flow for agents
  - Convenience for consumers



Key Agent Banking data

Number of Agents

5,474 banking agents nationwide

Transactions by Agents

>13.8 mil transactions worth **>RM1.6 bil**

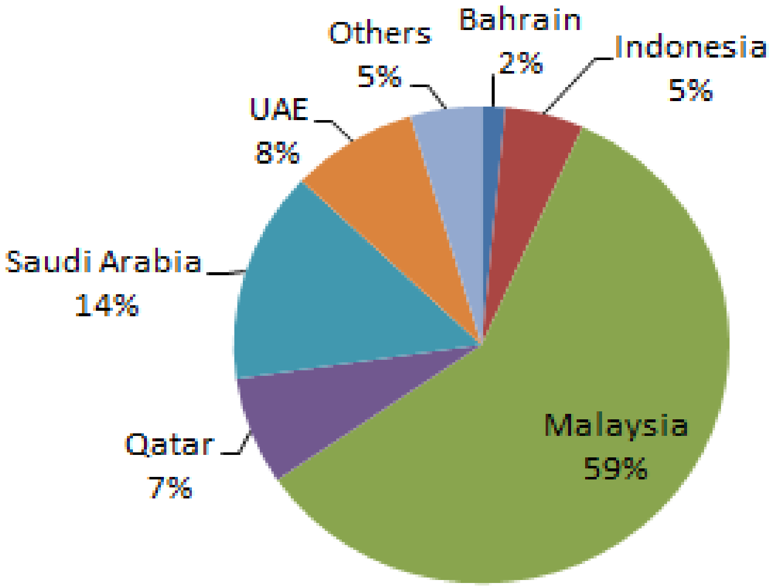
Served *Mukims* * (districts)

Increased from 46% (end-2011) to **92.5%**

Source: Bank Negara Malaysia *Refers to position as at end-2013

Increased global connectivity and presence

Overseas operations of domestic banking groups (DBGs)	
No of DBGs with overseas operations	6
No of locations (countries)	22
Contribution to group assets	RM338.6 bn (21%)



Global Sukuk Outstanding end-2013 (USD269.4 bn)

- **Larger overseas presence of Malaysian banks and increased foreign presence and participation**
- **Malaysia: World's Islamic Finance Marketplace**
  - Sukuk growth despite challenging global environment: USD158.3 billion or 59% of global sukuk outstanding
  - Serving as the gateway to Asia for cross-border Islamic finance business
- **Islamic finance innovations**
  - Inaugural issuance of RM4 billion Government Investment Issue (GII) based on the bai' 'inah concept

Source: Bloomberg, IFIS, KFHR

Stronger safeguards against threats of money laundering and terrorism financing

- **Continued improvement to legislative framework and strengthening of AML/CFT preventive measures**
  - Amendment to the Anti-Money Laundering and Anti-Terrorist Financing Act (AMLATFA) 2001 to ensure comprehensive coverage of AMLATFA and strengthen enforcement powers
  - Revision to AML/CFT policies to ensure alignment with international standards
  - Action on money laundering / terrorist financing threats and vulnerabilities prioritised towards higher risk areas, to facilitate effective use of resources

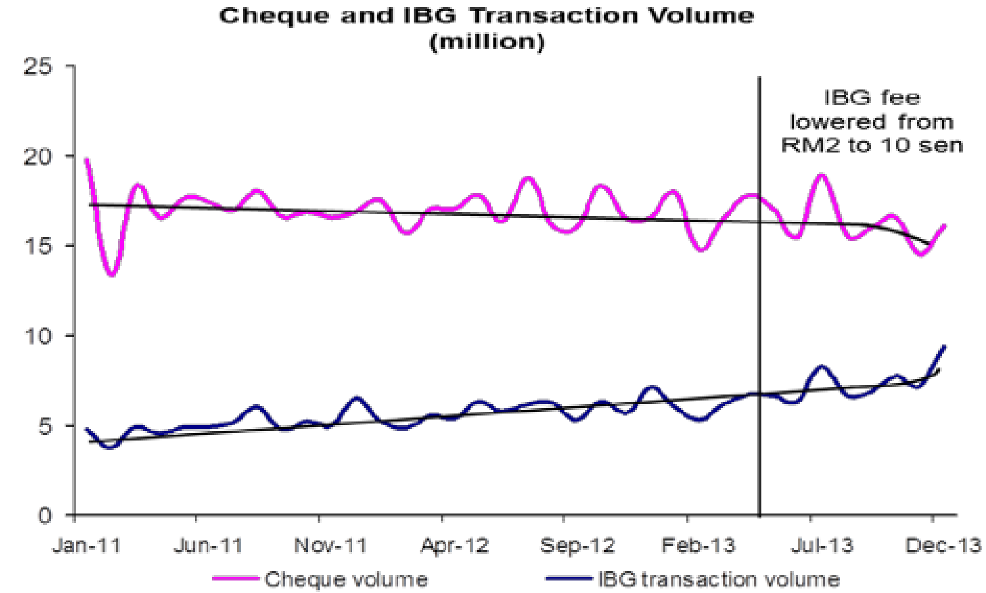
- **Monetary penalties and charges were brought against individuals and companies for offences under AMLATFA, BAFIA and Money Services Business Act**
  - More than 1,800 charges brought against individuals and companies for offences under the AMLATFA, Banking and Financial Institutions Act and Money Services Business Act
  - RM1.3 million in monetary penalties

Expanding application of electronic payments to elevate efficiency and competitiveness

Encouraging progress made since commencement of pricing reform in May 2013

– Monthly IBG growth rate tripled to 6% from May to Dec 2013 compared to 2% from Sep 2012 to April 2013

– Cheques declined at a faster pace of 3.3% in 2013 compared to only 0.5% in 2012



Source: Bank Negara Malaysia

3-pronged approach to accelerate the migration to e-payments

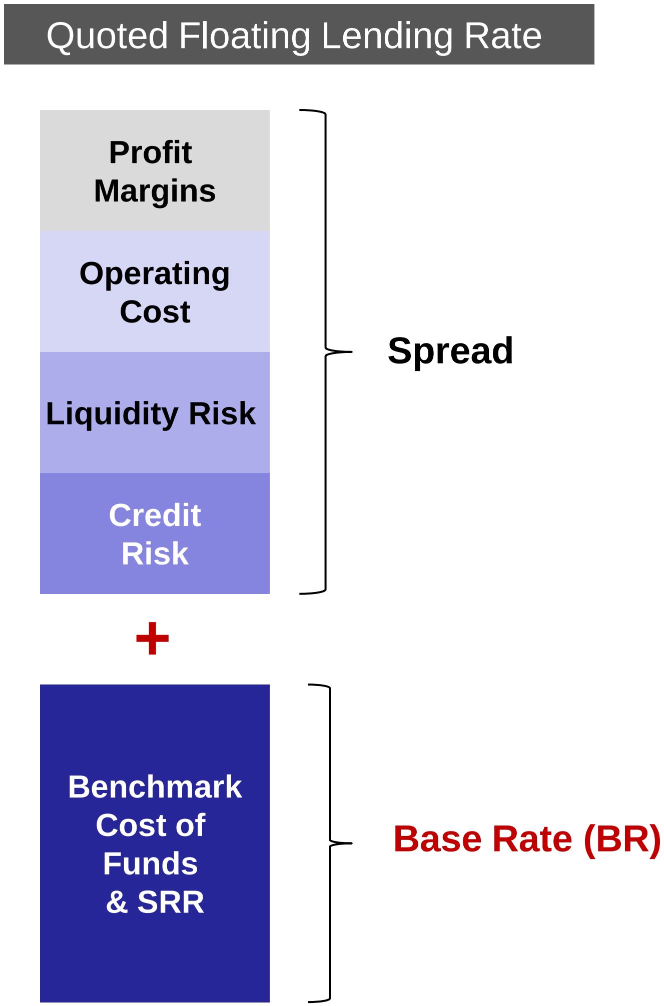
Conducive pricing structure	Enhancing e-payments infrastructure and user convenience	Building greater awareness of e-payments
• Tiered pricing structure to promote use of cost-effective payment channels	• ATMs and Internet kiosks to broaden access to e-payments • Enhancements to IBG services • National Bill Payment Scheme	• Media awareness campaigns • IBG roadshows, Payment System Forum and workshops to promote adoption of e-payments

Macro and micro surveillance priorities in 2014

- Ensuring banks and non-banks continue to maintain sound lending standards
- Ensuring that bank lending for the development and purchase of property are consistent with the sustainable development of the property market
- Monitoring developments in household and business leverage positions, and ensuring banking system buffers continue to remain strong
- Ensuring that the risk appetite and business strategies of financial institutions, including their overseas operations, are aligned with prudent risk-taking
- Reinforcing arrangements for crisis preparedness and contingency planning by financial institutions, in coordination with domestic regulatory authorities and government agencies
- Ensuring the effectiveness of AML/CFT implementation in view of the Mutual Evaluation on Malaysia by the Asia/Pacific Group on Money laundering in 2014

Press Release

New Reference Rate Framework from January 2015



- The **Base Rate (BR)** will replace the BLR for the pricing of all retail loans tied to a reference rate.
- The Base Rate will only reflect the relevant benchmark cost of funds and the SRR.
- Adjustments to floating retail lending rates would be more **transparent** for borrowers.

Transition to the New Reference Rate Framework

- BLR-based loans and credit facilities contracted prior to January 2015 will remain priced against the BLR, of which changes will be linked to the Base Rate.

- The shift to the New Reference Rate Framework is neutral on interest rates and does not represent a change in the monetary policy stance.

Implementation of Islamic Deposit and Investment Account

- **IFSA introduced two major classifications - Islamic deposit and investment account**
  - The differentiation allows development of a wider range of products for both classifications, and better appreciation by the customers of product offerings by Islamic banks

- **Ensuring seamless and effective transition process**
  - 2-year transition period until 30 June 2015 has been accorded to Islamic banks to facilitate reclassification into either Islamic deposit or investment account under IFSA
  - Islamic banks will engage their customers to inform and educate them on the transition process

- **Ensuring protection of customers' rights**
  - All Islamic deposits will continue be protected by PIDM throughout the transition period
  - Islamic banks will accord sufficient time to the customers to make an informed decision on the options provided to them

New Pricing for Cheques will take effect on 1 Jan 2015

2 May 2013	1 Jan 2015
IBG fee reduced to 10 sen	Effective date of cheque processing fee

- The imposition of cheque processing fee is deferred to facilitate comprehensive acceptance of e-payments by federal and state government agencies.
- BNM through its subsdiary, MyClear, will spearhead the widespread deployment of payment card acceptance devices at the government counters to facilitate the acceptance of the domestic debit card.
- Banks will play an active role in ensuring e-payment infrastructure readiness and boost public confidence in e-payments.

Discussion